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Myriad Encounters: Christianity and Colonial Rule in South Asia

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I was asked to speak on the role of religion in the colonial process and in the freedom struggle in south Asia. I shall be focusing on Christianity and colonial rule and while looking at the role of Christianity in the establishment and maintenance of colonial rule I shall also highlight the role that the colonial state played in supporting or promoting mission activity. The two are clearly very closely linked with each other, though they do not completely merge, and an understanding of the one requires some elucidation of the other. Both also feed into our comprehension of the role played by 'native' Christians in the freedom struggle in south Asia.

There is another aspect to the role of religion in colonial India. This turns around the theme of communal Hindu-Muslim politics and its articulation or disarticulation with the movement for Indian independence and the part (arguably) played by the colonial rulers in nurturing such divisions. I shall not be entering into a discussion of these issues here because they constitute a quite distinct field and, indeed, one that has been much traversed already.

Part I The Cross and the Sword or Crossed Swords? : The Relationship between Christian Mission and Colonial Rule in South Asia

I would like to argue in my discussion of Christian evangelical activity that differences in the kinds of support that missionaries and mission efforts received from the colonial state are related to differences in the perception of the place of religion in the colonial agenda. This, again, has linkages with the modes of conversion that can be discerned in any particular regime. For the Portuguese, who came to south Asia in the sixteenth century, religion was crucial in the construction of the colonial political community. Conversion to the religion of the rulers was the basis for the social, economic and political recognition of a group. Religion legitimated colonial rule: the conqueror claimed his victory in the name of Christ.

The military forces of the state often intervened to punish villages and villagers for their resistance to conversion. The sword backed the cross in the missionary effort. As in India and other places, so in Sri Lanka the Catholic church entered as part of the ideological baggage of the invaders from Portugal. Sri Lankan Catholics speak of their ancestors having been converted 'with a sword in one hand and the Bible in the other' (Stirrat 1992:14).

In the ideology of later colonial regimes, such as the British, religion was not directly linked to state purpose. Indeed the state, at least initially, ostensibly tried to keep the two apart. When the link was made it was usually mediated by the themes of educating and/or civilizing the natives. Hence, typically, we see that state assistance in the first instance was extended to missionary schools as, for example, those started in tribal areas of the north-east or eastern-central India.

It is possible to find many indications, though, that missionaries and administrators -- however strange their association or uneven their relationship -- required each other. As we shall see later, in the case of the Santals in the mid-nineteenth century, it was noted by the concerned authority that Santals who had attended the missionary schools were not among those who participated in the Santal rebellion. Not really surprisingly, therefore, the government decided to render support to missionary schools in the area.

Indeed, fairly often, missionaries could provide solutions to difficulties and disputes because of their position in the local society. They remained much closer to and in greater contact with ground realities than the somewhat aloof and distant authorities. In Sri Lanka, for example, missionaries often settled local dissensions not just between Catholics but also between Catholics and non-Catholics.

In some places and at some moments, the associations between the colonial constructions of the Other and the missionary constructions of indigenous society could become quite clear. In Chhattisgarh, for example, echoes of the colonial rulers' powerfully patronising idea that the natives were dependent children requiring authoritative guidance and protection could be found in the missionaries' construction of them.

For south Asia, in general, it needs to be said that the popular conception that colonial rule and Christian mission have always been inextricably linked, is for the most part, reductive of the reality and, in some cases at least, is plainly untrue. Again, the idea that conversion in this region largely embraced the lowest socio-economic groups or caste categories is also very much a simplification of the actual intricate details of history.

Historically, the relationships between missionaries and mission activity and the colonial state in south Asia have been complex. For instance, there is the difference between those areas and periods in which the state directly took upon itself the task of evangelization and those where it did not but where it may have, nevertheless, had a generally supportive attitude towards mission activity. The first was more typical of the early conquests, such as that by the Portuguese.

Again, there is no guarantee that colonial authorities had a similar relationship with every Christian denomination involved in missionary work. For example, as Webster (1976:235) points out for the northwest part of the subcontinent, the Anglican church had a unique relationship with the British Raj, shared by no other denomination. The Anglican church was the established Church in undivided India. Unlike the religious of other denominations, Anglican bishops and chaplains were paid by the government and many of its mission stations saw their beginnings due to the financial assistance of local committees of British officials. These councils could also be absorbed into diocesan committees. For instance, in Lahore and Lucknow, such committees, close to British officialdom, were also assimilated into the diocesan committees, dominated by ecclesiastical members. This intimacy with the colonial powers may have had implications for the response of Anglicans to the nationalist movement.

Whatever the case, a direct association between church and state can never be assumed, though more enduring ties of race or ideology could always persist. At all times, not just under the British but even, for instance, under the Portuguese, dissensions between missionaries and the political authorities were possible. If missionaries could help in settling disputes and channelling local complaints, they could also be seen as an unwanted hindrance.

In Travancore, converts used to lodge complaints 'about grievances with the missionaries of the London Missionary Society which was active in the area. They, in turn, passed them on to the British Resident for redressal. In this way an effective system was set up for the remedy of problems of communities, which would otherwise have found it very difficult to negotiate the official procedures of the courts of justice. But the system did not find favour with the government, which viewed the emergence of this alternative judicial machinery as unacceptable and, finally, put an effective end to it (Kooiman 1989:145-46)

In fact, officials of the East India Company generally regarded the missionaries with great suspicion, viewing them as holding radical political ideas and being capable of sedition. Moreover, it was feared by them, as we shall see later, that the 'idol breaking inclinations of the early missionaries' who often deliberately indulged in evangelical activities in front of temples and mosques could stir up hostility among the people and upset the rather delicate balance of power, thus threatening commercial interests (Kooiman 1989:28).

A complex set of factors -- political, socio-cultural, economic or whatever -- would determine the relationship between the two -- official authorities and the church -- at any given historical moment. For instance, for Goa it has been argued that political considerations could soften the conversion drive (Pearson 1987:122). In the 1590s given the aggressive and violent proselytism that had been set in motion by the missionaries, the then Viceroy of Goa wrote to the King of Portugal that while he agreed that all the temples in Portuguese India should be destroyed, this could not be done in Diu for the traders would leave and the flourishing commerce at the fort would come to a halt.

The association was, thus, changeable and fluid, rather than given from the start. There was fluidity to this connection for another reason: it was possible for particular officers to adopt an attitude towards missionary activity that differed from the government's official position. Several officials in south India encouraged the missionaries even at a time when the Company regarded their activities negatively. There are other examples, as we will note later, of assistance given the missionaries by particular British officers.

There is difference again in the degree of social contact to be found between the missionaries and the British government officials. As Europeans, the missionaries did have contacts with British government officials and their families, but often these contacts were limited to official functions, to those who were more inclined towards religion and to those on the social margins.

Further, the salaries of missionaries were modest in comparison with those of government servants. However, there are limits to which these differences should be stressed. After all, even the income of a missionary enabled a style of life that marked him out as a well-to-do person (Webster 1976:42). In Sri Lanka (Stirrat 1992:17) the Government Agent and the missionary, the one in his residency and the other in his often huge mission house, had very similar styles of life.

Missionaries in colonial south Asia did have considerable access to British officials. They were members of committees, particularly those relating to education, and were pastors for various congregations. They often had personal friendships with British officers. Such access led Indians to closely identify them with the government. This identification seems to have resulted in other areas as well.

In Sri Lanka the laity recognized the parallel between the Government Agents and the priests treating them both with the same respect and honour. Indeed, as Stirrat (1992:18) argues, 'The paternalisms of church and state reinforced each other'. Thus, a situation was produced in which the laity were represented and perceived themselves as dependants, both in the spiritual and political domains.

Both in the case of Portuguese and British rule, the creation of a community of converts could prove to be quite useful. The converts, educated in missionary schools and sharing the religious world-view of their rulers could be employed at various levels of colonial administration and in other professions and could be trusted for their loyalty. The Portuguese clearly believed in and implemented this policy. Nevertheless, even here, racial prejudices could intervene. For example, the clergy itself did not easily recruit natives. While they were finally accepted as secular clerics, entry into the religious orders was denied them for a very long time.

The British were far more wavering. Company officials, even at the end of the eighteenth century, were against the missionary effort arguing that if the country was Christianized it would be more difficult to govern and might be more inclined to claiming its independence from Britian. Others argued differently, viewing the propagation of Christianity as a good thing that would produce obedient citizens rather than promote rebellion against the British government.

Chairman of the East India Company's Board of Directors and Member of Parliament, Charles Grant, rejected the argument that Indians converted to Christianity would demand their freedom from the British. He held the opinion that religion would be a binding factor between the rulers and the ruled. The success of the conversion efforts would secure rather than threaten the Empire and would serve commercial interests as well (Kooiman 1989:29-30).

Before concluding this section, we should mention the case, to be analysed in more detail later, of a Christian community being established, which was not of low status and had no relationship with colonial rule at all. Christianity in south Asia has often been popularly associated with British rule and with the process of westernization. But its appearance on the Indian subcontinent preceded the British by several hundred years. Indeed, one might say that Christianity in India is as old as the faith itself.

Historians agree that there was a Christian community in Kerala in the first century A.D. Though the community maintained ties with Chaldea or Persia, it remained relatively isolated from Western Christianity at least till the sixteenth century. Christianity in Kerala was linked to west Asia, not western Europe. Again, unlike the Christianity of other periods and places,it was also, interestingly enough, not linked with colonial rule at all, at least until Portuguese entry and interference in the area in the sixteenth century.

Part II: The Chronology of Conversion

Christianity came to the Indian subcontinent from different parts of the world, at different historical moments and out of different motives and impulses. While discussing Christian mission and its role in the colonial process, the differing patterns of conversion or the support lent the missionaries by the state, one finds it very important to distinguish between the British and pre-British periods and within both there are found to be further distinctions. In fact there might also be areas of overlap. The French acquired Pondicherry only in the latter part of the seventeenth century, but unlike the British East India Company, the state-controlled French East India Company included both commerce and propagation of the faith among its aims. Hence, like the Portuguese, the missionaries could use the law and military powers, for instance, to prohibit the performance of Muslim and Hindu religious ceremonies.

The earliest known Christian community is that of the Syrian Christians of Kerala. Their legends and traditions attribute the origin of the community to the evangelical efforts of St Thomas, who is believed to have arrived on the Malabar coast in A.D.52. The Syrian or Thomas Christians consider themselves to be the descendants of the high caste Nambudiri Brahman converts of St Thomas (Visvanathan 1993; Neill 1984).

The Syrian Christians subvert all the popular notions about native Christians being more often than not low caste converts dependent on the support of the missionaries and colonial rulers. Far from being a low-status group who owe their origin to European missionaries and the colonial state, the Syrian Christians have a long history of patronage, prestige and privilege, enjoyed under different regional rulers. Neither conquest nor colonization is a part of Syrian Christian social history. According to their legends, St Thomas travelled through the Malabar country evangelizing and laying the foundation for churches. It was when he moved east that he is supposed to have met with death (and subsequent martyrdom) at Mylapore, near Madras.

While the tradition of St Thomas is part of Syrian Christian lore, it merges with yet another extant Thomas tradition, that of the merchant Thomas of Cana. Thomas of Cana, it is said, came to the Malabar coast in A.D.345 bringing along with a number of Christians from Jerusalem, Baghdad and Nineveh. It appears that some amount of mercantile and spiritual integration took place between the indigenous and immigrant peoples, though they remained separate and distinct endogamous groups (Visvanathan 1993).

St Thomas is believed to have founded a number of south Indian churches. Among the churches that he is supposed to have established are those at Palayur, Quilon. Kotamangalam, Paravur, Niranom, Kokkamangalam and the site at Cranganur-Malankara. It is not without significance that these sites include both Kerala's most important pre-colonial export nuclei as well as its localities that were serving-centres for internal trade and transport. For centuries, Syrian Christians have been associated with maritime trade and commerce in southern India. They also have a history of warrior service and clientage under the region's rulers (Bayly 1989).

Syrian religious places were incorporated as part of the network of places of worship and temples which spanned the extent of the ruler's domains. The ruler made donations and benefactions to these shrines and temples. In this period, outright conquest by local chiefs was a rare occurrence. Political authority was legitimated in a quite different way: by endowing sacred sites in the area over which one wished to establish one's political control.

It is through their skills as warriors, their talent for trade and their tradition of rendering service as pepper brokers and revenue officers in the Malabar, for which honour and social privileges were bestowed upon them by the regional rulers, that the patrilineal, prosperous Syrian Christians established themselves as a high status group within the indigenous hierarchy (Bayly 1989). They negotiated their socio-political position through alliance with the local rulers and maintained their status by adhering strictly to the norms of purity-pollution prevalent in regional Hindu society.

Our next major encounter with Christianity comes in the sixteenth century. At that time, the Portuguese came to south Asia bearing Catholicism. Trade, conquest and Christianization went hand in hand for them, the sword accompanied the cross in the search for spices. Goa, which the Portuguese first gained control of in 1510, formed the centre of their overseas activities in Asia. The Portuguese viewed their empire as an commercial and maritime one, cast in a military and ecclesiastical mould (Boxer 1969). Religion and trade were indistinguishable. The king was aligned with the Papacy in what was known as the *Padroado* form of jurisdiction (Ram 1991). A series of Papal Bulls passed between 1452 and 1456 gave the king the authority to conquer, subdue and convert all pagan territories.

The Portuguese required certain key posts in order to control Asian trade routes. Goa was one of the main ones, where political and military rule was established, but there were tinier trading bases along the southern coastal belt. To establish themselves successfully in these areas the Portuguese needed the support of the local people. Since they defined themselves in religious terms, their mode of incorporating local populations into their political body involved converting them to their own religion. Mass conversions were linked to the need to create social allies (Houtart and Lemercinier 1981).

Thus conversions took place between 1527-49 among castes with fishing and boat-handling skills such as the Mukkuvars and the Paravas along the southern coast, where trade and proselytization were carried on in the shelter of the forts. For both these groups, Christianity became a means of strengthening their *jati* or community identity. The Paravas also had a grip on the profitable pearl fishing industry. Unlike the Mukkuvars, therefore, who even today have a precarious material existence, the Paravas developed considerably in terms of economic strength and occupational diversification (Ram 1991).

Whatever the Portuguese interests in conversion, for the Mukkuvars and the Paravas association with Christianity facilitated the marking out of corporate identity. For these castes, involved in occupations considered low and ritually defiling, conversion served not to climb up the status ladder but to heighten a sense of distinctiveness and difference from the agrarian caste world. For the Parava pearl fishers, moreover, alliance with the Portuguese yielded a range of economic and political benefits. The Portuguese sought to cream off easily the returns of the pearl trade by patronizing and consolidating the authority of the Parava caste leaders (Ram 1991; Bayly 1989).

It was in Goa, though, that the interlock of religion and politics, of the state and the church, was uniquely manifest. The state actively espoused mission: successive viceroys communicated the progress of conversion efforts to the king. Not all the missionaries were Portuguese, but they functioned under and by the orders of Portugal's king. The missionaries could access state forces to destroy temples, quell resistance to conversion and punish the defiant. The operation of such a regime made mass conversions, of both the high and low castes, almost inevitable (Robinson 1993).

What characterized the regime was an intolerance, of the substance if not the form, of indigenous culture and religion. This was typified by the Inquisition, established in 1560 to prevent recourse by the converts to non-Christian customs. Its range of prohibitions covered a wide variety of socio-cultural practices. It was also evident in the interaction between Portuguese missionaries and the Syrian Christians in south India, an interaction which culminated in the not uncontested establishment of Portuguese ecclesiastical dominance by the Synod of Diamper of 1599. The Synod's decrees aimed both at the correction and systematization of the Syrians' rites and doctrines and the weeding out of Hindu ritual influences (Visvanathan 1993).

A system of disprivilege and constraints was central to the strategy of conversion in Goa. Jobs and offices were reserved for those who converted and were denied to those who did not. Places of worship and sacred images were systematically destroyed and the public practice of Hinduism was prohibited. The upper, landed castes were threatened with the loss of their property if they did not convert. Artisans who had not converted could not be employed by the landowning patrons, or to produce objects of Christian worship (Robinson 1993).

Hemmed in by such compulsions, few options were available to the people. Fleeing from the territory or resisting with violence were among the more drastic responses to the intrusive regime, chosen by some. The majority perhaps accepted conversion out of different motives. For the upper castes, conversion meant alignment with the rulers and hence the protection of their economic and social privileges.

For the low-ranking, there may have been the expectation of social mobility; for instance, through movement into non-traditional, pollution-neutral occupations opened up by the new administration. In many cases, though, it is likely that things worked differently: patron-client relations were employed to bring about conversion. The village leaders were converted and they in turn influenced the other caste groups, which were bound to them by ties of socio-economic dependence (Robinson 1993).

Mass conversions, as is evident, perpetuated caste and, whatever the expectations of gain of the lower social groups, the church did not attempt to radically alter existing hierarchies. Indeed, in Goa, conversion protected the privileges of the upper landed groups. Here, caste itself came to be largely dissociated from notions of purity and pollution, but remained as an idiom of social differentiation, marking status distinctions and the deference patterns associated with them.

In Goa, as in areas of Tamil Nad, rights and honours centred around temple festivals were replaced by those around church feasts, over which the superior social groups retained control. Village churches played a role in articulating and maintaining local patterns of hierarchy. Their rituals and celebrations were occasions for the demonstration of rank. Alternatively, rank could be contested through conflicts over control of church ritual. Upwardly mobile groups in Goa and Tamil Nad are known to have engaged in such disputes (Robinson 1994; Mosse 1986).

The British period was not witness to the kind of relatively unambiguous bond between religion and power that characterized the *Estado da India*, the areas under Portugal's imperial control. The linkages between missionary activity and British colonialism were complex and intricate and not unequivocal. Though the English East India Company engaged chaplains for its own employees, merchants and soldiers, it was at first hostile to missionary activity. This hostility stemmed from the fact that, as a commercial enterprise, the Company could only hope to succeed by accommodation to the indigenous social and cultural traditions, including religion. It feared that brash evangelical efforts on the part of the missionaries might give rise to violent reactions, creating political instability and threatening vital commercial interests (Kooiman 1989).

The early nineteenth century brought about a shift in policy. Pressure began to be put on the British government by missionaries and returned civil servants such as Charles Grant, who argued that the propagation of Christianity, far from endangering British interests in India, would produce obedient citizens and strengthen the foundations of the empire. The motifs of civilization and moral improvement woven into the missionary enterprise thus potentially facilitated the forging of links with the project of colonialism. This also recalls the role played by religion in colonial rule in Sri Lanka.

The Company itself had not rigidly followed the practice of complete neutrality in religious affairs in British India. Accommodation to indigenous religion meant that large sums of money were donated for the maintenance of temples and priests and Company officials attended the more important sacred celebrations with a view to manifesting their respect for native traditions (Kooiman 1989; Oddie 1991). It was partly this participation by Company servants in Hindu rituals that provoked the missionaries to complain to the government. Following the shift of policy, then, the Charter Act of 1813 directed that missionary efforts be permitted, if not actively supported.

The result was a fairly cautious attitude towards the missionaries. In the decades which followed, their work began to be viewed with increasing favour, though at no point was a missionary-cum-imperialist drift completely dominant (Kooiman 1989). In the case of conversions in the tribal areas of central, east and northeast India, there is clear evidence of official patronization of the missionaries. Conversion in the northeast had begun to advance while the British were in the process of shedding the role of traders to assume that of rulers. Though the British first entered Assam in 1826 after signing the treaty of Yandaboo with the Burmese, they really assumed responsibility for the administration of the Brahmaputra valley after 1842 (Misra 1980).

Annexation brought the British into contact with the tribal people of the hilly regions, who they considered unpredictable, primitive and difficult to deal with (Natarajan 1977). Stories of the tribals with their 'wicked spears', adorned with the hair of the innocent persons killed by them, spread (Eaton 1984:6). In the light of this dread, it was hoped that missionaries, through evangelization and education, would be able to civilize and domesticate the unmanageable tribes in a terrain hard to administer and govern directly. Hence the support for the mission project.

Among the missionaries who worked in the northeast, the Presbyterians and Baptists were prominent, though Methodists, Catholics and Anglicans were also present. The government took an interest in the educational activities of the missionaries and funds were donated for this purpose, particularly in the latter half of the nineteenth century. Churches were also built with viceregal support and that of the administration and the local converts. For instance, in 1854 the Governor General Lord Dalhousie evinced an interest in the activities of the Presbyterian Mission in the region. He gave instructions for a donation of fifty rupees a month towards the mission's educational work. Thirteen years later the grant was increased tenfold on the condition that the schools would be inspected annually by a person appointed by the mission with the government's approval (Natarajan 1977).

Attempts at conversion of the Santals by the Baptists had commenced during the first half of the nineteenth century and a few schools had been opened. The Santal rebellion of 1855-6 drew attention to the problems of the tribe and increased conversion efforts. The British commissioner at Bhagalpur noted that the Santals who had attended the missionary schools were not among those who participated in the rebellion. Therefore, the government cooperated with the missionaries in the establishment of more schools in the area and gave grants-in-aid to those already existing (Troisi 1979).

At any time, individual officers with an interest in the reform and civilization could support missionary efforts. For instance, the missionaries of the Gossner Evangelical Lutheran Mission were invited in 1845 by Captain Hannington, Commissioner of Chotanagpur, to preach among the Oraons (Sahay 1986). Again, the work of Oscar Lohr of the German Evangelical Mission Society was patronized by Colonel Balmain, Commissioner of the Chhattisgarh Division. The latter invited Lohr to work among the Satnamis, advised him to secure a site for a mission station and informed him of a stretch of wasteland that was up for auction in the area (Dube 1995).

Evangelical missionaries in Chhattisgarh described the converts as equal in the Kingdom of God and invoked the principle of individual self-determination to assert the convert's religious freedom. But they also retained a certain paternalistic attitude towards converts: they were like children and had to be cared for and disciplined as such. In this and certain other respects, the missionaries participated in the idioms of domination that characterized the colonial construction of the non-western Other (Dube 1995). Within the colonial culture of order, therefore, the evangelical enterprise was paradoxically rather than simply located.

Christian missionaries did not have at their disposal the means to enforce conversion. Particular benefits could, however, be had from association with them, which may have served as incentives to convert. For the low castes, these included intercession with the government, protection against money-lenders or exploitation by the high castes and, perhaps, educational and employment opportunities. Mass conversions may then be viewed, in part, as movements for improvement in social and material conditions, but they were also movements for dignity and self-respect. It does not matter that the higher castes did not change their attitude to the converts or that, in the end, their situation did not significantly improve: the expectation of change would itself be a powerful catalyst (Forrester 1980; Oddie 1977).

Clearly, religion played a role of some significance in the overall process of colonialism, wherever we look. From creating a body of social and political allies to producing 'obedient citizens' or educated persons to work at various levels in the administration, conversion and the spread of Christianity did much to aid the task of colonization. There were differences, no doubt, and one must also not forget about cases where Christianity entered without any links with colonialism. In fact, as I have pointed out throughout this paper, the presence of associations between Christianity and colonialism could not be automatically assumed in any case. There were many mutations and variations. However, as we have observed, there were also many similarities and correspondences.

Part III: Christians and the Nationalist Movement

It is difficult to make a clear statement about the relationship between Christians and the nationalist struggle. What is evident is that there was no uniformity of response and no neat divisions. For instance, it might have been nice if we could argue that there was a distinct relationship between denominational affiliation and participation in the freedom struggle. Such a statement would, however, need to be seriously qualified. Some assertions could perhaps be made. The nationalist movement certainly plunged many Indian Christians into a certain crisis, of identity and of the potential loss of the protection of the regime in power.

Christians were everywhere more ambivalent about the freedom struggle. While the elites of different communities were attempting to forge solidarities over and above the distinctions of caste or religion in the course of the nationalist movement, Christians were always made aware of their separation and their 'foreigness' or alienness. They were often accused of being 'de-nationalized'. With the turn of the century mass conversions to Christianity, Christians were viewed as trying desperately to augment their numbers at the cost of communal unity and service to the nation as a whole.

It is true that Christians and other religious groups had been in competition with each other. Conversion to Christianity was viewed as a threat by other communities. They often appealed to the government to curb the activities of missionaries, but this rarely achieved results. The government tended to respond by defending individual liberties and pointing out the expanded educational benefits made available and the like. In response to Christian conversion efforts, groups began to enter the arena themselves through preaching, education, *shuddhi* work and famine relief activities. This history of mutual distrust and competition rendered inter-community cooperation for the nationalist struggle difficult. The Christian community in general, therefore, tended to proceed somewhat prudently on this front (Webster 1976).

Even so, the signs of protest were visible. Christians objected to missionary domination in the church because they believed that this gave the church its alienness and rendered it unattractive for Indians, who might otherwise have converted. It also isolated the Christians from the rest of society. In the north, Anglicans such as Rudra and C.F. Andrews called for the end of foreign rule in India. Rudra believed that Christ must be victorious in India without the mediation of Western civilization. Andrews felt that Christians should participate more fully in the freedom struggle and that the church should divest itself of its Western cultural baggage and notions of hierarchy. He sought to establish a link between the idea of a great Indian church and a great Indian nation (Webster 1976).

In Bengal, the Brahman Brahmobandhav Upadhyaya baptised into Anglicanism and, not long after, rebaptised as a Roman Catholic was firmly committed to the aim of Swadeshi and Indian Independence. Increasingly drawn by the nationalist movement, he felt the need to identify himself socially with his Hindu brethren. He believed that once the foreign garb of the Catholic faith was discarded, Indians would perceive its universal character. He saw the Christian religion as relevant to the unrest of a struggling India (Bary 1958).

Krishna Mohan Banerjea and Lal Behari Day spoke out against the denominational divisions within Christianity and sought the equality of Indian Christians with the foreign missionaries. With Rudra, Banerjea, Day and others, S.K. Dutta and K.T. Paul could be spoken of as pioneers of Indian Christian nationalism. They sought to synthesize Christianity with the best of Eastern and Western social traditions. While they appreciated the integrative role of caste, they agreed that it had degenerated in recent times and proved a hindrance to the nationalist movement. Again, while they felt that caste posed an obstacle to conversion, they also cautioned against the replacing of caste with unrestrained individualism and ruthless competition (Forrester 1980).

In south India other Christians such as Appasamy, Chakkarai and Chenchiah were also outspoken critics of the Western spirit of the church. Added to these, men such as J.C. Kumarappa and S.K. George plunged themselves enthusiastically into the Gandhian movement. Still others, such as P.O. Philip and V.S. Azariah, though they were more theologically conservative, were fervent nationalists and supporters of indigenization (Forrester 1980). In Goa, the movement for ending Portuguese domination was witness to the rather visible and vocal participation of a number of highly placed Catholics. There was also a distinct attempt to link the issue of Goa's freedom from Portuguese rule with the nationalist struggle against the British.

Sri Lanka and even Burma got independence as a part and consequence of the larger process of de-colonization and were not marked by struggles for freedom comparable to that witnessed in India. But Christians in Sri Lanka also faced the charge of being creatures of Western imperialism. Certainly, the church greeted the granting of independence in 1948 with restraint. The presence of the church was viewed as an awkward remnant of colonial rule and the history of Sinhala-Catholic conflict on the island charts these controversies.

Missionaries in general appear to have supported the Raj. Very few condemned it openly and most viewed its coming to India as an act of divine providence. There were, however, some signs of reconciliation. The most significant statement on the nationalist movement by Indian and missionary leaders of the church was made at the Continuation Committee of the World Missionary Conference in Allahabad in 1913. It said that:

> In view of the present isolation of Indian Christians from the Indian non-Christian communities, we are of the opinion that every effort should be made to identify ourselves with all that is good in the patriotic sentiments and aspirations of Indian peoples (Webster 1976:246).

Relatively speaking at least, different denominations were in structurally varying positions in their relationship to power. This might have determined the nature or extent of their engagement in the freedom struggle. For instance, C.F. Andrews, himself a member of that church, branded the Anglicans as the least national of all the Christian denominations. This probably had much to do with the singular relationship of the Anglican Church with the British Raj (Webster 1976).

What is clear from the evidence available to us from the primary and, even more extensively used, secondary sources is that everywhere it appears to have been the higher caste, western-educated, urban (indeed, one might even say, urbane) elites who were involved in the freedom struggle and in redefining the role of Indian Christianity in the changing circumstances.

Apart from some exceptional foreigners, the Indians prominent in the struggle tended to be from the Brahman caste or the upper and middle-level non-Brahman castes. In some cases, participation by elite non-Brahmans has been more enthusiastic than that by the Brahmans: this is said to have been the case in Goa, where many Brahmans tended towards political conservatism. But their participation cannot be denied, though the number of those involved may have been few.

Total numerical strength was, in any case, slight. There do not seem to be any indications of a mass interest in the freedom struggle among Christians. Goa is a special and a later case, where some mass participation was visible. In general, the picture was otherwise. The number of those committed was lamentably few. The charge of 'de-nationalization' must always be treated with caution, though, for some of the persons involved in the national movement were deeply concerned about harmonizing Christianity with Indian culture and society and were thoroughly patriotic thinkers.

Today, communal boundaries are sharply etched and the 'foreignness' of the origin of the Christians is often brought up by Hindu fundamentalists. The church, on the other hand, speaks of indigenization but, in practice, this often tends to be restricted to a fairly circumspect tinkering with ritual forms (Angrosino 1994). The relationship between culture and social action is not adequately theorized. Perhaps there is room here for a recollection and recovery of the fuller dialogues of the past.

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INTERNATIONAL CONFERENCE

on

COLONIALISM and GLOBALIZATION

Five Centuries after Vasco da Gama
February 2-6, 1998
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PATHWAYS OF POLITICAL LEADERSHIP IN SOUTH ASIA: LIMITS AND POSSIBILITIES

by

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Pathways of Political Leadership in South Asia: Limits and Possiblities.

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In recent months there has been much ranting and raving against politicians and political parties. Newspaper editorials condemn members of Parliament as a matter of routine and echo the demand to either change or modify the existing democratic system. Although there is some substance in their critique, the wholesale condemnation of parties and politicians derives from an inadequate understanding of the role of leadership in shaping the history of modern India.

It is not uncommon to reflect on the nationalist movement and the constraints of leaders in coping with the harsh realities of governance and nation-building. Some point to the failure to assure 'substantive' democracy and equitable development for significant segments of civil society resulting in the discrediting and delegitimization of state-sponsored nationalism (Jalal & Bose, 1997, 2). Others attribute the present-day 'crises' to major political actors, their lack of vision and their failure to accelerate socio-economic development. Increasingly, the absence of a strong and unified leadership is bemoaned, while Gandhi, Jawaharlal Nehru, Vallabhbhai Patel, B R Ambedkar, Mohammad Ali Jinnah, Bandaranaike and Mujibur Rahman are invoked to comment on declining public standards, weak institutions and inept leadership. 'The crisis of democracy in India today', comments Rajeev Bhargava, a political theorist, 'is undeniable. Many institutions associated with liberal democracy look messy, worn out and frayed at the edges'. Some years ago, Atul Kohli talked of the 'crisis of governability' and located its roots mainly in political structures (Kohli: 1990).

The faith in and the rising expectations from a 'stable' and 'powerful' leadership is understandable in South Asia where the political and intellectual legacy of the nationalist leadership, howsoever differently understood and interpreted, continues to mould public opinion and, in some cases, influence decision-making processes. Indian nationalism before Independence, comments Sunil Khilnani, 'was plural at the top, a *dhoti* with endless folds. Its diversity was emblematically incarnated in the gallery of characters who constituted the nationalist pantheon, a pantheon whose unageing, cherub-like faces are still on display, painted with garish affection on calendars and posters or moulded into just recognisable statues and figures, in tea-shops and at cross-roads across the country' (Khilnani: 1997, 6).

Indeed, it is increasingly clear that the Congress leadership represented a much wider range of interests and its social composition and political aims were much more heterogeneous than either the British or some historians dominated by the official mind have argued. The limited repertoire of the early Congress was vastly enlarged with the coming of the Mahatma. It soon developed into a mass party with a well-developed organisational structure starting with village and taluqa units at the bottom and then, in ascending order, district, provincial and all-India committees, each elected by the lower units. From the time of the Rowlatt Satyagraha in 1919, the Congress did not ask for dominion status but demanded, as in 1921, complete independence. It did not seek concessions for only the elites, but developed an agenda with national aspirations. The Congress Ministry's from 1937 to 1939 adopted 'radical' political and economic measures even at the risk of alienating its powerful allies.

Doubtless, policies and programmes were frequently diluted or tailored to meet political exigencies, but this was not unexpected in the case of a party that had no pretensions of being revolutionary or socialistic. The critical issue is that the Congress, though plagued with internal contradictions, could build a consensual base for itself, a fact that has been crucial for its own success as well that of Indian democracy. It brought together a cross-section of intellectuals, all of whom contributed in varying degrees to the formulation of its agenda. Thus, the socialists drafted the Fundamental Rights Resolution as well as the party's 1936 agrarian programme. The efforts of the Communist party resulted in the wider participation of the trade union, peasant and other organisations.

The unfinished agenda of the Ministry's was pursued after independence, though not without considerable internal squabbles within the Congress hierarchy. A democratic and secular constitution, the hallmark of India's tryst with destiny, was adopted after Partition. Whether it was 'formal', 'substantive' or not (Jalal: 1995), democracy bestowed an aura of legitimacy on modern political life: laws, rules and policies appeared justified when they were democratic. The leaders differed in intellectual outlook and leadership style, and yet they shared a single vision of the system of rule that was to guide the new nation. It was a parliamentary system, its leaders answerable to the people through elections (hart: 1990, pp. 18-9). In the early 1950s, Nehru was able to push through a number of significant measures, including the abolition of zamindari in Uttar Pradesh. Guided by his socialist vision, the state took on itself the responsibility for transforming the economy. Even more ambitious, it sought to deliver new services--education, public health, sophisticated agricultural technology, co-operative marketing--to half a million villages. The very structure of power in these isolated communities was to be remade by reforms of land tenure and credit. (Hart: 1990, 21) Although the basic apparatus of governmental administration in independent India, as also the basic structure of civil and criminal law, was inherited from the colonial period, a number of significant changes were set in motion to transform society and promote economic development through what Rajni Kothari called the 'Congress system' (Kothari: 1970).

There were many contested visions of nationhood and alternative frameworks for its realisation. But Nehru, the natural successor of Gandhi, was better placed and more suited to cope with the changes ushered in by independence and the upheaval caused by Partition. He was the only one among his contemporaries to harness his intellectual energies and commitments to lead a truncated nation through an extremely difficult phase of nation-building. He was able to steer the Indian ship through the rough currents of history by keeping regional, linguistic and religious/communal cleavage in check. At first, his handling of the language issues appears to be tentative, ineffective, overcautious and dilatory. But like Arjuna, the central actor in the *Bhagawadgita* who fought through his vacillation and indecision to lead his brothers to victory, Nehru emerged triumphant in India's linguistic wars (King: 1997, p. xv). Indeed, the reorganisation of states in 1955 along linguistic lines was a masterstroke in the annals of modern political history. In the opinion of a linguistic historian, 'if the first prime minister of India had been a linguistic naive rather than a linguistic sophisticate like Nehru, then we should have today not a unified India with a strong government at the centre but an India weakly divided along linguistic and cultural lines into two or three semi-autonomous regions. The unity of India would be as a faded dream' (King: p. xvi).

Nehru's adversaries in the party's higher echelon did not approve of his sledgehammer efforts to change the fabric of Hindu society, his lenient policy towards Pakistan, and his undue tenderness for the Muslims. But Nehru repudiated such criticism, as he had done time and again. 'For all of us in India', he told the chief ministers in May 1950, 'the issue of communal unity and a secular state must be made perfectly clear. We have played about with this idea sufficiently long and moved away from it far enough. we must go back and go back not secretly or apologetically, but openly and rather aggressively'. He invoked the Congress record to legitimise its secular discourse after Partition In this context he pointedly referred to the Mahatma's message of communal peace and his exemplary courage in extinguishing the flames of religious hatred. In so doing, Nehru tried to settle the issue whether the government and the party were going to adhere to 'old Congress principles in regard to communalism' or whether the country as a whole was going to drift away from them

Finally, Nehru's greatest asset was his commitment to national unity. He did not waver in his belief that religious and class or caste strife must be fought tooth and nail no matter what the cost or how daunting the opposition. And his principal contribution, one that is so often contested nowadays, was his blueprint of a nation that would not be burdened by the colonial experience but surge ahead as a modern, liberal, rational and technologically advanced society In the words of his most distinguished biographer, Sarvepalli Gopal: 'To a whole generation of Indians he was not so much a leader as a companion who expressed and made clearer a particular view of the present and vision of the future'. Not surprisingly, he enjoyed widely perceived legitimacy. When U.N. Dhebar was elected Congress president in 1954, he said quite clearly: 'There is only one leader in India today and that is Pandit Jawaharal Nehru. Whether he carries the mantle of the Congress Presidentship or his shoulders or not, ultimately, the whole country looks to him for support and guidance'. Although some of Nehru's colleagues felt uneasy with his ideas and uncomfortable with his missionary zeal, they could neither repudiate the nationalist legacy they had inherited nor ignore the spirit that had guided the architects of the constitution. After the death of Vallabhbhai Patel in 1950, Nehru was virtually the sole arbiter of India's destiny

II

The first decade of Nehru's government stands in contrast to developments in neighbouring Pakistan. In 1947 India went on to consolidate itself as a democracy; the Constituent Assembly adopted a constitution on 26 November 1949 which came into force on 26 January 1950. On the other hand, it took nine years for the Pakistan Constituent Assembly to agree to a constitution that satisfied the requirements of being Islamic, federal and a parliamentary democracy. No national elections were held under the 1956 constitution, however. Two years later, Pakistan fell prey to military rule. The Congress, a major catalyst for political and social change, survived as a powerful organisation while the Muslim League, torn by dissent, lacking an articulate agenda and an effective organisational structure, failed to institutionalise itself or provide the leadership essential for underwriting stability or democracy in Pakistan The ideological cement that held it together dissolved once Pakistan was achieved The Muslim League, the prime casualty of Partition, declined after Jinnah's death on 11 September 1948 (Barlas 1995, 189; Ahmed 1996, 173-4)

The Congress leaders took the lead, howsoever grudgingly, in creating a democratic and secular polity and accommodating diverse social and political forces in its own ranks But the ruling classes in Pakistan, who had no clear blueprint or a shared vision of a modern nation, failed to sustain the institutions inherited from the Raj From the very beginning, elected governments held power at the discretion of what Hamza Alavi has described as the all-powerful 'military-bureaucratic oligarchy'. In an area where religious passions had been heightened during the previous decade to create a Muslim homeland, Mohammad Ali Jinnah's belated plea for a secular society failed to strike a favourable chord The Jamaat-i Islami, a party wedded to Islamic theocracy, was out in the open ready to seize power in order to enforce the *Shariat*

The historian Ayesha Jalal begins her book (Jalal 1995) with an important comparative question--why have the experiences of India, Pakistan and Bangladesh been so different since their independence? Various explanations already exist. Some ascribe Indian democracy to a developed political culture, viable institutions, dedicated elites, unique organisational skills on the part of the Indians, a tradition of compromise and accommodation, the success of the Congress in having institutionalised itself in state and society, and the British role in having bequeathed 'tutelary democracy' to India Conversely, the breakdown of democracy in Pakistan is attributed to a backward political culture, unseasoned or corrupt leaders, ethnic and group friction's, weak institutions debilitated further by stresses arising from the exigencies of nation building in a new state, and the incompatibility of Islam and democracy (Barlas 1995, 8). The Marxists theorists are grounded in an analysis of the colonial political economy, while the subaltern historians argue that Indian democracy was not the outcome of a 'national-popular revolution' but a passive one carried out by the Gandhian-led Congress that enabled the bourgeoisie to institute its hegemony over the subaltern groups, but without a formal confrontation with them

What these theories sometimes ignore is how the difference in the social base, ideological orientation and contrasting styles of leadership in India and Pakistan left their imprint on the course of events after independence There can be no doubt that the structures and social composition of formal political parties mattered substantially, more so in post-colonial societies. But the striking contrast between India and Pakistan, as also between the military rulers in West Pakistan and the Awami League leaders in East Pakistan (later Bangladesh), was the charisma, popular appeal and moral authority of individual Congress leaders and their extraordinary legitimacy in many parts of the country and among different sections of society. That is why even in so divided and fragmented a society as India, people turned to Gandhi, Nehru and Ambedkar for inspiration, guidance and leadership and sought a resolution of their dilemmas and predicaments in their policies and pronouncements. Unlike Pakistan, Congress leaders in various states too, had a mass base and the experience and resourcefulness to mobilise public opinion.

The man who probably made the greatest difference of all was Mohandas Karamchand Gandhi. Although assassinated by a Hindu fanatic just when the country had tasted the fruits of freedom, his legacy lived on in the hearts and the minds of people whom he had served with such singular dedication. True, his moral and political philosophy had severe limitations. It is also true that he lost the magic touch after having led the civil disobedience campaign in 1930-32. His concern for the Dalits was genuine but their empowerment, which would have caused a massive upper caste backlash, was not translated into any formal arrangement. Likewise, his method of dealing with Muslims was based on mistaken suppositions. He treated them as a distinct pan-Indian entity and not as differentiated cultural, linguistic and economic units. He spent years in the company of liberal and secular-minded Muslims without being receptive to their modernist interpretation of Islam. He regarded, quite wrongly, the traditionalist view of Islam as the more authentic voice of India's Muslims.

On balance, however, Gandhi's engagements developed out of his concern to articulate the interests of different castes, communities and regions. He was a devout Hindu but not a *Hindu* leader. The Hinduised symbols he deployed were designed to unite and not to divide his constituency among the Hindus and Muslims alike. He turned to legends and stories from India's popular religious traditions, preferring their lessons to the supposed ones in history. The fact that so many on the subcontinent found these fables accessible, and recognised their predicaments and symbols, itself testified to a shared civilizational bond (Khilnani 1997, 165). No wonder, the pan-Islamic leader Mohamed Ali stated in the early 1920s: 'It is Gandhi, Gandhi, Gandhi that has got to be dinned into the people's ears, because he means Hindu-Muslim unity, non-co-operation, *dharma* and *Swaraj*'.

Gandhi's conception of state and society, with its emphasis on morality and non-violence, may not stand the scrutiny of contemporary analysts. But there is no denying that he possessed a sharp and intuitive mind and had the ability to marshal his resources towards ends clearly discerned and goals clearly defined. He was an innovator and synthesiser of diverse political and philosophical traditions. He was therefore able to develop a political theory grounded in the unique experiences and articulated in terms of the indigenous philosophical vocabulary. In the words of Nehru, 'he was like a powerful current of fresh air that made us stretch ourselves and take deep breaths, like a beam of light that pierced the darkness and removed the scales from our eyes. He did not descend from the top; he seemed to emerge from the millions of India'.

III

Jinnah's role, by contrast, should not be interpreted from the lofty heights of Indian nationalism. Nor should he be belittled for rejecting the Congress creed or singled out as the 'villain', the sole leader responsible for the vivisection of India. The nationalist rhetoric can no longer obscure the role of certain key Congress and Hindu Mahasabha players in signing united India's death warrant. What is undeniable, however, is that Jinnah was quite out of place in the Gandhian-led movements and quite out of tune with Nehru's socialist rhetoric. He was a constitutionalist par excellence who relished debating, in the traditions of British parliamentary democracy, finer points of law and legal processes. He was comfortable in the Home Rule Leagues and the cosy chambers of the Central Legislative Assembly where he performed with his characteristic élan. He stayed clear of the dusty roads, the villages inhabited by millions of hungry, oppressed and physically emaciated peasants, as also the British prisons where thousands of his countrymen were incarcerated for defying the colonial government. He enjoyed the trappings of power but was seemingly ill-equipped, at least until the late-1930, to lead the masses from the front. He aired his aversion to the mixing of religion in politics during the Khilafat movement, but his real problem was to make sense of Gandhi's political strategies. One would have thought that the two men, sharing a Gujerati background and educated in British legal schools, would have understood each other better and created spaces for acting in unison on certain matters. In reality, they were far removed from each other long before their acerbic exchanges started in the late-1930s. In the end, their 'parting of ways' had far-reaching consequences on inter-community relations in the subcontinent.

Jinnah was not a devout Muslim or a religious bigot waving the Islamic flag to tease and torment the 'nationalists' who were striving to project the image of a secular India united in its mission to free the country from colonial rule Yet he, more than the religio-fundamentalist groups, expounded the idea of a civilizational unity among Muslims and counterpoised it against other pluralist and eclectic religious and cultural traditions His reading and interpretation of India's history was based on false premises, but that was not being challenged, except by Gandhi, Nehru and Maulana Abul Kalam Azad, with any degree of intellectual rigour in the early 1940s What was being effectively questioned, both by Jinnah and the colonial government, was the very *idea* of an Indian nation being foisted on different 'nationalities' The political compulsions for doing varied, though the end result was much the same In Jinnah's case, the 'two-nation' theory was grounded in the historical experiences of two mutually incompatible entities engaged in creating their separate destines at a critical juncture in their histories For Jinnah, the idea of Pakistan, though vaguely defined in the early stages, was the only way out of the Muslim predicament

The colonial rulers had no qualms in seeing the fragmentation of a 'nation' that did not, in any case, come into being long after John Strachey early twentieth century text that was compulsory reading for the young British civil servants coming to India During the post-war years, Jinnah, who had been earlier ignored and rebuffed on numerous occasions, proved to be an invaluable asset and a useful ally in promoting certain carefully laid out imperial designs. Although some British officials continued paying lip-service to India's unity and bemoaned its imminent division, the policies of their more pragmatic and seasoned superiors ensured that not one but two nations were created in 1947

It was easy to split people and divide territory, but the more challenging task was to *create* a nation out of highly disparate and unevenly developed communities in Pakistan It was easy to project Islam as the cementing bond at the height of the Pakistan movement, but the real task at hand for the new rulers was to mediate between conflicting interests and contending identities that surfaced soon after the birth of the new nation Indeed, what was urgently required was the laying down of certain ground rules for building a state system divorced from the rhetoric of the *mullahs*, a system that would be flexible enough to accommodate a wide variety of interests in the bureaucratic and institutional structures inherited from the Raj The creation of such a system and its long-term effectiveness depended on the capacity of the elites to distance themselves from the theologians, devise an economic strategy to curb the power of the landowning class, and evolve mechanisms to diffuse mounting linguistic, sectarian and 'ethnic' tensions. In other words, instead of attempting to homogenise Pakistan society on the basis of ill-founded theories, the need of the hour so to speak was to lay bare the outlines of a pluralist society. That was one way of meeting the various demands of the Bengalis in East Pakistan, the Baluchs and Pathans in the North-West Frontier, the Sindhis in Sind and the *muhajirs* in Karachi, capital of the same province.

Sadly, the rulers of Pakistan had no intellectual resources to draw upon, no cadres to translate their nebulous plans into action. As the historian D.A. Low notes, in spite of the 'commitment and enthusiasm which the movement for Pakistan generated, it left little of any substantial political value behind which the post-Jinnah political leadership could rely for support' (Low: 1991, 6). The ailing and beleaguered founder of Pakistan had neither the time nor the intellectual reserves to define his long-term agenda. He led, organised and conducted powerful mobilisation campaigns under the aegis of the Muslim League, but he made no attempt to deepen his popular support on the strength of any clear-cut economic programme. In fact, as Nehru noted in 1938, Jinnah did not show much interest in 'the economic demands of the masses [and the] all important question of poverty and unemployment'.

Efforts to mobilise the peasants brought some rewards, though without producing the same type of changes as had occurred in the Congress after its involvement in the kisan movements in the early 1920s (Barlas, 182). Similarly, even feeble attempts to propose democratic reforms and economic policies were thwarted by the Muslim League leadership. In a nutshell, the broad strategy, one that paid off for the time being but was counterproductive in the long run, was to take cognisance of the sensibilities of powerful and influential social classes, stifle internal debate and gloss over class contradictions. New ideas breaking out among fiery young idealists, in spite of being confined to only a few, were promptly nipped in the bid (Hasan: 1997, 81).

IV

Given the historical role of individual Congress and Muslim League leaders in their respective spheres and the contrasting legacies of the two parties, Pakistan would have probably plotted a predictable course with or without Jinnah and his party. Its fate or destiny was not, however, predetermined. Nor was its survival as a national entity at stake. The more pressing issue was the readiness of Pakistan's ruling classes to negotiate the terms of a post-1947 contract with those groups who had migrated to their newly-discovered homeland in search of better opportunities. Given the ideological underpinnings of Muslim nationalism and Pakistan's *raison d'être*, this arrangement was, ideally speaking, workable and desirable. But the dynamics of power politics belied the expectations raised by the Pakistan movement. The powerful landlords in Sind and Punjab, having helped the *Qaid* realise the dream of a Muslim homeland, showed no inclination to share power with the competing elites or agree to the redistribution of land. There was no Nehru or his socialist comrades to push through land reforms. Similarly, the nascent bourgeoisie, drawn mainly from the migrant entrepreneurs belonging to the ethnic minorities (Memons, Khojas and Brahmans), had no interest in democracy. Rather, it relied on the authoritarian state structures to expand and consolidate its position (Ahmed 1995, 175-6). Finally, the *ulama*, acting in unison with the military and bureaucratic establishment, could not be reined in by a leadership that had catapulted them into prominence. No wonder, the ideal of an Islamic state and society, consummated years later during the inglorious regime of Ziaul Haq, was thoughtlessly pursued soon after the creation of Pakistan. The contestation between the 'modernist' and 'traditionalist' world-views imposed severe strains on a nation that was still trying to traverse a rough terrain after the untimely death of its founder.

V

If the Gandhian and Nehruvian legacies are contested today, the responsibility rests primarily with the Congress party which, apart from abandoning its own socio-economic goals, abdicated its historic role when the Babri masjid was destroyed on 6 December 1992. It has since failed to harness its own ideological resources to mobilise the minorities, the backward castes and the Dalits. The leadership, despite its rhetoric, is fragmented, bereft of new ideas and ill-equipped to cope with the changing political landscape. Slowly but steadily, the Congress has lost the initiative in areas where it enjoyed power and legitimacy for decades.

The election results may have a few surprises in store, yet the marginalisation of a national party may not be ideally compatible with the country's strong secular and democratic traditions. For one, the need of the hour is the revival of the Congress in its traditional strongholds and a more enduring realignment of liberal and left elements to thwart the anti-liberal and non-secular ideologies.

India's history, Sunil Khilnani points out, has shown two broad possibilities of dealing with diversities a pluralist or an exclusivist approach The voters have the responsibility to choose between them They must decide what they wish to build out of the wreckage at Ayodhya's Babri Masjid But, first, they must understand the significance and consequences of the Gandhian and the Nehruvian legacies, as also the post-colonial predicaments of creating a secular polity and society

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THE PROCESSES OF GLOBALIZATION IN BANGLADESH

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The Processes of Globalization in Bangladesh

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Globalization: Meanings, Trends and Challenges

Since the collapse of the Soviet Union and disintegration of the bipolar cold war, there have been significant changes in the international system and dramatic change in the global situation. The international system is now more open, more interdependent and definitely less Eurocentric. Multiculturalism, multiple identities and anti- foundationalism have become fashionable themes, not only in academic discourse, but in international politics.[1] The experience of two horrible world wars and the growing global complex "interdependence" in virtually all spheres of social, political, economic and cultural life have dramatically changed the basic characteristics of the international system. The bipolar world has been transformed into a unipolar world under the domination of the United States which embraces within its fold all facets of human life all over the world. Thus the trend indicates clearly that globalization is both unavoidable and inevitable no matter how forcefully isolationist feelings and attitudes influence the politics of some states.[2]

The present trend is to create a new international system - a "New World Order". The demise of the bipolar system in Europe only accelerated and strengthened this development. The collapse of the communist regimes and of many repressive military dictatorships in Latin America and Asia, combined with the crisis of the welfare state in the North and of state-promoted development in the South, has given rise to a much more open and complex political environment.[3]

Given the global interconnectedness of contemporary civilization, the prevailing movement toward poverty, ecological imbalance and exclusion can not be reversed by actions taken only at the local and national level..[4] These problems need to be addressed and solved globally.

Regional coalitions and sectoral networks have recently been formed in many parts of the globe to address specific themes and concerns such as international economic integration; human

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Martin Palons, "Democracy and dynamics of Globalization", Democracy is a discussion Handbook (New London: Connecticut College Connecticut, USA, 1997), p.36.

[2]Ibid.

[3]Miguel Darcy de Oliveira and Rajesh Tandon, "An Emerging Global civil Society" in Ibid, p.43

[4]Ibid.

rights; adult, nonformal and popular education; the rights of women, children, and indigenous people; health and habitat issues and so on. These Regional coalitions include SAPTA (South Asian Preferential Trade Arrangements) under SAARC (South Asian Association for Regional Cooperation), ASEAN (Association of South-East Asian Nations), NAFTA (North American Free Trade Agreement), RCD (Regional Cooperation for Development), GCC (Gulf Cooperation Council), EEC (European Economic Community), APEC (Asia-Pacific, Economic Cooperation), Economic Cooperation Organization (ECO).[5] They are making attempts in resolving their problems mutually and regionally and fostering the goal of economic integration internationally. Networking has become the key word for the emerging global civil society.

The global networking and advocacy efforts of NGOs (Non-Government Organizations) to influence the agenda and outcome of major UN global conferences have produced some landmark events. The most comprehensive and best planned of these processes was developed in preparation for and during Rio Global Forum and Earth Summit in June 1992. Similar mobilization drives were carried out for the Vienna Human Rights conference and the Cairo population and Development conference, and were implemented in 1995 for the world Summit on Social Development in Copenhagen and the Beijing Women's conference held in 1996.

The process of building such global networks is also occurring in relation to the institutions of the market. The Lyon Summit Communique[6] emphatically declared that economic growth and progress in today's interdependent world is bound up with the process of globalization. Globalization provides great opportunities for the future, not only for the developed countries, but for all others too. It's many positive aspects include an unprecedented expansion of investment and trade (which aims at promoting strong and mutually beneficial growth of trade and investment), the opening up to international trade of the world's most populous regions and opportunities for more developing countries to improve their standards of living; the increasingly rapid dissemination of information; technological innovation and the proliferation of skilled jobs. Thus the main spirit of globalization is to serve the interest of people, ensure their jobs and enhance their quality of life.

The growing international economic interdependence requires increased international cooperation, adaptation of international institutional structures, liberalization of markets, fair rules and sound economic policies for prudential regulation and supervision in the financial markets. These are the essential elements which will contribute to investment, growth and job creation on the one hand, reducing external imbalances and bringing down unemployment on the other, thereby preserving the stability of the international monetary and financial system and maintaining the conditions for harmonious growth in global trade and business.

The international financial institutions created at the Bretton Woods conference -the World

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[5] Economic Cooperation Organization (ECO), a central Asian trading bloc, was expanded in 1992 to include six former Soviet republics.

[6] The Heads of State and Government of Seven and major industrialized democracies and the President of the European commission, met in Lyon for 22nd Annual Summit. They discussed matters relating to economic globalization for the benefit of all. The Lyon Summit Communiqué was issued at Lyon, France in June 28, 1996.

Bank and the IMF - can play important role in shaping the new global economy. They will need to continue providing guidance and assistance to developing and transitional countries seeking to reform their economies and follow a market-led strategy of development. They also will become increasingly involved in assisting environmentally sustainable development, alleviating poverty, promoting good governance, and encouraging private capital flows. From an institutional standpoint, the World Trade Organization (WTO) created by the Uruguay Round and Organization for Economic Cooperation and Development (OECD) are. the important accomplishments for international economic integration.

Challenges of Globalization

Globalization poses challenges to societies and economies. Its benefits will not materialize unless countries adjust to increased competition. In the poorer countries, it may accentuate inequality and certain posts of the world could become marginalized. Globalization of the financial markets can generate new risks of instability, which requires all countries to pursue sound economic policies and structural reform. Better prudential regulation and supervision in the financial markets are essential elements in promoting the stability of the international monetary and financial system. Cooperation among regulatory and supervisory authorities should continue to adapt to financial innovations, and to the growth in cross-border capital movements and internationally active financial institutions.

Globalization is also creating new challenges in the field of tax policy. Tax schemes aimed at attracting financial and other geographically mobile activities can create harmful tax competition between states, carrying risks of distorting trade and investment and could lead to the erosion of national tax bases.

From all these discussions it is clear that there are strong arguments in favour of globalization. At the same time it poses formidable challenges too. Evidently, the success of globalization is contingent upon the containment of these challenges. With these ideas about globalization let us see how the processes of globalization started in Bangladesh and what are its implications on the Bangladesh society and economy.

The Case of Bangladesh

The Mujib Regime (1972-1975)

Bangladesh achieved independence from the internal colonialism of Pakistan in 1971 through a bloody revolution. She inherited a capitalist economy from erstwhile Pakistan. Soon after the liberation, the Awami League (AL) government led by Sheikh Mujibur Rahman abandoned the policy of capitalist economy which was held responsible for economic exploitation of the Bengalis in the former East Pakistan and adopted a policy of socialist economy in pursuance of the one of the Four Principles of state policy.[7] It envisaged a society in which rule of law,

[7] The constitution of the People's Republic of Bangladesh enacted in 1972 proclaimed four principles of State policy such as, nationalism, socialism, democracy and secularism. For details

fundamental human rights and freedom, equality and justice-political, economic and social would be secured for all the citizens. It further envisaged that the Republic would be a democracy in which fundamental human rights and freedom and respect for the dignity and worth of the human person shall be guaranteed, and in which effective participation by the people through their elective representatives in administration at all levels would be ensured.[8]

This attempt of the Awami League government seemed to be a serious contradiction as far as the blending of socialist principles with democratic ideals was concerned. If we look at this issue from the stand-point that socialism implies "state ownership of the means of production" and democracy means "granting of fundamental rights like freedom of movement, freedom of assembly, speech, expression, press and above all, freedom of private ownership" the attempt seemed to be a contradictory one. But if socialism implies "equitable distribution of wealth or the sharing of economic benefits equally by all the citizens of the country" and democracy means enjoyment of civil liberties; Awami League's effort to reconcile socialism (equality) with democracy (liberty) was not contradictory. It was however, not the problem of meaning of socialism and democracy rather it was the problem of AL government's honesty of purpose and commitment for policy implementation. That the government lacked sincerity, honesty and commitment was crystal clear from its misperformance in economic and political spheres of the country.

The AL government, soon after the liberation, hastily took over the control and management of all industrial and commercial concerns left by the west Pakistani entrepreneurs and also operation of bank accounts of them by promulgating Bangladesh Abandoned property (control, management and disposal) order, 1972.[9] But the implementation of this law had a serious corroding effect on the socio-economic life of the country. It provided a scope for massive loot and plunder of these abandoned properties mainly by the AL proteges under a legal cover. No matter the West Pakistani entrepreneurs left the country or not, their properties were randomly taken over as abandoned by the leaders and workers of the ruling AL government and under their patronage, some government functionaries also managed to share the booty.

Besides, the members of Management Boards, Administrators, Managers and persons appointed by the government to control and administer the different classes of abandoned properties (Textile Mills and Factories) were mostly inexperienced and unskilled men drawing from AL party members and workers or the officers enjoying their patronage. The result was tremendous chaos, rampant corruption, large scale mismanagement and widespread plunder and the production obviously plummeted. It was also reported that the Management Boards sometimes smuggled out the machineries and new materials with handsome amount of money. Soon most of the industries and other units either went into the red or closed down or sold out.[10]

The promulgation of 'Abandoned Property Order' was soon followed by the enactment of

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see, The constitution of the People's Republic of Bangladesh (Dhaka: Ministry of Law and parliamentary Affairs, Government of Bangladesh, 1972) Articles 8-12.

[8] Ibid, Article 11, p.5.

[9] M. Ahmed, Bangladesh: Era of Sheikh Mujibur Rahman (Dhaka, 1983), pp.12-19.

[10] Ibid, p.19

laws for nationalization of Jute, Textile and sugar Industries and the Banks and Insurance companies for establishing socialist economic order in the country. Unfortunately, the abrupt and hasty nationalization policy of the government brought failure for the AL and miseries to the nation for a number of reasons. First, the AL as a political party had no ideological commitment and no socialist orientation. It had no cadre who could carry out its policy to success; second, Mujib's inner contradiction between public morality and private life and between public commitment and private belief and habits had made the establishment of a socialist order all the more difficult; third, the Bengali owners of these industries had no experience, skill and even interest in developing them. For a while, nationalization took the form of expropriation by the gunboats of the ruling party. The result was that the production went down, the volume of black money not only increased but also multiplied and a soaring inflation affected every sphere of the economic life. The performance of the government was undoubtedly poor and the behaviour of the AL party and members did not match the ideology they preached.[11]

This, in brief, was the scenario of AL regime which was eventually become isolated from the masses and amidst mass discontentment it was overthrown by a coup de'tat in August 1975. The entire period of AL regime was the period of economic mismanagement of the government. They failed to evaluate the prevailing situations, domestic and international, and take appropriate policy-decision. There was no scope for private investment or privatization under the so-called socialist policy of the government for which the economic situation lost its momentum and became stagnant. Though historically Bangladesh inherited capitalist or privatization policy which was very akin to international market economy, the AL government could not realize the reality of this situation and did blunder in making a swift shift from capitalist to socialist economy.

The Zia Regime (1976-1981)

General Ziaur Rahman assumed political power as chief Martial Law Administrator (CMLA) on November 30, 1976 and subsequently as president of the People's Republic of Bangladesh on April 21, 1977. He carefully evaluated the prevailing socio-economic and political situation of the country and cautiously overviewed the reasons for the fall of Mujib regime. He readily identified three main causes: first, shift from privatization policy to state-controlled nationalization policy; second, rampant corruption through politicization and family patronage; and third, abolishment of parliamentary democratic system and establishment of a single party presidential rule of the Bangladesh Krishak Sramik Awami League (BAKSAL).[12] So, he make necessary amendment of the "Forth Amendment" in the Fifth constitutional Amendment in which the principle of socialism was replaced by the incorporation of the principle of economic and social

[11] Ibid. p.26

[12] Sheikh Mujibur Rahman abandoned parliamentary system of government and introduced one-party presidential system on 25 January 1975. For this purpose, he made a constitutional amendment (Fourth Amendment) giving no scope for discussion about it in the Parliament (Jatiya Sangsad). The authoritarian move of Sheikh Mujib was severely condemned by every quarter of the country. For details, see, Constitutions of Bangladesh, Appendix IV, The Constitution (Fourth Amendment) Act, 1975, pp. 112-126.

justice.[13] He also made constitutional amendment which provided for a multi-party system with an overpowering emphasis on the Presidency.[14] Thus, Zia removed serious contradiction of Mujib regime(blending of socialism with democracy) and brought uniformity in the fundamental principles of state policy(blending of privatization policy with democracy).

Zia expressed strong pledge to work for the socio-economic development and modernization of the country. He brought into consideration the prevailing domestic and international situations while formulating his development policy and strategy. He expressed his determination to make Bangladesh "Swanirvar" or self- reliant and to this end, adopted pragmatic policies and strategies of development. These included encouragement of private enterprise, emphasis on export-oriented industries within the private sector and boosting of exports through private foreign trade. It also included emphasis on agricultural production through large-scale government subsidies and heavily village- oriented self- help development programmes. He had denationalized many industries nationalized by Mujib government earlier and some of these industries were given to their original owners or private entrepreneurs. Private foreign and indigenous trades also entered into the formerly nationalized jute trade. The ceiling of Taka 30 million fixed by the Mujib government for private investment was raised to Taka 100 million.[15] Further, Zia had also provided for liberal financial backing to new enterprises by government banks and credit institutions and had granted tax incentives to both new and old business.

Zia was also convinced that the major assistance for industrial development had to come from private enterprise, particularly from the foreign multi-nationals. Therefore, Zia government had announced a policy of non- nationalization and offered liberal terms for repatriation of profits and salaries in order to attract foreign investment. Bangladesh businessmen assured the cheap and plentiful labour supply and expressed their eagerness to collaborate as further incentives for foreign investors. They preferred joint ventures in which the foreign partner provided the foreign exchange, but were willing to undertake management contracts, licensing, and third party arrangements.

The effect of all these policies was a significant improvement in private sector. As against the total investment of Taka 200.9 million in the two financial years of 1973-74 and 1974-75 there was a total private investment of Taka 850.9 million in 1975-76.[16] Foreign investors from Japan, South Korea, Thailand, USA, UK, India and Pakistan began to show considerable interest in Bangladesh.

Pharmaceuticals was the fastest growing area for foreign investment, but there had also been some activity in export industries like sea food, electronics, garments/ textiles, processed foods and other labour incentive products. A number of foreign firms had been successful in discovering vast

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[13] Constitution of the Peoples Republic of Bangladesh (Modified version), The Proclamations (Amendment) order 1977. Appendix XVII, pp. 153-186.

[14] For details, see the Second Proclamation order No. 14 of 1978 in Ibid, pp. 180-186.

[15] T. Maniruzzaman, The Bangladesh Revolution and its Aftermath, (Dhaka, 1980), p. 212.
[16] Ibid.

reserves of high quality natural gas and had been granted lucrative production sharing contracts by Zia government.

Thus the era of the process of privatization and market economy started in Bangladesh with a firm commitment to achieve the goal of self-reliant Bangladesh. Besides, Zia strongly felt the necessity of regional cooperation among the countries of South Asia for promoting a climate of trust and confidence for greater political understanding, for resolving their problems on the regional basis for the common good of the people of the region and for their respective development, in particular, and for competing with other countries of the world in order to safeguard their own interest., in general. For this purpose, he formally proposed the formation of an Association for South Asian Regional Cooperation (SAARC) toward institutionalizing regional cooperation in May 1980 to Six heads of State (India, Pakistan, Sri Lanka , Nepal, Bhutan and Maldives). The proposal was accepted by the member countries after many deliberations. Zia was aware of the impact of the process of globalization and felt that Bangladesh, being a poor country, can not survive in isolation. She had to survive through cooperation and competition. The Seven- nation Forum (SAARC) in South Asia is the brain-child of Ziaur Rahman and laid the institutional foundation of the process of globalization in this region, in general and in Bangladesh, in particular.

The Ershad Regime (1982-1990)

President Ziaur Rahman was assassinated in an abortive coup on 30 May 1981 and Vice-president Justice Abdus Sattar assumed the presidency. Later, Justice Sattar was popularly elected President of Bangladesh. But he was suddenly overthrown by General H. M. Ershad, the then commander in chief of Bangladesh Armed Forces on March 24, 1982 and forced to resign as President in a radio/ television broadcast to the nation on the plea that he was "incapable of managing the affairs of the country properly". By staging this drama, H. M. Ershad usurped political power and proclaimed himself the President of Bangladesh.

After taking over, Ershad din not bring about any fundamental change in the socio-economic and political system of the country. He continued to pursue the policies undertaken by Zia regime to a great extent. He took certain steps for more denationalization and private enterprise and sought to build Bangladesh economy on western capitalism. The government denationalized some important industries, including 31 jute and textile mills and returned these industries to Bangladeshi private owners. Simultaneously the government also limited the role of the public sector to the establishment of basic and heavy industries, steel mills, fertilizers and public utilities. The decisions were made by the government after an evaluation showed that most of the nationalized industries and mills were incurring heavy losses of upto more than $250 million per year. Additional considerations were to accelerate the growth rate of the economy, to encourage private investment particularly from foreign countries, and to check widespread loss of confidence in an increasingly corrupt and mismanaged public sector.

The later period of the Ershad regime was, however, overshadowed by the widespread political turbulence centering on the demand: "Down with Dictatorship" and "Restore Democracy". All the opposition parties took united stand on this demand and launched tremendous political movement against the Ershad regime. The movement was transformed into an unprecedented mass movement which brought to an end of the nine- year rule of Ershad government on 6 December 1990. With the fall of Ershad the triumph of democracy and people's will was reasserted after the freedom movement of Bangladesh in 1971.

In the political events of the last quarter of 1990, the picture of Bangladesh economy was quite dismal. While part of this performance can be ascribed to the gulf crisis- with the rising costs of imported petroleum, the loss of remittances and the relocation of workers displaced from the region- the World Bank and other donors complained about poor macroeconomic management and a weak capacity to absorb the aid that was granted. The budgetary deficit had soared, as tax revenues had not come close to keeping pace with increased expenditures. The development budget was almost entirely funded through external resources. Donors also complained that the military budget had been expanding much too rapidly. Such expenditures, it was alleged, were made to keep the military happy.[17] There was widespread resentment on these military expenditures at home and abroad.

However, though Ershad pursued the policies undertaken by President Zia and made attempt to extend those policies in global perspective, he could not make any remarkable headway rather presented a dismal picture of Bangladesh economy.

The Khaleda Zia regime (1991-1995)

Khaleda Zia, the chairperson of Bangladesh Nationalist Party (BNP), was sworn in as prime minister of Bangladesh on March 20, 1991 after the splendid victory of her party in the unprecedented parliamentary election of 1991. Soon she expressed her pledge to continue the policies undertaken by President Zia aiming at economic liberalization and privatization. Moreover, under the changed global and national perspectives, liberalization of economies is now a necessary condition for competing successfully in global markets. New configurations in the areas of international business, trade and industrial relations have constantly been redefining the dynamics of global interactions. Goods, services, human as well as other resources have now far better global mobility than any time before. Together, they have not only quickened the pace of economic advance, but also opened new vistas of trade, investment, and ideas that demand reappraisal and redefining of the roles of public and private sectors in the global environment of the cut- throat competition.[18]

Khaleda Zia aptly realized the magnitude of this global challenge and attempted to adopt

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[17]Craig Baxter, Bangladesh in 1990", ASIAN SURVEY Vol. XXXI, No. 2, February 1991 (California), p. 151.

[18]CAF Dowlah, "Appropriate roles of the state and the Market: Creating an Enabling Environment for Private Sector-led Economic growth in Bangladesh", ASIAN AFFAIRS, Vol. 16, No. 4. Oct-Dec. 1994. (Dhaka: Centre for Development Research, Bangladesh), p. 44.

such policies as to attain rapid industrialization and economic growth through greater economic liberalization and privatization. At the same time, she sought to create an environment conducive to both domestic and foreign investment in Bangladesh.

For this purpose, the Khaleda government put greater emphasis on the stabilization of law and order situation of the country. In order to achieve 6-7 percent growth target as proposed in the FY 1994-95, the rate of investment was to be raised to 18 percent from the level of 13 percent. But unstable policies (in some cases), bureaucratic bungles, obsolete laws and regulations, unrest in political front, inadequate infrastructural facilities, and piece-meal rather than comprehensive incentive package were some of the problems that hindered investment climate in Bangladesh. Despite this, there was tremendous enthusiasm generated in the minds of domestic and foreign investors for capital investment in Bangladesh during the period 1991-94. A large number of new garment factories (about 600), textile mills (over 100) and new spinning mills (about 17) were established during Khaleda regime. Further the establishment of Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange (CSE) were remarkable contributions to the creation of an environment conducive to capital investment and to build sound capital markets. The Security and Exchange Commission (SEC) as government watchdog were responsible for regulating stock exchange.

The success of the Khaleda government's economic policies demonstrate the fact that the rate of inflation was lowered down at less than 2% from 9.3% of 1990. The per capita income grows to US $220 from US $170. The rate of GDP also increased from 2% to 5%. Bangladesh, with a GDP of more than US $24 billion, four times larger than that of early seventies was at the threshold of a major economic breakthrough. The industrial growth rate also increased from 7.2 to 12. The foreign exchange reserve in the Bangladesh Bank was the highest in the history of Bangladesh during this period. The export earnings also increased from US $1.71 billion to US $2.38 billion .[19]

The Khaleda government also carried through sweeping import liberalization. Given the global context of free trade and dismantling of trade- barriers, budgetary and policy framework for import liberalization was underway. By opening up all our industries to global competition at this level over industrial development, the nation was almost turn into a nation of consumers. The government seemed to have adopted an unthinkably unimaginative policy in this regard.

However, the country enjoyed remarkable macroeconomic stability. High levels of foreign exchange reserves and tax revenues, funding fiscal and current account imbalances and low inflation rate succeeded in creating some of the necessary conditions for economic take-off. This macroeconomic stability contributed a conducive environment to accelerate economic growth, increase saving and investment, and develop private sector. Banking and financial sector, overall capital market, trade and tariff policies and administration, export-promotion activities etc. kept the economy from moving at a desired speed. The achievement in the private sector was remarkable. The success of agriculture that already attained self-sufficiency, the ready made garments industry that brought in more than 60% of the nation's earnings, the wage-earners scheme that emerged as

[19]Three years of the Democratic Government, 30 March, 1994 (Dhaka: Film Publication Bureau, Government of Bangladesh) pp. 12-17.

second largest export earner can be attributed to the private sector whose potential to emerge as the dominant player in the economy, therefore, can not be challenged.

The Sheikh Hasina Regime (1996 -)

Sheikh Hasina assumed the office of the Prime Minister as the leader of the Awami League in June 1996. As indicated earlier, the AL , soon after the liberation, under the leadership of Sheikh Mujibur Rahman adhered socialist principle and had its share of disappointment, failures and frustrations with the state dominated economic system. Over the years, the country lost in average Taka 20 billion (US $500 million) annually due to inefficiency, wastage, corruption and system losses of the public sector.[20]

In view of this, Sheikh Hasina abandoned the state-controlled economic policies undertaken by her father and has pledged to continue the policy of economic liberalization and privatization and market- oriented economic system adopted by the Khaleda Zia government.

Evidently, the Hasina government inherited a conducive investment environment. Since 1975 denationalization and privatization efforts have been made, and stock market reemerged, and private sector banks, industries and other enterprises began to grow. But the one and half year rule of Sheikh Hasina presents us a very pessimistic view of the economic situation of the country. The trade imbalance between Bangladesh and India has made an adverse impact on Bangladesh market economy. Indian goods have almost occupied the Bangladesh market. On the contrary, Bangladesh goods seldom get opportunity to enter into Indian market. As a result, there is tremendous trade deficit of Bangladesh with India amounting taka 6000 crores.[21] This alarms Bangladeshi entrepreneurs very much and expresses their deep concern about the dire consequences of this trade imbalance on the growth of indigenous industries in Bangladesh.

Another serious debacle occurred in Bangladesh share market. With the sudden and unplanned abolishing of Lock-in system, Bangladesh share market was made open for competition with international 'mafia' group. The unimaginative rise in the share prices attracted large number of people to purchase shares. The international 'mafia' group through their local agents deeply involved in this artificial sharp price-hike and smuggled out crores of taka by purchasing almost all shares from the stock market. The Bangladeshi shareholders could not compete with this 'mafia' group and incurred heavy losses with the sudden fall of prices in the share market. Now, the Bangladesh share market business has lost momentum and the prospect for its reinvigoration is very bleak in near future. The Hasina government has been severely criticized both at home and abroad for its utter failure in adopting sound policies for prudential regulation and supervision in the financial markets.

Similar is the situation prevailing in the industrial sector. The process of denationalization or privatization of industries has been very slow and discouraging. The government has so far (during the last four years) denationalized 13 industries only and 350 industries are still left with

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[20] CAF Dowlah, op.cit. p. 51.

[21] The Daily Janakantha, Dhaka, 24 November 1997. p. 8.

public sector. The state-controlled industries have continuously been incurring heavy losses of about taka 2500 crores annually. The government has failed to take quick and appropriate steps in this regard. Indecision and negligence at the top-decision making level causes concern about the real intention or capacity of the government.

Recently, Bangladesh's political stability and conducive investment environment have been threatened by opposition movements on a number of issues. The street agitations, strikes and hartals have been gaining momentum. The authoritarian behaviour of the government and their coercive method of settling disputes with their opponents aggravated the situation. The opposition parties also sometimes failed to demonstrate their rational thinking on the resolution of political cleavages. Both the government and the opposition tend to take a position of 'no-compromise'. Even sometimes their political interest supersedes national interest. More particularly, the government's stubbornness and snobbishness push the opposition away creating a conflicting relationship between them. This situation is neither complementary with democratic political system nor desirable for investment in the private sector.

Concluding Observations

Experience show that decades of public sector domination has failed to attain sustainable development, alleviate poverty, ensure equitable distribution, create congenial atmosphere, raise productivity, enhance investment and expedite economic growth in Bangladesh. With the beginning of the process of globalization, Bangladesh has now been attempting to have a market-oriented economic system together with a democratic political system. Unfortunately, Bangladesh has been constrained to attain success in fulfilling its desired goal. Government's desire to attain private sector-led economic growth has not yet been achieved, and the process of globalization poses some challenges in this regard.

In the context of liberalized environment of investment, trade and commerce, Bangladesh must work out well-thought-out, long run and dependable strategies for rapid industrialization and high-track economic growth. Over the years it has been decisively proven that the public sector has been a continuous drain on national exchequer and has also been associated with failures, losses, corruption, wastage and promotion of vested interests.

So, the private sector is entrusted with the onerous responsibility of moving the economy to a path of higher growth. They must show their superior performance and effectiveness in making the country rapidly industrialized and economically developed.

What Bangladesh needs to-day is a sound economic policy ensuring better prudential regulation and supervision in the financial markets, realistic trade and tariff policy administration, reinvigoration of export promotion activities and overhauling current banking services. What is more important is the government's commitment to what it adheres to translate into practice. There should never be a gap between policies and their implementations. The government should pursue liberalization policy with firm determination to stop wastage, clean up corruption and resist losses. Labour militancy is one of the factors which jeopardize the pace of industrial growth in

Bangladesh. Labour issues must not be politicized rather should be taken into consideration with the spirit of bridging the gap between the entrepreneurs and the workers so that normal functioning of the industrial activities are not hampered even for a single hour. Investors at home and abroad must not feel insecure to invest resources in the country due to labour unrest. The government has the responsibility to ensure it by maintaining law and order situation in the industrial area particularly.

Building sound capital market is a prime need for creation of a conducive environment for private sector-led economic growth. A robust capital market is needed to encourage savings, channelize that to productive investments, and to distribute risks and gains on the basis of financial investments. Currently, the capital market in Bangladesh is at a rudimentary stage. Bangladesh needs to develop capital market by establishing financial institutions on sound footing. The stock market should be developed by upholding the interest of the investors, .the stock exchange members, and the government. The stock exchange commission (SEC) needs to frame market-friendly rules and regulations for monitoring, coordinating or regulating activities of different players in the capital market. If rules of game are fixed, watch-dog institutions are in place, and conducive environment for security and profitability are given, stock markets can grow and Bangladesh will be able to capture its share in the booming stock market in Asia.

Last but not the least, Bangladesh being the poor or low-income country is susceptible to global challenges. Although she is making efforts to attain economic development through economic liberalization and privatization, she is facing with all the challenges of globalization at the same time. At this moment, Bangladesh has no other alternative than to pursue the policies of market-oriented economy vis-a-vis global economy. But she has to remember that it would be a Herculean task to derive benefits of globalization from the new global partnership between developing countries, developed countries and multi-lateral institutions. She should take the achievement of sustainable development as its fundamental objective. Goals should include the alleviation of poverty and reduction of social inequities, a strengthened civil society, promotion of the political and legal environment, improved health and education, and building of basic infrastructures. Democracy, human rights and good governance are indispensable components of development. So, it is the government's fundamental responsibility to be aware of all the implications of the globalization in order to achieve the desired goal of sustainable development of the country.

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on

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The South Asian Model

by

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The South Asian Model

Dr. Vinod Vyasulu

"I was a donkey", Tottles cried,
"To choose your daughter for my bride!
'Twas you that bid us cut a dash!
'Tis you have brought us to this smash!
You don't suggest one single thing
That can in any way prevent it-------
"Then what's the use of arguing?"
"Shut up!" cried Tottles (and he meant it).

Lewis Carroll

It is ambitious to speak in terms of a "South Asian" Model of Development. I will therefore limit my effort at the beginning. To me, South Asia will refer to Naipaul's *Area of Darkness*[1]: India. This is the country in South Asia of which I am least ignorant; and in this way I may avoid rash generalisations. In fact, even this may be too ambitious!

India is now fifty years old. This vast sub-continent has had a turbulent history. But when the British left fifty years ago, the land suffered the trauma of Partition, as two nations, India and Pakistan, were born. India was then created out a large number of differing kinds of kingdoms and territories. This process was not free of strife – witness the "police" action in Hyderabad or the Army's move into Goa. The Kashmir problem, which renders peaceful relations between India and Pakistan so difficult, has its roots in this history. South Asia has yet to fully recover from its stormy birth. Subsequent events must be understood in the light of this dark beginning.

We may note some points of similarity in passing. All of South Asia was under colonial rule not very long ago. This is a reality that all have to take into account today. All of them had some form of "modernisation" imposed on an ancient existing culture. What was familiar began to disappear; what was new was often beyond grasp. Each of these countries is coping with the consequences of this reality in some way. There are immense possibilities of mutual benefit from co-operation, but it has not been possible to operationalise these.

All of the South Asian countries are densely populated, in comparison with other parts of the world. If one sees the land available per person, it is smaller in South Asia than in Latin America or Africa. This relative scarcity of land, if we can call it that, will have its own impact on the development experience of this region. There may be other

[1] This is a reference to V.S Naipaul's book written more than 30 years ago.

things in common too, but the differences too are great. Hence the need to limit the scope of this paper. This I do by referring to facts that are specific to India.

There are similarities between parts of India and its neighbours. West Bengal in India shares more than just a language with Bangladesh. Tamil Nadu and Kerala have much in common with Sri Lanka and the Maldives. Bihar and Nepal too have common features. India and Pakistan both have Punjabs. But there are major differences too. I hope scholars in Pakistan, Sri Lanka etc will write of models specific to their countries. From all of that work, we may be in position to speak of a model as being specifically "South Asian". Till then, we have to be more modest in our aims.

I will begin by stipulating some Stylised Facts about India from which I think we can usefully talk of a model. This will be specific to India, and draw on her experience. Further, I hope that the Stylised Facts I choose will command general agreement, for I have culled out these insights from my reading of the available literature, which is vast. These facts should not, I think, be controversial. It would be arrogant to claim that these facts, and this discussion, constitutes a "model" in the strict sense in which this word is used in economic theory. Here, the word, stemming from its place in the title of this paper, is used somewhat loosely, as a framework of ideas. This should help this debate proceed.

I will use this "model" as an analytical simile to draw some [hopefully useful] lessons of what this experience teaches us. What should we do now? How should we do it? It is not likely these facts – and hence these lessons - will at all apply to other South Asian countries. This limitation must be noted at the outset[2].

I have said that I am limiting my reference to India. Yet, it is necessary to recognise the vast variations that the word "India" often hides. India is like an arithmetical average, often hiding more than it reveals. What is common between the deserts of Rajasthan and the fertile coast of Andhra Pradesh? What is common between the Bhumihars of Bihar and the Jats of Haryana, apart from the fact that both communities farm the land? What is common between the entrepreneurship of the Gujarati and that of the Tamil Nadian? Is there anything in common between the role of the government in Bihar and Karnataka? What, for that matter, is common between the two Left ruled states of Kerala and West Bengal? Can we put together the Portuguese inheritance of Goa and the French inheritance of Pondicherry in one picture?

The questions can go on, but I have said enough to make the point that I will be presenting Stylised Facts that will have to be accepted in full recognition of these ground realities. The variations around the average that is India are statistically very high. Perhaps this is the first of the Stylised Facts – as Joan Robinson is reported to have said, "For every fact that is true of India, the opposite is also true!" But **what is remarkable is the fact that we see these as variations within one entity, not as differences between different entities**. This is an important fact in itself. It may therefore not be rash to speak

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[2] In this Conference, there are scholars who are presenting papers on models based on experience in other parts of the world. Together, these papers should address these lacunae. It may be more useful for to discuss the points of difference of India

of one South Asian - Indian - model, at least for some limited purposes. And my limited purpose here is to fuel debate in this Conference.

A useful stating point for this discussion is Sunil Khilnani's recent essay, The Idea of India.[3]. For India is indeed an idea, and a recent one. I begin with this essay because it poses the idea of India in political terms: a secular republic with a parliamentary form of government, democratic norms, a "free" press and a form of central planning for a "socialistic pattern of society". This mix is uniquely Indian. For my purpose it is immaterial whether this was Nehru's vision or someone else's[4]: it was the vision that underlay the historical experiences we will call [one version of] the South Asian Model. Along with the differences I noted above, this experiment in governance, paternalistic perhaps, is a common factor across this vast land. This does not mean things worked, in the political sphere, in a uniform way: they did not. But the foundation was common; the states built in different ways on it.

This common experience of recent years was put on top of differing local historical experiences[5]. One has only to compare Tamil Nadu, West Bengal and Uttar Pradesh, among others, to see this. But the vision of the process, the stated goals of the larger society, were indeed the same. In India, ideas at the national level have had a deep and lasting influence on local politics – a kind of change from the top down, that has had positive effects that could not have been brought about in any other way. The protection to and reservations for the Scheduled Castes is one such[6]. The introduction of local self governance in 1991 is another. The idea of India is therefore, a critical factor in the evolving life of the nation in the half century past.

It is this vision that holds the Indian nation together. There is indeed something [and I submit it is positive] that binds this vast sub-continent together[7]. The whole here *is* greater than the sum of its constituent parts. This is unique to this nation. The rest of South Asia does not share this specific vision or experience: they have their own. Hence the need for many South Asian models, each studying a country in depth. Only after this has been done can we speak properly of a "South Asian" model.

The first of the Stylised Facts, then, deals with the nature of governance. Indians speak of "continuity with change". The system adopted built incrementally upon the past: there was no rupture as the case of many other countries. Perhaps this was due to the fact that there was no revolution; those who led the movement were educated in large part in Britain, and had imbibed its values. After all, Dadabhai Naoroji, in his critique of British policy in India, spoke of it as being "unbritish"! Perhaps it was due to the wide range of interests of those involved, from the moral stance of Gandhi, to the commercial interests

[3] Hamish Hamilton, London 1997. Khilnani then goes on to explore where we stand fifty years after the transfer of power from the British to the "Indians". In the context of this Conference, this phrase may be more appropriate than the more common "independence".
[4] The contributions of many others, like Vishveshwaryya and Mahalanobis, should not be ignored.
[5] Narendar Pani has developed this point in the context of land reforms in Karnataka, in Reforms To Pre-empt Change, Concept Publishers, Delhi, 1982.
[6] Dr B R Ambedkar was a forceful proponent of this view; given the power equations in rural India, he stressed the importance of such change coming from the Union.
[7] Europe is now trying to accept a common currency. The Indian sub-continent, which in many senses is like Europe, has had one for 50 years!

of people like Birla and Sarabhai. And there were many others in that spectrum. It was a question of gaining opportunities blocked by the presence of Englishmen; not of a revolutionary upsurge as in China. It was a question of filling the vacuum left by the British, not of creating a new society. It is correct to describe this as a Transfer of Power; the word Independence would lead us to expect much more[8]. It is no wonder that Gandhi died a disappointed man!

The Indian Constitution, built upon, perhaps evolved, from the Government of India Act, passed by the British Government in 1935. Many of its features continued. [Laws that were not explicitly repealed continued to be in force[9]]. Essential among them are: the retention of the powers of preventive detention – citizens could be deprived of liberty etc. *according to due process of law*[10]. This is a power that has been often used, from the infamous MISA of the Emergency to the more recent TADA that has just lapsed. Both were in addition to strong laws that already exist. Thus the democracy we adopted was not unfettered. We ruled ourselves, but we retained the right to tell our fellow citizens what the limits of dissent are. This may not be unusual. What is unusual is the narrow line that we drew around dissent. By and large, vigorous pro poor actions became, not an exercise in democracy, but dissent that was anti-social[11]. One has only to look at the land question, or the tribal question to see the truth of this.

There is another way of looking at this issue. It comes in the form of the Ninth Schedule of the Constitution. This was added a few years after the Constitution came into effect. *Items placed in the Ninth Schedule were placed beyond the purview of the Courts*[12]. This is Extraordinary. It comes on top of the provision in the Constitution that the matters discussed in the Directive Principles of State Policy[13], which were to set the priorities to any government, are themselves non justiciable. The Courts never had the power to ensure that any Government of India lived up to its obligation in education or health[14]! And it has not. I am no expert in this matter, but I cannot help wondering if there is some gigantic hoax involved here.

There is yet another aspect of this identity question. Recognising that India was indeed the Tower of Babel, rightly or wrongly, it was decided to establish states on the basis of language. How many languages then are there in this vast land? Somehow, a list was accepted, and in 1956, the country was reorganised on linguistic principles. Yet, the principle was not uniformly applied. Hindi is a major language, spoken by about 1/3rd of the population. But there are [at least] four states that speak Hindi – Uttar Pradesh, Bihar, Rajasthan and Madhya Pradesh. Politically, they can call the shots in the country. For the other languages, there is one state each. This does not mean there is uniformity of culture

[8] See also Partha Chatterjee, A Possible India: Essays in Political Criticism, Oxford University Press, New Delhi 1997 for an effective extension of these ideas.

[9] Indian telecommunications are run under the Indian Telegraph Act of the late 1800s. Government officials are bound by the colonial Official Secrets Act. And so on.

[10] The right to property has effectively disappeared. This has clear economic implications that are yet to be addressed. I am indebted to R. Sudarshan for many discussions on this fascinating subject.

[11] The worst manifestation of this was the Emergency imposed by Mrs. Gandhi in 1975-77, described by Acharya Vinoba Bhave as "anushasan parva" - the age of discipline. The most impressive defence of the Emergency was that the trains ran on time

[12] Today, there are around 300 items in the Ninth Schedule - the largest number have to do with land issues .

[13] Part IV of the Constitution, from Articles 36-40.

[14] Or, for that matter, prohibition and cow slaughter.

and historical experience in many of these states[15]. But there is an asymmetry where Hindi is concerned. This has made language an emotional issue; it has led to something of a North [Hindi]/South [Tamil?] divide[16] that has had unfortunate effects on the polity and society of the country. This is a specifically Indian matter. It had become one more divisive factor in a country where there are already too many. Are we Indians first, and Telugus – or whatever – later, or are we Gujaratis – or whatever -- first and Indians later? This can be important in our conception of our national identity[17]. How it has impacted on development is something that yet has to be carefully studied.

India has been described as a Union of States. Yet the Government of India often behaved as a unitary form of government. The power to dismiss elected state governments [Art 356] has been frequently misused by the party in power in Delhi. This has stunted democracy; it has prevented the natural evolution of programmes and policies in many states. Again, it is difficult to be more specific on this question. It has remained an irritant in our political life.

This imposition by the Union is especially true where Planning is concerned[18]. For a long time, for various reasons, the Union government, called the Centre, [and I wonder why[19]] monopolised decision making, even in areas reserved for the States in the Constitution[20]. From being a respected and powerful Think Tank in the 1950s and 1960s, the Planning Commission degenerated into a politicised bureaucracy under Mrs Gandhi. Decisions got politicised in the wrong sense of the world – they became elements of patronage[21]. The vehemence of the Centre-State relations debate attests to this. This had important repercussions on how India has fared in the latter part of the last fifty years.

So the South Asian Model is premised on Democracy; but it is Democracy With A Difference. Whether fraud or not, this South Asian democracy was flawed. Even the ideal, embodied in the Constitution, was watered down in the amendments to it[22]. Yet we prided ourselves on our democratic process: the reality was lost in the rhetoric of the moment.

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[15] My state, Karnataka, like the others, is divided into regions – Bombay Karnataka, Hyderabad Karnataka, Old Mysore, Dakshin Kannada – and sometimes, Kodagu. The majority do not speak Kannada as their mother tongue. The term Kannadiga refers to those who speak Kannada, but it is also used as an omnibus term for residents of the state. It would be better to speak of Karnatakans; but we never do.

[16] In terms of several development indicators, the South indeed does better than the North. Yet, there is a feeling that the South is discriminated against.

[17] In my years abroad, I have come across Telugu, Kannada, Marathi, Gujarati etc associations, but not an 'Indian' Association. This may have an impact on the ability of Indian abroad to lobby for their interests, but I do not know much on this.

[18] The Planning Commission, set up by executive order in the Cabinet Secretariat, enjoyed a great deal of power - including, the distribution of Plan funds to the states, outside the purview of the Constitutionally mandated Finance Commissions. For my views on this matter, see 'The Finance Commission in a Federal Framework' Economic and Political Weekly, August, 1995.

[19] When the Constitution has no mention of a 'Central' Government, why does a hundred rupee note, which carries a promise to pay by the Governor of the Reserve Bank of India, say that this promise is 'guaranteed by the Central Government'. What is the value of a guarantee by an entity that has no constitutional existence?

[20] The standard reference is to the Sarkaria Commission that went into this issue. The recent 73rd and 74th amendments to the Constitution are important landmarks in this context.

[21] The Election Commission too seems to think so. The laying of foundation stones etc. is prohibited immediately before elections. This can actually go too far. There have been cases when pending appointments to public institutions have been held up because elections were due – to the detriment of the institutions.

[22] I have learned much in this matter from R. Sudarshan, both in discussions and from his writings. This should not be taken to mean he agrees with me!

But electoral politics - the power of the ballot - has been important. The illiterate Indian voter has shown great maturity. I submit this had important repercussions in what happened in the last fifty years. It has ensured an orderly change in governments – even after the infamous Emergency of Indira Gandhi. And much of it has[23], I submit, been positive. It has prevented extreme responses, such as an Army take-over. It has forced politicians to negotiate coalitions, and pushed governance by unwilling politicians forward.

The flip side of the coin has been a readiness to believe that change can be legislated[24]; that if we pass a law, we have taken care of the problem. We have a law against dowry; ergo, there is no problem any more. We have a law against child labour; therefore there is no need to worry about developing the potential of children. It is quite common for people to propose a Constitutional amendment the moment a problem is recognised. Law, here, seems to be a substitute for implementation in the field. At present there is talk of making the right to primary education a Fundamental Right! Will that make primary education a reality without the allocation of funds, without a political and organisational commitment? And if we have the latter, do we need a Constitutional amendment? This ability to believe that legislation is implementation is, I believe, a specifically Indian one[25].

The second Stylised Fact pertains to the goal of the so called Socialistic Pattern of Society -which has been variously interpreted. The colonial experience, and the economics of the time, convinced us that the market fails. We then believed that the Government of free India could do better. This ideal had a high level of acceptance at the time, even if there were differences in how it was to be attained[26]. The slogan, over which there was then little dispute, was "Growth with Social Justice". Apart from affirmative action in the form of job reservations[27], this was seen as a willingness to give up immediate increases in consumption levels in favour of high levels of state investment meant to increase the productive capacity of our society - especially through rapid industrialisation[28]. This was seen as essential for building up what was called self-reliance[29], an essential ingredient of independence. Some see this as one of the major differences between the Indian or say the East Asian approaches to development. Be that as it may, the major instrument for this was the Public Sector.

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[23] An important example is the amendment to the Constitution to bring in local governance – the 73rd and 74th amendments.

[24] One must accept though, the it sometimes can be. The increase in the representation of women in local governments is one such case of important success.

[25] The reluctance to pass the Bill reserving one-third of the seats in Parliament and State Assemblies for women, when all political parties have supported it, shows how the narrow interest of the [male] politician dominates decision making when implementation is guaranteed. And this, after the Bill speaks, not of half, but of one-third!

[26] In the context of small industry, this has been brilliantly discussed by Nasir Tyabji in his The Small Industries Policy, Oxford University Press, New Delhi, 1984.

[27] This had, not only Constitutional sanction, but I think, a large measure of popular acceptance as well.

[28] The so called Nehru-Mahalanobis model, which formed the basis of the Second Five Year Plan.

[29] There has been some controversy over the exact meaning of this term. Some have felt it referred to self-sufficiency, a kind of autarky. Certainly, some of the regulations that were put in place made it appear so. But if referred to something else, such as ability to trade and function as an equal partner in the globe, then it is a worthwhile goal for the country. It is in this second meaning of the word that many still support policies of self reliance. The difference should not be one of semantics

It must be recalled that the demand for the setting up of the Public Sector came from the big private industrialists of India[30]. Others, seeing the experience of the then Soviet Union, also felt this was a useful device of policy implementation. There was agreement on this instrumentality, if for very different reasons. The Public Sector became an article of faith in this context. A successful public sector was soon seen as a *sin qua non* for social justice! In the anti-public sector mood of today[31] this historical truth seems to have been forgotten.

By not very difficult extension, this faith in the public sector became the justification for a very intrusive role of the State, which effectively meant the Union government, in the economy of the country[32]. This is clearly seen, for example, in the Industrial Development and Regulation Act, passed in 1951, before the advent of Planning. Further, the concept of the public sector changed from one referring to newly set up manufacturing enterprises to anything run by the government - from nationalised factories to promotional agencies; from those owned by the Government of India to those owned by State governments. I must not forget the role of the unions[33] in the expansion of the public sector. When a unit began to make losses, a demand for nationalisation went up. Thus, textiles and coal came into the public sector through the nationalisation of unviable units under the guise of protecting jobs. It will not be possible to understand the Indian version of the South Asian model without a Big Brother State with a large and powerful civil service in commanding positions[34]. Reform here is complex business.

The third Stylised Fact lies in the reality of achieved economic growth. In the 47 years before the Transfer of Power, India never experienced even 1% growth per year. In the 47 years after that, it averaged well above 3%, to use the most pessimistic of all estimates[35]. Given all the differences discussed above, this is indeed remarkable. The Transfer of Power *did* make a difference. In the current pessimism about Planning, it is often forgotten that few countries have averaged such steady growth over a half century. This growth[36], till recently, gave legitimacy to the whole Indian experiment. It is true that poverty levels are horrendous. It is true that there is controversy among economists about the extent of poverty[37]. But however it is measured, there is agreement that it has come down - there has been an undeniable improvement[38]. This has kept hope alive. If

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30 Even if we disregard Vishveshwarayya, we cannot discount the Bombay Plan of 1944, which made a persuasive case for the setting up of the Public Sector in industry

31 It is also possible to argue that this anti-public sector mood is itself the result of the success of the public sector. Given this success, changes that were essential were not made in a rigidified system; and such changes are essential.

32 This was pointed out quite early by R.K. Hazari, in his review of Industrial Licensing for the Planning Commission in 1969.

33 In another connection, I have examined the effectiveness of the strike as a weapon. See my "The Strike Weapon: Re-examining its Effectiveness", Annual Conference of the Indian society of Labour Economics, Thiruvananthapuram, January 2-4, 1998.

34 The "commanding heights of the economy" effectively meant command by the bureaucracy, dominated by the Indian Administrative Service.

35 See the most interesting discussion of J. Mohan Rao, in his paper in Shobha Raghuram, Heiko Sievers and Vinod Vyasulu [eds.]: **Structural Adjustment: Economy, Environment, Social Concerns**, Macmillan, New Delhi, 1985.

36 True, there was disappointment that it was not higher; and in the last ten years, it has, in fact, been over 6%. But a steady three plus per cent over fifty years cannot be written off as trivial.

37 See T Krishna Kumar, V. Sitaramam, Anil P Gore and S.A. Paranjpe, "On Understanding Poverty" Background Paper for a programme at the National Institute of Advanced Study, Bangalore, January 1998, unpublished, for an eminently readable account by participants in this debate.

38 This is not to say that we can be happy about our achievement. We cannot. But we cannot deny *some* improvement either.

democracy has contributed to this, it in turn has contributed to democracy too. The implications may perhaps be discussed in some detail.

Consider agriculture. The government began with lofty ideas of Community Development. Although land reforms were seen as critical for progress, the rhetoric of zamindari abolition and bhoodan was all that took place. Land reform legislation led to the introduction of Ninth Schedule; it was politically impossible. Yet, the Transfer of Power led to many groups getting benefits. For a while the issue could be postponed. And then it dropped out of the political agenda. A famine in the 1960s, a devaluation forced by the Bretton Woods twins, and some arm twisting by the United States[39], led to a redirection of policy by Mrs. Indira Gandhi. Self reliance became important. From social factors, the emphasis shifted to technology inputs. The result was the Green Revolution. Since then, India has broadly managed to feed its growing population. **This is no mean achievement.**

But it come at a cost. There has been little by way of substantive structural change. If in 1950 70% of the workforce was in agriculture, producing around 60% of national income, today, around 2/3rds is still in agriculture, producing 1/3rd or less of national income. This I think is an Asian feature; it is pronounced in India. A very large number of people do not seem to share in the growth that has taken place[40]. This is a disturbing statistic that requires explanation. While growing enough to feed the population is a commendable achievement, the way in which we have done it leaves much to be desired. Whether technology has rendered land reforms irrelevant, as some argue, is another matter. At a time when agricultural production seems to have reached a plateau, this question becomes relevant again.

The white revolution[41] is another important development. There is a demand for milk, and India, following the co-operative route, has become one of the world's largest milk producers. The innovation here is a managerial one: that of organising milk producers scattered over the countryside; of making use of the latest technology; of marketing milk and milk products. This has been achieved while raising the levels of living of the primary producer. What is the potential of the co-operative form in India? How can it be imaginatively extended? What lessons are there to be learned[42]? Is this not an example of the off farm and non farm enterprise that India has to nurture? Where do we go from here?

In industry too, there was some remarkable success. India had little by way of industry in 1947. But that changed soon. The Public Sector developed capabilities in a whole host of sophisticated fields - machine tools, power equipment, steel, railways,

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[39] Best exemplified in the following statement of Hubert H Humphrey, [later] Vice President of the United States: "I have heard that people may become dependent on us for food. I know that was not supposed to be good news. To me that was good news because before people can do anything they have got to eat and if you are looking for a way to get people to lean on you and be dependent on you, in terms of their co-operation with you, it seems to me that food dependence is terrific..." 84th Congress, First Session, Committee on Agriculture and Forestry, Hearings "Policies and Operations of P.L. 480, 1957. Washington DC. USA.

[40] C.T. Kurien has taken up this theme in his wonderful Rethinking Economics, Sage, New Delhi, 1996.

[41] A great deal of information is available in the Institute of Rural Management, Anand, on this issue.

[42] Dr V Kurien, the mastermind behind the milk revolution, points out that the main constraint is the colonial law governing co-operatives, and the power it gives to the Registrar of Co-operatives. Free India has not seen it fit to change this – except for one solitary attempt, a few years ago, in Andhra Pradesh.

nuclear energy, space applications and many more. India developed production capabilities in a wide range of technologies, and a diversified manufacturing capacity[43]. Exports became diversified, and began to include manufactures. Much of this is from what India calls the small scale sector, which is a part of the private sector[44]. It is in this small, also called informal, sector that the jobs are being created. This is commendable, and the achievement must not be under-estimated because of subsequent failures in other sectors of industry.

The share of the manufacturing sector in national income has grown, but not as much as expected. And employment in the formal manufacturing sector has stagnated. India may not have become an industrial economy, but it had developed an industrial manufacturing capability that was full of potential. But the country failed to build up the design capability so essential for responding to changing market conditions[45]. The pessimism today comes from the fact that this potential has not been adequately realised[46] - for whatever reason.

The fourth Stylised Fact is the crisis of this system in the 1970s. The Emergency – a kind of dictatorship – was one response, but it could not be sustained. This is, I think, a reflection of the inherent strength of the Indian system. The late seventies have been characterised as a time of official reflection[47]. Public investment fell, and the demand constraint began to take its toll[48]. The 1980s began with a loan from the IMF, and a gradual "liberalisation" of Planning. This process accelerated in 1985 after Rajiv Gandhi became Prime Minister. The State began to look to private capital, domestic and foreign, for investment. This process reached its culmination with the acceptance of the Structural Adjustment Programme in 1991[49]. The crisis taught us that the state – for us, the Government of India – also fails. The solution according to the Washington Consensus[50], is the "market". And it is at the basis of what is being called the New Economic Policy.

Profit is no longer a dirty word; social justice is no longer talked of as a goal of public policy. In place of "self reliance", we hear of "interdependence". From a situation of complete distrust in the market, we have moved to one of total faith in it. Today, the thrust is for government to abdicate its responsibilities by "leaving it to private initiative". At the same time, there is a distrust of all that is private – witness the reluctance to permit the private sector into areas like insurance. There is a hidden debate going on, and this has to be resolved[51].

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[43] See my Inaugural Lecture, "Public Enterprise in a Restructuring Economy" Institute of Pubic Enterprise, Hyderabad, August 12, 1993.
[44] Again, it often seems to be forgotten that the private sector has thrived in India in this period. That it did not do more is another matter all together.
[45] Discussed in the context of capital goods by M.R. Bhagavan in Economic and Political Weekly, 1987? check
[46] For example, Isher Ahluwalia, in Industrial Stagnation since the mid 1980s, OUP, New Delhi, 1989.
[47] Reflected in the number of important committees and commissions that were set up, including the Sarkaria Commission on centre-state relations and the National Committee [Sivaraman] on the Development of Backward Areas.
[48] See the writings of scholars like S Chakravarty, Amiya Bagchi and Prabhat Patnaik, among others.
[49] Discussed in my Crisis and Response: An Assessment of Economic Reforms, Madhyam books, Delhi, 1996.
[50] This is not free of controversy. See for example, T. Krishna Kumar, "Silent Consensus Against the Washington Consensus" Economic and Political Weekly, March 29, 1997.
[51] T Krishna Kumar, "Fund-Bank Policies for Stabilisation and Structural Adjustment: A Global and Historical Perspective" Economic and Political Weekly, April 24, 1993

The focus on reducing the fiscal deficit is because of this desire to roll back the state. We are today expecting the market to do things it has done nowhere[52]. We can move overnight from one extreme to the other. Perhaps it is a feature of this South Asian model that we can live in the world of fantasy!

The fifth Stylised Fact lies in the gross neglect of the quality of the human population in India. I am not referring to issues of demography and population growth, important as they are. Be it education or health, the State has completely failed to meet its Constitutional obligations[53]. Literacy was to have become universal by 1962; even today we are far from this goal. Health has fared no better; scourges like malaria are returning with renewed vigour because of a failure to complete the public health programmes. Malnutrition among children is an appalling two-thirds. Whichever way one looks at the social sector, India has been guilty of neglect. There is no kind way of putting this failure – and perhaps, we should stop sugar-coating this failure, for that is what it is[54].

The result is a large workforce with traditional skills for which the economy of today provides few opportunities. This workforce is ill educated, ill trained, and in ill-health. Unless these failings are remedied, it will difficult to improve its skills and earning capacity. This workforce is ill equipped to deal with a modern technological society driven by human skills[55]. Successes in frontier areas like space technology only go to show how shallow this success is; how narrowly it is grounded in the Indian people. This sounds harsh, but it is, sadly, true. The variation around the low mean is completely unacceptable as development bypasses the majority.

Another of the Stylised Facts stems from this neglect of people. It is the neglect of the quality element in the production process. Growth in India has been due to an increase in investments in the form of inputs, not from greater efficiency in using them. Productivity has not improved in the economy. Whether it is agriculture[56] or industry, productivity has not been an area of concern, and it has often declined[57]. We have been capitalising on our cheap raw materials[58], and perhaps under-valuing our environment[59]. Forces in other countries helped this strategy at one point in time[60]. But its cost, in terms of the future can be high. Unless we get more output per unit of input, and on an

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[52] The fact that the state, in this sense, fails, means there is a double failure. It does not negate the basis of the earlier lesson that the market fails. The correct position would be to say: Yes, the market fails, but not always; yes, the State fails too; but the state is a complex entity that we must study more carefully. What is the correct mix of state and market?

[53] In a recent study in Karnataka, we found that education was starved of funds from 1961, the earliest year for which we had data. Per capita annual expenditure on primary education in Karnataka was around Rs 7/-; and we were told this is above the national average. [unpublished paper].

[54] It came to the fore with the calculation of the Human Development Index by the UNDP; but that is more a recognition of the tragedy.

[55] In the context of infrastructure, I have discussed these issues in "The India Infrastructure Report—The "Soft" Dimensions" UNDP, New Delhi, 1997.

[56] M.V Nadkarni's article in Abdul Aziz, M.V. Nadkarni and A.S. Seetaramu, editors, Essays in Honour of V.K.R.V Rao, ISEC, Bangalore 1993 about this aspect in agriculture.

[57] For a strong statement, see P.R Brahamananda, **Productivity in the Indian Economy: Rising Inputs for Falling Outputs**, Himalaya Publishers, Bombay, 1982.

[58] A point made many years ago by Ravi Hazari in his article in the Gazetteer of India.

[59] Effectively argued in the publications of the Centre for Science and Environment, New Delhi.

[60] For example, the environmentally unfriendly aluminium industry found it hard to expand in countries like France; we invited it to Orissa.

increasing basis, growth is unlikely to be sustained. Unless we re-examine our way of valuing the environment, growth cannot be sustained. We must re-examine our attitude to business and work. We need to take a longer view[61].

These Stylised Facts do not constitute a rigorous "model" of development. The discussion above at best provides my understanding of events. The inter-relationships among them need to be spelt out, and the implications for the future must follow. This is an ambitious task I do not attempt here. But keeping this discussion in mind, is it possible to ask where we go from here? Ideally, any prognosis must flow out of the model. Here, I use the implicit model as a base for speculating for the future. This is necessarily subjective; it is necessarily preliminary. But it is from such speculation that new directions may emerge. I hope the discussions in this Conference will either show this is the wrong path, or provide some substance to these ideas.

What does this all mean? First, this South Asian model is one based on a westernised elite that controlled the State largely through the bureaucracy. This group had a vision of modernisation that it would promote using the resources of the state via investments in public sector industry. Until the mid 1960s, it did rather well. But in recent years, other groups – correctly and legitimately - have begun to assert their rights. This has led to sectional interests taking a preponderant role in decision making[62]. Few are thinking of the longer term; few seem concerned with the cumulative effects of many short term decisions that will come home to roost in the not too distant future. It is too early to say where this will lead the country. The old direction is no longer open; but the future path is still clouded. The different stakeholders have to hammer out a compromise. The need to "unbundle" the state is clear: how it is to be done. is still to be understood. Some steps have, however been hesitantly initiated; it remains to be seen whether we will reverse them or build on them.

Second, the system gained legitimacy through the process of elections based on universal suffrage. This threw up leaders with a rural base who, it was hoped, would be guided by the bureaucracy: a nexus grew. In the 1970s, this bureaucracy grew in numbers and strength, and began to interfere - there can be no other word for it - in every aspect of society. The government became a captive of these forces. The original ideas of service, based on the Gandhian *weltenschung*, became diluted; rent seeking became the order of the day. Criminals became politicians, winning elections and twisting the machinery of the state to suit their private agendas. The system degenerated in the way Principal-Agent theory teaches. Perhaps this is a part of growing up; the system needs time to mature and function more effectively. There has to be some learning. Liberalisation[63], in the sense of debureaucratisation, became essential. It is a difficult battle, because we have to build on an existing structure. We are not beginning anew.

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[61] In the context of energy conservation, see A Indira and Vinod Vyasulu, Towards a Policy Instruments Menu to Encourage Energy conservation Bangalore, 1996 unpublished.

[62] Fundamental versions of religion, atrocious caste based demands and the like are part of this phenomenon. In Andhra Pradesh, recently, two men were sentenced to death after a proper trial for murder. Many groups have argued that the sentence should not be carried out because they belong to the scheduled caste. Note that the dispute is not over the death penalty, but over its application to a specific community. We will have to overcome this kind of distortions.

[63] I have discussed this matter in detail in my "Debureaucratisation: An Imperative for the next Quinquennium" Indian Journal of Economics, June 1996.

The concern of these political leaders, however, was the prospect of re-election. This moved them in a different direction from the civil servants. At one level, it enabled them to respond to crises - for example, famine relief. But it also led them in a populist direction. In a fractured society, it led to the politics of reservation and exclusion. Politics became a zero, or even negative sum game. This cannot be sustained. But the way out is not clear yet.

To satisfy key constituents, sops and subsidies were freely given. If we consider the poverty alleviation programmes as essential in a poor society[64], we still have to understand the huge subsidies on fertilisers, on the use of power and irrigation water. The financial sector was hijacked by these two groups. The loan portfolios of the banks, whether in industry or agriculture, are far from healthy – the proportion of "non-performing assets" -- a wonderfully Indian phrase -- is too high[65]. Today, several of the banks are "weak" or "sick" and are being nursed back to health by the government through ad hoc measures. Some of the worst scams have occurred in recent years: the Harshad Mehta stock market scam and the CRB financial scam, among others, are still fresh in the public mind. The economic logic here runs counter to political clout. Some discipline, in the form of appropriate regulation and in the form of user charges[66], has to be brought in, for fiscal reasons, and for ensuring that waste is minimised. A solution, in a fractured society, is not easy[67].

This has led to a fiscal crisis; to this the system has no response. This is manifested in the revenue deficits in the budget. They became a regular feature after 1981; even after the IMF backed Stabilisation Programme of 1991, the revenue deficit has been *growing*. This is short-sightedness of the worst kind. The system run by the populist politician-elite bureaucrat has effectively run into a dead end. More of the same means disaster. What was once a tonic has now become toxic[68].

"The mixture as before" will no longer do. It is also no longer feasible, because of the Constitutional amendments bringing in devolution of powers. Local government has now become a reality. The pressure came from the top. There are formidable [regional and local] forces opposed to it; yet, future progress, I submit, will be possible only if this experiment succeeds. More democracy, more participation by local people, especially women, is essential if we are to move forward. For many reasons, the old model has ceased to exist. But it is not yet clear what has replaced it. Perhaps the country is in the ferment of political transition today.

The external environment has changed too. Compared to fifty years ago, the autonomy that a nation state can exercise has changed. The notion of the nation state is itself changing. Concepts like autonomy, self reliance, national interest etc may have to be re-examined and redefined.

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[64] This is not to condone corruption and inefficiencies. It is simply to accept the need for the state to provide merit goods, which have to be decided upon by some welfare criterion.

[65] Discussed in Vinod Vyasulu and D Rajasekhar, "The Half Life of Credit—Simulating Fund-Flow in the Priority Sector" Economic and Political Weekly, August, 1994.

[66] This is not to be understood as saying everything must be priced. Some things must be. Some, like primary education and public health – merit goods – should continue to be the responsibility of the state.

[67] But in spite of this, a lot has been done in the area of financial reforms

[68] No surprise to those who appreciate dialectics!

India today has to function within the rules of the World Trade Organisation. Thus, closed economy type of policies are no longer relevant. And since the WTO regime is biased seriously against the developing countries, there are major constraints on what can be done; on available options[69]. We must, however, not make the mistake of thinking there is no freedom of movement. A great deal depends upon our skills in working within the WTO system and its various panels. Strategically, we have to make the most of the limited degrees of freedom available.

Much of this will remain academic if the country does not invest in its people. It is ridiculous to talk of literacy as a goal in a world where growth depends on high level skills[70]. Literacy is at best a first step towards increasing the educational and technical skills of a population. Literacy is unlikely to become a reality if there is no investment in public heath. This, I submit, is a necessary condition for any development path for India. It is not sufficient; but there will be little point in talking of long term prospects if this basic issue is postponed. It is in knowledge, and the ability to harness it, that the basis of growth lies[71]. If we have a billoin edicated people in our country, nothing can stop our rapid progress. That is what we must achieve as a necessary condition for development; clearly, it will not be sufficient.

The educated part of the population may be in a position to make a living. But if the idea is for India to participate as an equal partner in the emerging world of trade and high technology, then high levels of investment in R&D are essential. It has to be remembered that technology is lodged in firms. Individuals may have knowledge, but technological capability exists in organisations, and the most successful in this context is the firm. We may take pride in the fact that Indian software engineers are in the forefront of the information technology revolution; but we must also remember that they work for firms like Microsoft. It is these firms that own the patents on the work of these brilliant people. We have to encourage and nurture such firms of our own if we are to compete internationally. And in making such decisions, we must not be led astray by facile arguments of inefficiency[72] and comparative advantage. There are lessons to be learned from large corporate firms, as Porter has shown[73]. Whether we are capable of learning them is another matter altogether.

This calls for a big break from the past. Education and R & D have been topics of polite conversation, not objectives of long term policy. Over the years, we have ruined our universities – and it is not simply a matter of unbridled growth. This, among other things, is what we have to change, if technology is to help us improve productivity. This must include investment in building organisations and institutions[74] as well. If we need

[69] If the Multi-lateral Agreement on Investment comes into effect in the form now being discussed, then it will further limit one's freedom of manoeuvre.

[70] The current debate poses the issue as one of primary vs higher education. While there are differences, it must be emphasised that it is education at all levels that society must support, with different expectations from students and sponsors at the higher levels. If not, the distortions will continue, with those interested in education fighting each other – classic divide and rule strategy!

[71] Luigi L Passineti, Structural Economic Dynamics, Cambridge, 1990, for a rigorous exposition of this point.

[72] For a brilliant discussion, see Prabhat Patnaik, "The Concept of Efficiency" Economic and Political Weekly, November 1997.

[73] William Porter, The Competitive Advantage of Nations, New York, 1990.

[74] Discussed in my "Rural and Other Development Projects: The Question of Institutions" Silver Jubilee Seminar of the

the market, we need the state, appropriately redesigned, as well. What are their exact roles; how can we ensure that they change in an appropriate way as required? These are the questions that arise from an examination of the "Indian" version of the South Asian model.

This requires resources, and resources from the fisc. Methods of increasing government revenues, and using them more effectively, rather than of cutting tax rates, has to be the major concern. A restructured state will have to play a major role in this process: it cannot wither away as the Washington consensus would recommend. A new direction is essential. Restructuring the public sector has to be an important part of this vision. That discussion will take us far afield. I stop at noting its importance in any future strategy.

One of the lessons of history seems to be that countries tread a unique path. What one achieves is always in a unique context. India has had a unique experience now. The experience of this period, both positive and negative suggests that a new direction is now essential. India today may be a market of 200 million people. But there are around 800 million who are citizens, but not part of this market. Unless they are properly integrated into the market process, there can be no progress. There is no model to tell us how this can be done. The impetus for this has to come from within the country, from within its people. We cannot look outside for solutions. This does not mean there is nothing to learn from others.

What the Tigers have done is commendable[75], but their achievements have taken place in historical time, and that occurs only once. Time's arrow flies only forwards. History, as Marx taught us, repeats itself as a farce. If we are to achieve something important, then we have to find our own unique path. We cannot progress by imitating anybody, no matter how successful they are. This, in fact, is what the South Asian model of the type I have discussed in this paper has actually done in the half century past. We struck out in our own unique direction, in our own unique way. This path is now past its prime – what next, is the question that we have to answer.

The Indian model has run into a dead end, for internal and external reasons. This is now being recognised. The time has come to break free. It has its quiet achievements on which we can begin to build; there are gaps and limitations that we must fill. The experience of others may give us clues about what can be done. This has to be done in a manner that is consistent with the new global environment. We have to take these ideas and put them together in our own way. We have to innovate.

It is such junctures that novelty emerges[76]. By imitation, by ideological rigidity, we will get nowhere. While we can, and must, learn from countries like South Korea and Mexico, we must not blindly do as they did. Both have had their crises; the "Tigers" may

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National Institute of Rural Development, November1-2, 1997, Hyderabad.

[75] Given the current East Asian crises, I suppose this experience will now be re-evaluated. But it will take time for a balanced assessment to emerge

[76] At a theoretical level, I refer to Nicholas Georgescu-Roegen, The Entropy Law and the Economic Process, Harvard University Press, Cambridge, Mass, 1977, far an elaboration of this theme.

now no longer be held up as models. The lesson of the Indian model is: there can be no models. It is in walking that we make a path[77].

The Indian government, like those of other countries, has posed its objectives in terr of growth. Does experience suggest a need for rethinking? India has been no tiger, but tl Tigers' growth has turned out to be fragile. India's more modest growth has shown son improvement in poverty, but experience may suggest that failures on this front have more to (with priorities and less with growth per se. It is clear that savings and investment alone do n lead to growth. People should be able to identify, and take advantage of market opportunitie Unemployment - the underutilisation of human resources - is a cost in many senses. India h focussed on capital, not on its abundant labour. Socially, unemployment will be a big proble if nothing is done. Is there anyway of turning this to an advantage?

It is in investing in the people and expanding the opportunities open to them that we can move forward. So far, in the 1990s, we have been groping for our way forward. There are suggestions of what we can do: in the rural non farm sector, for instance[78]. The path ahead is not very clear, and it is hard and narrow.

The crisis, to quote former Finance Minister Manmohan Singh, presents the country with an opportunity. The central question relates to the nature of the state we want; it relates to the mix of market and state that will help us achieve our goals. It relates to the role we want our people to play in the process. These are large questions.

We can - must - boldly go where no one has gone before.

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[77] An old Spanish proverb I learned in Mexico: "Caminante, no hay camino: se hace el camino al andar". How true!

[78] See Vijay Mahajan and Thomas Fischer, with Ashok Singha, The Forgotten Sector, Oxford and IBH, New Delhi, 1997, far an excellent discussion of what is possible.

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THE PHILIPPINES: A CASE OF MULTIPLE COLONIAL EXPERIENCES

by

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THE PHILIPPINES: A CASE OF MULTIPLE COLONIAL EXPERIENCES

Serafin D. Quiason

Any attempt to assess the Spanish colonial rule and the American regime in the Philippines must begin with the reminder that the Spaniards held firmly a large chunk of the Christianized areas for 333 years and the American tutelage and control of the Filipinos lasted for nearly 43 years and even beyond in the form of "neo-colonialism". During the Seven Years' war, (the English East Indies Company in collaboration with the British Navy and Army, took possession of Manila and Cavite for the period 1762-1764. Compared with other Asian countries, the Philippines was a unique case of multiple colonial experiences under four different foreign yokes. However, of the four different colonial powers, it was Spain and America that left an indelible imprint on the historical and cultural make-up of the Filipinos. This paper shall mainly dwell on the colonial experiences of the Filipinos under Spain and America, with special emphasis on the characteristics, techniques and methods of Spanish and American colonialism.

When we were in college, I remember vividly our history professors pounded into our heads three essentials of Spanish imperial policy, namely : Gospel, Gold and Glory. These essential objectives – materialistic, spiritual, and ambitious - motivated Spain to colonize the Philippine archipelago in 1565.

Guided by the Alexandrine bulls, Spain obtained a foothold in Asia by *derecho de conquista* or right of conquest. The path of conquest, following closely the patterns of the various ethnic settlements, was conducted by sea, through the support of the co-opted native chieftains. At the very outset, therefore, Miguel Lopez de Legaspi spoused the Spanish ideals, that is, to govern the "*indios*" within the framework of Spanish polity, partly for the imperial honor of Spain and for the profit of the Spaniards and partly for the benefit of the "*indios*" since they were to be received into the fold of Christianity. However, the right to property of the "*indios*" was to be limited in exchange for religious instructions and protective paternalism afforded them. The indigenous institutions of the ethnic groups were to be absorbed with certain modifications within the context of the Spanish colonial system.

Unlike Cortez of Mexico and Pizzaro of Peru, Lopez de Legaspi – the *adelantado*, demonstrated friendly sympathetic and tactful attitudes towards the major ethnic groups he came into contact with in the Visayas and Luzon. He and his fellow *conquistadores* discovered no precious metals, either gold or silver, no silk and exquisite Ming porcelain wares, and no rich source of spices in the archipelago. The only alternative for them to survive in the tropics was to put the squeeze on the "*indios*". The Spanish colonizers were averse to manual labor as most of them came from the soldiery class. To toil with their hands would have seemed to be beneath their dignity. The Spanish soldiers expected, naturally, after the conquest and pacification, to receive rewards they considered due them. The reward would be in the form of an *encomienda* -already a well-defined institution in the New World.

It must be born in mind that the ownership of lands was vested in the Spanish King. In the early phase of the colonization, one of the feudalized means of control transplanted into the Philippine soil was the *encomienda*. The *encomienda*, created by a royal decree, was a privilege and not a land grant or a form of land tenure. The *encomendero's* right of occupation of the land was limited to two lives, but was extended to the third life.

The economic bases of the *encomienda* system were labor service and fixed tributes exacted from the "*indios*" assigned to the *encomendero*. The tribute was collected, either in kind or specie, to defray the costs of the colonial administration and to symbolize the "*indios*'" vassalage to the Spanish king. Only those who were converted to Christianity were required to pay the tribute amounting to 8 reales and later increased to 12 reales by mid-19th century. In 1886, the tribute was replaced by *cedula personal*. The first dramatic act taken by the Filipino revolutionaries or the *Katipunan* was the tearing of the *cedula personal* because it was regarded as a symbol of *indios*' servitude and vassalage to the Spanish crown. The original intent of the Spanish King was to make the *encomendero* a guardian of the *indios*' – a responsibility which he was not well-fitted to discharge and did not take seriously his obligations, to provide religious instructions entrusted to him. What he aspired for was to live the life of a fat "*hidalgo*" inside the Walled City. So bent in curbing out his fortunes that he succumbed to the temptation of exploiting the *indios*. To meet his economic and social necessities, he harnessed the *indios* for tilling the rice fields, rowing the frail-looking galleons, building, weaving and performing domestic tasks.

To understand better the role of the missionary in the evangelization of the *indios*, we need to know the basis for the close relationship between the Church and the Colonial State and the importance of that relationships to the entire colonial order. The key point in the organization of the Church in the Philippines was the *Patronato-Real* or Royal Patronage granted to the Spanish king. Way back to the time of Pope Julius I, the Spanish king developed the royal patronage into a quasi-supremacy over the Church through his dominions. By virtue of such an ecclesiastical privilege, the Spanish King enjoyed the right to nominate Church functionaries from the Archbishop down to the priest since the beginning of the Spanish era up to the outbreak of the Philippine Revolution of 1896-1898. In return for the jurisdiction over the Church, the Spanish King agreed to shoulder the expenses involved in the propagation of Christianity to the newly-acquired lands in the New world as well as in the Philippines. The net effect of the *Patronato-Real* was to make the Spanish king the head of the Spanish Church in matters of appointment or removal of every ecclesiastical official and to make the Church a powerful institution for the execution of the royal will. The whole ecclesiastical officialdom was expected to do all in its power to foster obedience and loyalty of the *indios*.

The other medieval-religious institution of control of the *indios* was the missionary system. The friars who went along with the pacification campaign had specific tasks in mind: to establish missions and to spread the tenets of Christianity. To facilitate the evangelical work, the missionaries made it a point to master the languages of the ethnic groups under their spiritual care. They wrote dictionaries and grammars as adjuncts to their scholarly endeavors. Others tried their skills in curing the sick *indios* and in combating epidemics as a way of overcoming the resistance of the native priestly class - the *catalonans* and the *baybaylanes*. As the only visible agents of Spain in the town level, they came into direct contact with the *principalia* (native elite) and the *gobernadorcillo* and the barrio folk. In the span of half a century, the missionaries had already placed under their spiritual influence the low-lying areas of Luzon and the Visayas and the whole archipelago was partitioned into several spheres of religious influences and control among the Augustinians, Dominicans, Franciscans, Recollectos, and Jesuits. The Jesuits being the latest to arrive were assigned to the Muslims areas of Mindanao and Sulu archipelago.

In the course of Spanish colonization, the religious orders had several ways of raising funds. The acquired estates or *haciendas* and organized them as productive institutions largely dependent on cheap labor supplied by the *indios*/tenants and tied closely to the expanding cash crop economy. The total holdings of the friars at the time of the Revolution of 1896 was estimated at 420,000 hectares or about ½ of the total land put under cultivation. The friar estates were the main source of wealth of the religious orders providing them with more than sufficient means of living in a grand castillan style. Located mainly in the circum-Manila area, the friar estates provided the religious orders an adequate and independent power domain. Each estate or *hacienda* was essentially in control of the *indio* peasants through the *inquilino* or overseer. The friars leased their estates to the *inquilinos* who in turn subleased the land to the kasama or sharecroppers. who in reality received the smallest share in harvest time. This onerous arrangement brought about the reduction of the *kasama* to the status of impoverished serfs and the perpetuation of a system of debt peonage, subjecting the *kasama* to a grinding life of endless toil.

Many *inquilinos* and *caciques* of the 19th century were so a hard-driving lot that they got everything out of the *kasama* they could. They looked down upon the *kasama* as inferior, incapable of treating them as equals. Poor and illiterate, the *kasama* tended to look up to the *inquilinos* and *cacique* as a father-figure and turned to him in many forms of assistance. In time, the class of *inquilinos/caciques* entrenched themselves in the expanded *principalia* that produced the *ilustrados* in the late 19th century. The town head or *gobernadorcillo* who was drawn from the *principalia* was at the beck and call of the friar-curate and actually became the intermediary between the friar and the native populace.

Dealing with the *indios* wallowing in ignorance and fear, the *encomendero* exploited them to the limits without fear of the good *padres* and good bishops like Bishop Dongo E. Salazar and a few anthers. The early missionaries were zealously on the side of the *indios*, but were ineffective in many cases. In time, the poor *indios* became victims of cruel and greedy *encomenderos*.

There were other crushing labor services imposed on the *indios*. In addition to all these personal services, the Colonial State and Church needed a constant supply of labor in the form of *polo y servicios* or forced labor used in the construction of the galleons, churches, houses for the Spaniards, protective walls around Manila - the primate city, fortifications in several strategic areas, roads and bridges. The system of forced labor that was perpetrated by the Spaniards was an alien practice to the *indios*. It did not only interfere with the *indios*' family domestic routine, but also did lead to the abandonment of his farming schedule. The decline of the *indios*' population was partly attributed to forced labor.

As time passed, the *encomienda* system grew weak until it disappeared. The Spanish crown was credited for its destruction partly because of its financial interest on the tribute and partly because of its old concern for the preservation of the *indios*. The *indios* had to be preserved if they were to be converted to the Christian fold. However, another key official who replaced the *encomendero* was also so obsessed with amassing wealth at the expense of the *indios* that they too became *homo-economicos* in their respective regions. In spite of the series of royal decrees prohibiting private trade with the *indios* under his jurisdiction, the *alcalde mayor* continued to engage himself in his lucrative business. For instance, a royal decree which prohibited the forced sale of rice at fixed prices below its market value and to resell the same produce in other districts where there was shortage at handsome profits was flagrantly violated. One common abuse by the *alcalde mayor* was to compel the *indios* to work for him without wages. The untold hardships and injustices caused by the *encomienda* system and by the Colonial State and Church led to the periodic outbreak of revolts. Bitter and obstinate the revolts were ruthlessly suppressed by the application of divide and rule policy.

The galleon trade monopoly was managed by a phalanx of Manila merchants, who were closely knitted by ties of marriage and a common interest. The galleon trade received its stimulus and vigor from the lucrative China trade. The members of the religious order because of the insufficiency of their income were also involved in the galleon trade. To circumvent the Church laws prohibiting them from engaging in trade, the religious orders consigned bales of silk and Chinese porcelain wares for the Mexico market under the name of Spanish layman. Manila became an entrepot between Acapulco and China and the only port of trade for which local produce could be shipped aboard. Manila provided a further centralizing force.

The Manila-Acapulco trade with its two major tributaries – "the country trade with India and the China-Manila trade was actually a "new creation" as Jacob van Leur puts it: "for the rest of the traditional framework of trade remained the same as it had been". It was a new concept of commerce involving fleets of sampan, a ready market trade or highly lucrative textile goods, provisions moving by sea and a variety of consumption items. The necessary impetus for this was the annual shipment of a great quantity of silver for Acapulco and the gradual transformation of Manila not only a consumption and distributing center for the colony, but also as a way station in the trans-Pacific commerce.

The galleon trade was an immensely profitable as well as an extremely perilous venture. It ended in 1815 as a consequence of the outbreak of the Mexican war of independence.

By the 1830's, the policy of free trade had finally triumphed. Manila was formally opened to world commerce in 1834 and at the same time Spain decreed the abolition of the Royal Company of the Philippines. The significance of these two events lay mainly in the fact that the Philippine colony was jarred out of its isolation and was thrown into the orbit of the expanding European-Asian economy. The free flow of goods, men and ideas would eventually have a marked impact on the gradula transformation of the colonial economy and society. The 1850's and 1860's witnessed the opening of additional outlaying ports of **Iloilo**, Sual, Zamboanga, Cebu, Legaspi and Tacloban. Since then the external trade rose steadily. The prospect looked brighter for the internal growth of the economy with the entry of Anglo-American mercantile firms, plus other European commercial houses and the setting up of consular establishments in Manila. With the British mercantile merchants at the forefront, the European era of increasing trade set in after 1815 following the stimulus provided by a good market for Manchester textile goods. The preponderance of British trade in the economy could be gauged by the presence of more than a dozen mercantile firms , the oldest of which being the South Bell and Company. The British trading houses functioned mainly as importers of English manufactured products, and exporters of Philippine cash crops and also served as bankers, insurance and shipping agents. In the development of internal and external trade of the Spanish colony, the Anglo- American firms as well as other European companies engaged the Chinese as the intermediaries between the European trading houses and the natives or *indio* consumers. By the late 1870's, the *South China Morning Post* reported that the "Philippines was an Anglo-Chinese colony flying a Spanish flag". Benefiting most also from the expanding cash crop economy were the *principalia* in every key town who pledged their crops as security for the advanced loans or *quedans*. One indelible legacy of the practice of the advanced loans was the development of conspicuous consumption pattern among the *principalia* whose taste for European luxury items was almost insatiable. The habit of sending their children to exclusive schools and colleges in Manila and in certain key towns was financed out of the earnings of the cash crop economy.

The Spanish colonial policy was also aimed at securing the loyalty and allegiance and the *indio* elite. To this end, their sons were allowed to attend exclusive secondary schools owned and managed by the Dominicans and the Jesuits and out of the subsequent generations came the earliest *indio* and *mestizo* secular priests. To control the educational system, the Spaniards permitted only a small minority of the *indio* population to receive a Catholic education from the secondary - seminary schools while the rest of the indigenous populace was kept in darkness. For centuries, priesthood was the only profession open to the *indios* because of the nature and character of the colonial order. Nothing took root in the colony until the children of elite began to grasp the meaning and significance of the Christian faith. Theology was the most popular field of study for the sons of the *principalia* but the changing economy in the 19th century drew more students to the study of law, pharmacy, medicine, philosophy and notarite because each study carried with it tremendous socio-economic prestige. The principal parents were themselves poorly educated that they developed achievement values and projected their unfulfilled ambitions to their children. The sons of the *principalia* who studied in Manila began to get rid of their ethnic biases as they developed friendly acquiantanship and even fraternal feelings for one another, humanistic outlook and commonality of interests. Through socialization, the *indio* students experienced a rediscovery of the riches of indigenous values, culture and history. Together they criticized the weaknesses of Spanish colonial educational system and the shortcomings of the Spanish teachers. The same observations could be applied to the more affluent native sons who went to Spain and other centers of learning in Europe in search of new access to the expanding world of knowledge and in order to free themselves from the dark machinations of the Spanish friars in the archipelago. Eventually, the educated *indios* in Europe and in the Philippines found themselves branded by the Spanish friars "*personas sospechosas*" or suspicious character infected with dangerous ideas.

The Spaniards were well aware of the numerical superiority of the *indios*, outnumbered as they were, they had to institute additional mechanisms of control that would keep the *indios* at bay. Driven by intense feeling of insecurity and desperation the friars as custodians of the Colonial state resorted to such repressive measures such as arbitrary arrests or imprisonment at Bilibid, deportations to the outlying islands, to the Marianas and even as far as Fernando Po, death by *garrote* and public execution en masse. Between deportation and executions, the *indios* were taught bitter lessons.

By the 1880's all the repressive measures of the Spanish colonial state to turn back the clock to pre-1872 conditions were already too late in the day. Time was running out for the Spaniards. The Spanish friars who became the dominant power in the colonial state were faced with two arch rivals – the *indio* clergy and the lay-educated *indios*. The *politicalization* of the educated *indio* underwent at least three distinct stages of development. First, the idea of change could be effected through enactment of reforms. The second stage saw the advocacy of assimilation, that is, the conversion of Filipinas into a regular province of Spain. In the third stage, a handful of *indios* turned into revolutionaries whose main objective was independence under a republican constitution.

The Filipino revolutionaries of 1896 and 1898 together with the other educated *indios* in other regions found themselves confronted with a new dilemma in the conquest and occupation of another colonial power - America, thus ushering in an era of American experiment in the art of self-government, education, "free" trade, health and protestant missionary enterprise.

When the Spanish-America war of 1989 broke out, the United States embarked upon her first flush of imperialistic adventure. It was by virtue of the Treaty of Paris signed on December 10, 1898 when Spain ceded to the United States the whole archipelago to the tune of 20 million dollars. The slogan to take up the "white man's" burden was a mere rationalization concocted by the exponents of American imperialism. At the outset, President William Mckinley spelled out America's policy of "benevolent assimilation" in a manifesto towards the Filipinos hard won freedom and independence was nipped in the bud. This was followed by a set of Presidential letters of instruction to the Philippine Commission. In the midst of a strong Filipino armed resistance led by Emilio Aguinaldo against the U.S. Expeditionary forces, President Mckinley established a civil government to replace the military rule. As the first American civil governor, later on as Secretary of War, and finally President of the United States, William Howard Taft worked out the nitty-gritty details of the U.S. policies to meet squarely the realities of the times in the archipelago and to adjust them accordingly to political, economic, military, religious and educational aspirations of the *ilustrado* leadership and the needs of American business interests. Taft had to coopt the affluent and conservative *ilustrados* and the landed native class in order to ensure the smooth operation of the American colonial system. One way to facilitate the break up of the backbone of the Filipino guerilla resistance was to organize the Filipino constabulary, which according to Taft, "would have a very healthy effect upon the people because it will show them that they are to take part in the government." The Filipino-American War and the aftermath guerilla resistance were costly for both warring camps in terms of lives and material resources.

It is in the field of politics that Taft was able to entice easily the *ilustrados* to participate in the colonial administration in various capacities, namely as municipal mayors, as provincial governors, as members of the Philippine Commission, as members of the elected Philippine Assembly, and as resident commissioners to the United States Congress in Washington D.C. Still a mechanism of control was devised in such a way the Filipinos involved in the colonial administrations was under the watchful eye of the American sub-lieutenants of the Pro-Consuls. For instance, two members of the provincial board could outvote the Filipino provincial governor – the treasurer and the superintendent of schools were both Americans. In 1908, President Teodore Roosevelt anticipated that the Filipinos in the near future would decide to work for their ultimate independence.

The call for an elected assembly was a novel one for the Filipinos. The idea cropped up during the time of Taft, who at one occasion assuaded the apprehension of Senator Henry Cabot Lodge, a fellow imperialist, when he said: " I think we shall always be able to control a majority of the Popular Assembly". The corner stones of Taft's policy were twofold: the *ilustrados* participation in the colonial administration and making the Philippine safe for American investments and business interests. These colonial policies were assiduously pursued for both the *ilustrados* and the Americans up to the Commonwealth period and even beyond in the form of neo-colonialism. The *ilustrados* were weaned and dazzled by the prospect of more economic opportunities and the bestowal of political plums, of course, at the heavy price of the non-alteration of the socio-economic structure of the Philippine rural scene.

The foundations of the American economic policy towards the Philippine colony were laid out by Taft and his successors, especially when he became the President of the United States. Under the Dingley Tariff of 1901, the Filipino *cacique* planters were not happy about 25% reduction in Philippine products because it offered a little help to them. During the first decade of the American rule, the share of American business in the Philippine trade was still insignificant, supplying only a fifth of the total importations. The U.S. Congress enacted the Payne-Aldrich Tariff Act of 1909 in the name of "free" trade, giving "American goods tariff preferences" in the Philippines. To help the Filipino *cacique* sugar and tobacco growers, Philippine raw materials entering the U.S. were, subject to certain quotas, free of duty. In 1913, the U.S. free trade policy was modified under the Simmons-Underwood Tariff Act. These two U.S. congressional acts proved a big boon to both American business concerns and Filipino *caciques*. In 1909, the Philippine imports was only P12.9 million; by 1913, it rose to 53.4 million; 1938, it was increased to P181 million, and in 1946, it reached P515 million or 86% of the total importations. According to Shirley Jenkins, the sugar imports of the Philippines from 1920 to 1930, climbed up to 450%, the coconut oil to 223%, and Manila hemp to over 500%.

The long term effect of "free" trade on the Philippines is that it fostered a culture of dependency and underdevelopment in the manufacturing sector of the national economy. It was the American corporations and individuals who reaped enormous profits from their business enterprises and advocated the prolonged or indefinite stay of the United States in the Philippines.

Economic policies and political control were augmented by public education for the Filipinos as an added and effective instrument of American colonial policy. The Amrican imperial attitudes towards the Filipinos carried with it a distinct racial undertones, that is many

Americans made little effort to camouflage the fact that the Filipinos were beneath them. This was well articulated by Fred W. Atkinson the first superintendent of education when he wrote:

" the Filipino people taken as a body are children, and child-like, and do not know what is best for them .... In the ideal spirit of preparing them for the work of governing themselves, finally, their American guardianship had begun.... By the very fact of our superiority of civilization and our greater capacity of industrial activity we are bound to exercise over them a profound social influence."

The attitude of racial superiority was quite pronounced among the American soldier who coined all sort of deregulatory terms and insulting remarks against the Filipinos. If the Filipinos had to be educated or shaped into a good colonial model, in conformity with the American ideals, he had to be taught the American brand of English by American teachers and to use American-oriented textbooks. The English language became the common denominator which separated the tiny well-educated Filipinos and the masses. The colonial education was always entrusted to the American Vice-Governor General up to the Commonwealth era. The net impact of the American colonial education on the three successive generations of Filipinos is that their colonial mind has not gotten out of the colonial incubation of dependency and culture of underdevelopment.

The basic issue between the Filipino *ilustrados* and the American was the timing of the withdrawal of American sovereignty and the recognition of Philippine independence. The issue came in the forefront of American politics in 1916 when the Jones Law was enacted whereby independence was promised as soon as a "stable government for the islands" could be set-up. When World War I ended, enthusiasm for immediate independence on the part of two Filipino leaders - Manuel L. Quezon and Sergio Osmena cooled off. They wanted "self-rule" without liability of the ultimate authority. Quezon was even secretly amenable to accept a Commonwealth status for a 25 year period for the Filipinos. Under such a political set-up, certain powers like defense, currency and "free" trade were reserved for the Americans while the other political, social, economic powers were to be transferred to the Filipino *ilustrados*. The next occasion the US Congress initiated the move for Philippine Independence upon the prodding of Filipino advocates and their American symphatizers was during the Franklin Delano Roosevelt era. The Tydings-McDuffie Act was passed in 1934 calling for a transition period of ten years before the final relinquishment of American sovereignty over the Philippines.

By way of recapitulation, the most enduring legacy of Spain is the Filipino brand of Catholicism and the creation of a self-perpetuating *principalia-ilustrado* class. The control of the *indios*' body and soul was never a serious issue between the colonial state and the friars.

The American mission of civilization was hastened by the collaboration of the *ilustrados* combined with the consummate skills and energy of the American teachers, soldiers, missionaries and bureaucrats. In the long-run, the "white man's burden" turned out to be a profitable venture for the American business interests.

The American type of democracy suffered grievously in the hands of the *pricipalia-ilustrados* in the sense that in the span of four decades, what was evolved was democracy in form but not in substance. The American brand of English stands out to be an outstanding gift of the Americans. The patterns of culture of poverty, dependency and underdevelopment have deep roots in the Spanish and American colonial policies and practices.

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THE PROCESS OF DEBT IN SOUTHEAST ASIA: FOCUS ON THE PHILIPPINES

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THE PROCESS OF DEBT IN SOUTHEAST ASIA: FOCUS ON THE PHILIPPINES

*By: Prof. Leonor Magtolis Briones**

Introduction

Five centuries ago, Vasco da Gama reached India. In the process, he triggered the brutal conquest and opening of Asia and its rich resources to Europe. The voyage of da Gama started the colonization of Asia. Countries in Africa and Latin America were subsequently colonized. What happened five hundred years ago is not a mere historical event relegated to textbooks to be memorized by generations of students. It was the start of a process of domination which continues even to this day. While methods, forms, terminologies and players have changed, the victims remain the same: the peoples of Asia, Latin America and Africa.

It is therefore fitting that on the fifth century of Vasco da Gama's voyage, this conference is tracing the process of colonization up to the present. Now, it is called globalization.

The problem of debt is probably one of the most visible and malignant manifestations of globalization at this time. A critical review of globalization necessarily requires a reexamination of the process of debt.

This paper will cover two fairly recent episodes in Southeast Asian debt: the global debt crisis of the 1980's and the rapid escalation of debt due to the currency crisis currently ravaging Southeast Asia. While the paper will touch on the other countries of Southeast Asia, its focus will be on the Philippines. The reason is fairly obvious. At the height of the global debt crisis, the Philippines was the most severely indebted middle-income country in Asia. The terrible story of its debt burden is documented in great detail and was brought to the attention of the international public, thanks to the work of Freedom from Debt Coalition and like-minded research institutions, as well as activists.

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At the same time, the current currency crisis which has brought about the depreciation of the Philippine peso has resulted in the rapid escalation of its external debt. It has rejoined the ranks of low-income and middle-income countries caught in the current wave of the never-ending story of global debt currency depreciation, and globalization.

I. The Global Debt Crisis

"In the beginning...."

In 1982, Mexico announced to the world that it could no longer service its external debt. This announcement was followed in rapid succession by similar declarations from heavily indebted developing countries in Latin America, Asia and Africa. In August 1983, after a year of fruitless efforts at staving off the crisis, the Philippines declared its incapacity to pay its external debt.

Since then, indebted developing countries have agonized through fifteen years of the most destructive crisis of global proportions in recent times. The human costs in terms of destroyed lives, especially of women and children, far exceed the already heavy financial burdens. Despite claims to the contrary, the global debt crisis is not yet over. On the contrary, the external debts of countries affected by the Asian currency crisis has increased tremendously due to the massive depreciation of their currencies.

How did the global debt crisis start? Like all crises, it was a lethal combination of exogenous and domestic factors. Exogenous factors include the tremendous pressure to borrow from the international financial community. During the decades of the late sixties and the seventies, international banks were awash with petrodollars. These they loaned out at irresistibly low interest rates to developing countries. Young bank representatives in their twenties set up shop in the developing countries of Asia, Africa and Latin America. In their eagerness to capture the developing country market, they offered attractive financial terms and neglected to exercise the usual caution in the grant of sovereign loans.

The Philippines is a case in point. Hundreds of millions of dollars were loaned out to private sector firms whose partners and board members were officials of the government. These loans were guaranteed by the government. Thus, the banks did not worry too much about checking collaterals: assets and financial ratios. They knew the government would pick up the tab in case of trouble. (S. C. Gwynne in De Dios and Rocamora, eds.: 1992).

Developing countries were seduced by visions of development characterized by massive infrastructure projects — power and electricity, dams, roads, bridges, buildings and monuments — all financed by loans. While developing country governments were frenziedly putting up projects for external funding, a series of global shocks during the decade of the seventies pushed them to even more borrowing. The first of these shocks were the higher oil prices in 1973-74 and 1979-80. The second shock was the escalation of interest rates in the United States. The Philippines, which owed majority of its bilateral debt to the United States, was further crushed by the increase in interest payments. At the height of the debt crisis, a 1% increase in U. S. interest rates automatically meant an increase of $159 million in interest payments.

During the early eighties, another global shock which pushed indebted developing country governments over the edge was the global recession from 1980-82. Export earnings of these countries plummeted as market prices went down. (Briones in De Dios and Rocamora, eds.: 1992).

While the external forces which triggered the debt crisis were powerful and irresistible, it cannot be denied that domestic causes exacerbated the problem. During the period of the late sixties, seventies and early eighties, developing countries rushed into a "development orgy." Development then was defined in terms of huge projects which were largely foreign funded. Largescale waste and overpricing characterized these projects. Huge bureaucracies were created to oversee these projects. Fixers and lobbyists of both the borrowing government and the creditor countries colluded in building up the mountain of debt. (Briones and Chavez-Malaluan: 1988).

During my term as president of Freedom from Debt Coalition, case studies were made of five multimillion dollar loans which were tainted with graft and corruption. The most infamous of all, the Bataan Nuclear Plant debt, totaled $4 billion. Interest payments amounted to $350,000 a day. Until now, the Filipino people are still paying for a nuclear plant which was never operated. In 1996 for example, payments for interest and principal totaled over $80 million. In 1997, debt service payments were higher at $107.7 million. Payments will continue until the year 2006. (Department of Budget and Management: 1996).

The debt crisis and globalization

The link between globalization and external debt is all too obvious. Integration of financial markets is one of the earliest manifestations of globalization. The advent of offshore banking, the passage of laws in developing countries allowing unlimited entry of foreign banks, the availability of petrodollars and the incessant pressure from the international community to "develop" — all these combined to lure developing country governments into the web of global finance.

When the indebted countries went into crisis, they were subjected to structural adjustment programs which further tightened the stranglehold of globalization. Drastic budget cuts, liberalization of developing economies and privatization are among the standard components of structural adjustment.

The costs of integrating developing countries into the world economy are too horrendous to contemplate. The economic and social consequences of the external debt, the tremendous human suffering brought about by structural adjustment as a "solution" to the debt crisis — all these were faithfully documented by analysts and activists at the national, regional and global level. International organizations like the UNDP, and the UNICEF added their voices to global protests on the human consequences of debt and structural adjustment. One of the best known is UNICEF's Adjustment With a Human Face (UNICEF: 1988). The book chronicles the impact of structural adjustment on the social sectors of indebted developing countries, particularly women and children.

II. The Crisis and Southeast Asia

As noted earlier, among the Southeast Asian countries, the Philippines was the most severely hit by the global debt crisis. This was the result of a combination of factors: a corrupt military dictatorship headed by the late President Ferdinand Marcos and his wife, Imelda, former Governor of Metropolitan Manila; inefficient public administration system, and overborrowing for "development at the instance of private banks and country creditor governments." Furthermore, the economy of the Philippines has been tied historically to that of the United States, particularly in trade.

When the Philippines was conquered by the United States , it was compelled to enter into a trade agreement wherein American goods would freely enter the Philippines. Thus, the Philippines accumulated trade deficits with the United States since its exports could not match the levels of imports from the U. S. Even when independence was attained in 1946, the free trade agreement was extended. Thus, the Philippines was afflicted with a chronic debt problem occasioned by trade deficits.

When capital flows dwindled in 1982 after the Mexican default, the Philippines was among those who were severely affected. It was one of the seventeen heavily indebted middle income countries and the only one from the Asia-Pacific region to be so afflicted. The others were low-income countries from South Asia.

The case of Thailand was different from that of the Philippines. When the debt crisis exploded, it had a large trade and current accounts position. Its external debt was manageable.

Indonesia, an oil exporting country, benefited from the second oil price hike. Thus it also had large trade and current account surplus. However, this was not sustained. By 1986, it suffered a sharp decline in oil revenues and experienced low growth.

Malaysia, on the other hand, had low levels of external debt at the time of the crisis. This was largely because it enjoyed a commodity boom in the late seventies. Malaysia underwent adjustment in 1983 and improved its external account position in three years. Nevertheless, the adjustment process was costly in terms of growth as well as social impact.

In terms of absolute amount of debt, the Philippine debt at the height of the crisis in 1984 was less than that of Indonesia. However, it did not have the same capacity to pay as Indonesia, Malaysia and Thailand. (See Table 1.)

Table 1. Total External Debt of Selected Southeast Asian Countries

Country	Total External Debt (In US$ Millions)
Indonesia	31, 894
Malaysia	18,811
Thailand	14,981
Philippines	24,242

Data Based on Year 1984

Reference: The World Bank. World Debt Tables 1989-90: External Debt of Developing Countries. First Supplement. 1990.

In the case of the Philippines, it was subjected to a series of painful structural adjustment programs which plunged the country into two years of severe contraction. Adjustment aggravated the already crippling economic slowdown and massive poverty the country was experiencing at the time. Thus, the country had the worst case of structural adjustment in Southeast Asia. (Briones and Chavez-Malaluan: 1998)

Bello confirms the above observations. He noted that Southeast Asia — with the exception of the Philippines — was not cut off from capital inflows in the 1980s. Thus,

> *The case was quite the opposite, for there was a massive infusion of foreign capital in the form of Japanese investment in search of low-wage production sites after the yen's massive appreciation in 1985. Some $US 15 billion worth of Japanese investment rushed into the region between 1985 and 1990, and this made a critical contribution to inducing high or moderate growth rates in Singapore, Thailand, Indonesia and Malaysia* (Bello: 1994)

To summarize, the Philippines was the hardest hit of the middle-income countries of Southeast Asia. This was because when the debt crisis exploded, it had already accumulated a large external debt which quickly increased. It underwent a series of structural adjustment programs which only served to feed the debt as the economy went into recession, capital flows declined, and poverty worsened. On the other hand, Thailand did not have a serious external debt problem. Indonesia benefited from the second oil shock. Malaysia had a commodity surplus. Thus, they did not undergo structural adjustment to the same extent as the Philippines. In the process, they did not undergo the terrible ordeal of recession.

As noted in an earlier paper,

> *Southeast Asian countries noted for their economic success like Singapore, Thailand, Malaysia and possibly Indonesia did not undergo structural adjustment to the same extent as the Philippines. The key indicators of their success are not identified with structural adjustment. First is the aggressive role of their governments in pushing for economic growth. In structural adjustment, the role of government is expected to be minimal. Second is the protectionist strategy followed by some of the NICs like Thailand, Malaysia and Indonesia. This is to contrary to the prescription of structural adjustment for trade liberalization. Third, the governments of these countries were able to attain social cohesion as an important ingredient of economic growth. Under structural adjustment, social cohesion is difficult to attain since various sectors of the economy are destabilized and negatively affected while others clearly benefit. Fourth and most important of all, countries which were not as heavily burdened with unmanageable external debts achieved high levels of growth because they did not have to undergo structural adjustment in return for loans from the multilateral institutions* (Briones and Chavez- Malaluan: 1988).

The most important point, however, is that the Philippines was pushed much earlier into the web of global finance than other middle-income countries in Southeast Asia due to a combination of historical and economic factors.

Did the solutions work? What happened in the Philippines?

When the global debt crisis exploded in 1982, the International Monetary Fund, the World Bank and the private commercial banks were the lead players in overseeing the formulation and implementation of "solutions." Indebted countries from Asia, Latin America and Africa were subjected to variations of the same theme: structural adjustment as a condition for the grant of loans from the multilateral institutions in order to pay debts to private banks and bilateral or country creditors.

General features of structural adjustment programs were practically uniform: brutal reduction of government expenditures in order to reduce deficits; liberalization in the form of reduction, if not elimination of tariff on imported goods as well as "reforms" in the financial and monetary sector; privatization and drastic devaluation. The severity of the impacts of structural adjustment varied from country to country.

As noted earlier, the impact of structural adjustment programs on hapless countries is well documented. The UNICEF study has already been mentioned. Other UN organizations have consistently called attention to the human costs of structural adjustment. Academics, policy analysts, NGO's and other civil society groups have documented the experience of most if not all of the countries which underwent adjustment. They have protested at the national, regional and global level. Even the International Monetary Fund and the World Bank have recognized the tremendous human costs and negative economic impacts of their programs.

The Philippines is possibly among the best documented victims of global debt and structural adjustment. It has all the ingredients which dramatize everything that is malignant and evil about that terrible period: a conjugal military dictatorship characterized by extravagance and waste; collusion among government officials, cronies in the private sector, private banks and even lending governments; massive graft, corruption and looting; more than twenty structural adjustment programs which did not work; recession; and most painful of all: heart-wrenching human costs.

The international community is familiar with the late President Ferdinand E. Marcos and his wife, former First Lady Imelda R. Marcos. It was during their regime that the Philippines accumulated massive debts. Case studies prepared by Freedom from Debt Coalition documented collusion among government officials, who themselves (if not their relatives) were owners or partners of private sector corporations ,and lending institutions. The latter were backed by their respective governments. In several instances, the borrowed funds never entered the Philippines. These were remitted directly to bank accounts abroad. Many loans did not have collateral and were not backed by assets.

During the period of the debt crisis, the Philippines underwent more than twenty structural adjustment programs which did not work. The UNICEF case study on the Philippines examined the impact of structural adjustment on vulnerable groups for the period 1979-85. It documented the effect of these programs on household incomes and consumption. From 1981-85, real per capita GNP fell by 15% to a level equivalent to that in 1975. This resulted in visible slowdown in employment growth, rising unemployment and sharply declining real incomes among workers and the self-employed, aggravated by a deterioration in income distribution and an increase in households falling below the poverty line. As a consequence, poverty levels rose, particularly in the rural areas.

The impact on health was horrendous. Access to medical services rapidly deteriorated. Disadvantaged groups could not afford even the most basic of health assistance. Performance of major health indicators plummeted. All other social development services deteriorated: be it nutrition, education, housing, women and children. In short, all the horror stories about structural adjustment did happen! (UNICEF: Volume 2, 1988).

Studies conducted after 1985 and up to the end of the eighties showed the same trend. Servicing of public debt more than doubled the next five years, from 1986-91 from 16% to 39%. By the early nineties, the Philippine Commission on Audit calculated debt serving at more than 50% of the national budget. As a consequence, social indicators went from bad to worse. The most helpless members of society bore the brunt of the consequences of debt: women and children, the urban poor, the peasants and indigenous peoples.

As the debt problem worsened, the environment was likewise affected. During the period of intensive "development," forests were intensively logged. Grounds considered sacred by indigenous people were turned into sites for power plants. Thus, structural adjustment exerted pressure on natural resources. The confluence of the high population growth, massive internal migration, and poverty all contributed to the depletion of commercial forests, agricultural soils and fisheries in the Philippines.

The impact on women has been repeatedly mentioned in many studies. When the government reneges on its obligations and fails to provide even the most basic of services to its citizens, the responsibility of making up for these failures fall on women as mothers and wives. Women bear the primary responsibility for keeping the family together. During the crisis, women took multiple jobs to supplement their husbands' incomes even as they struggled with budgets for food, medicine, housing , clothing and education.

Another consequence of the recession which followed in the wake of the debt crisis was the dramatic increase in the number of overseas contract workers. The policy of encouraging the "export of human beings" was started during the administration of the late President Marcos as a temporary measure to ease the pressure of rising unemployment. Overseas contract workers' remittances have since accounted for a significant portion of overall inflow of foreign exchange. It is estimated that in 1997, their contributions reached over $5 billion.

Even as overseas contract workers have helped keep the Philippine economy afloat, the human costs are incalculable. More than fifty-percent of these workers are women. In the process, they have endured conditions approximating slavery in certain countries. The records of the government are full of stories of young women who have undergone physical and psychological violence as domestic workers and entertainers. The spectacular cases of Flor Contemplacion in Singapore and Sarah Balabagan in the United Arab Emirates are only two examples of hundreds of women who have undergone harrowing experiences while working abroad.

To summarize, even as the financial costs of the external debt constituted a terrible burden, the human costs in terms of increased poverty, poorer health, lack of access to nutrition, education and housing are too staggering to contemplate. When we consider the children who lost their childhood and even their lives, the women whose lives were broken or lost in the search for jobs and a better life for their families, we see global finance at its darkest and most evil.

The administration of President Ramos is credited with the so-called recovery of the economy. Since his election in 1992, the economy has gradually climbed from recession to "recovery "in the last four years. Thus, it is now claimed that the structural adjustment programs of the Philippines were successful and the country has finally joined the global community. However two nagging issues persist. While it is true that the economy has been growing, structural adjustment goals were achieved at very high human costs. The second issue was that of sustainability. Critics were warning that the Philippines had not gone out of the boom and bust cycle which had plagued it for decades. In 1997, the fifth year of the Ramos administration, the Asian currency crisis started building up. Now, economic growth is slowing down again and the Philippine economy is beset with rising unemployment and poverty.

III. Debt and the Asian Currency Crisis

Globalization, debt and the present Asian currency crisis cannot be separated from each other. The latter started with a build-up of private debt. The Asian financial and monetary crisis has now escalated into a fullblown economic crisis for the affected countries — Thailand, Korea, Malaysia, Indonesia and the Philippines. The monster of external debt is rearing its ugly head once more. This time, the Philippines is not the only one afflicted — the tiger, as well as would-be tiger economies in the region are undergoing the throes of economic destabilization and instability.

Dr. Walden Bello, professor at the University of the Philippines and Co-Director of Focus on the Global South made an excellent analysis of the crisis in his monograph, **"Addicted to Capital: The ten-year high and present-day withdrawal trauma of Southeast Asia's economies."** (November 1997)

Numerous analyses have been made of this Asian "contagion". Western analysts generally put the blame on "protectionist governments", overborrowing on the part of the private sector, unregulated financial markets, and graft and corruption. Government officials, as in the case of the Philippines, claim that liberalization and opening up of the economy was not done fast enough. Bello expresses the views of independent analysts and NGO's that what is really happening in Southeast Asia is the "unraveling of a model of development that brought a certain kind of success but also carried within it the seeds of its own downfall." He notes:

> *This model was one of high-speed growth fueled, not principally by domestic savings and investment, as in the case of Taiwan and Korea, the classical NICs or "newly industrializing countries," but mainly by huge infusions of foreign capital. The mechanism to achieve this was to liberalize the capital account as fully as possible, achieving very considerable integration between the domestic financial market and global financial markets. The illusion that propelled the advocates of this model was that countries could,... 'leapfrog the normally long and arduous course to advanced country status simply by maximizing their access to foreign capital inflows.*"(Bello: 1997, p. 3)

Thus, the crisis in Southeast Asia illustrates financial globalization at its most destructive. It has spawned a crisis of confidence in the afflicted governments' capacity to stem the tide of decline, sharp rise in unemployment and levels of poverty, as well as threatening social problems.

Whither the tigers?

The 1996 World Debt Tables which is published by the World Bank, noted with satisfaction that "In East Asia and the Pacific the rise in export earnings more than outpaced the 12 percent increase in external debt in 1995 and debt service as a percentage of exports declined to 10.7%, compared with 16.2% for all low-and middle-income countries." Further, "The East Asia and the Pacific region has the fastest growing external debt – the stock of debt rose by 12 percent in 1995, compared with an average of 8% for all low and middle-income countries...the combined debt outstanding of the countries of East Asia and the Pacific was an estimated $473 billion at the end of 1995."

The World Bank was not at all worried about the acceleration of debt in East Asia and the Pacific since their data showed that economic growth across the region outpaced the increase in external debt. From the Bank's point of view, "debt restructuring is not an issue....debt indicators improved across the region." Only two countries were then classified as heavily indebted: Cambodia and Vietnam. (World Bank: 1997).

Indeed, not only the multilaterals but also the international financial and business community thought that the spectacular growth rates of the Southeast Asian tigers' would continue beyond the next millennium. Symptoms were emerging, like the build up of debt, but these were ignored.

Thailand's economy was the first to fall. By the summer of 1997, the Thai baht was subjected to a series of speculative attacks, resulting in its depreciation. Thailand was followed in quick succession by Malaysia, Indonesia, the Philippines and Korea. Overborrowing in unhedged dollar-denominated loans, and overexpansion in real estate, construction and financing resulted in an external debt which more than doubled, from $21 billion in 1988 to $55 billion in 1994. Private debt accounted for over 25% of the debt. (Bello: 1997, p. 14).

Indonesia, considered by the World Bank as among the best performing East Asian economies, followed the same pattern of economic strategy as Thailand. Along with Malaysia, which was rated as the best of Asia's economies by key investment houses, Indonesia eagerly followed a similar formula of financial liberalization, high interest rates and stable exchange rates. It was this very formula which led to the downfall of the Southeast Asian economies. Like their threatened animal counterparts, the Southeast Asian tiger economies are now in grave danger.

Is the present crisis the same as the crisis of the '80's?

Often, this question is asked by anxious citizens of Southeast Asia: is the present currency crisis the same as the crisis of the '80's? The answer is that it is an offshoot of the global debt crisis of the '80's. At the same time, certain features are different.

First, the crisis is presently affecting a specific region: the Southeast Asian region, home of the tiger economics. The earlier crisis was global, with one country in Southeast Asia, the Philippines, as the most devastated. Recently, however, Korea joined the club and plunged into the abyss of the crisis. Fears have been expressed that this regional crisis might trigger one of global proportions.

Second, the present debt crisis is largely private sector-led compared to the earlier one where debts were primarily public sector debt, as in the case of the Philippines and a good number of African countries.

Third, the present crisis is focused on middle-income countries. The earlier crisis held both low-income as well as middle-income countries in its ruthless grip.

The different features notwithstanding, especially degree of impacts on the afflicted countries, the overall pattern is similar, globalization of finance which led to escalating levels of debt, depreciation of currencies, and finally economic instability.

IV. IMPACT ON THE PHILIPPINES

As noted in the preceding analysis, the Philippines was the only middle-income country in Southeast Asia which was savaged by the global debt crisis. Thus, it did not enjoy the spectacular levels of growth which Malaysia, Thailand, Korea and later, Indonesia posted during the past ten years.

Instead, it underwent a series of brutal structural adjustment programs which impacted heavily on the distribution of income, poverty, employment, health and nutrition. By 1992; the Philippines started on the slow and painful path to economic growth, prompting the World Bank to note that "The Philippines is in the midst of a promising economic recovery and is laying the foundation for sustained growth and development." (World Bank: 1997).

Even as the multilaterals were singing hosannas to the Philippines' recovery, NGOs and academics were warning that the modest economic growth was unsustainable because of the heavy social costs, as well as the build-up of the trade deficit. Furthermore, economists noted that the structure of the economy had not actually changed during the past twenty years.

By the first quarter of 1997, the signals were already very clear — the trade deficit was escalating rapidly and the Philippine peso was subjected to speculative attacks. By July 1997, after spending more than $2 billion in a vain effort to protect the peso, the Central Bank finally allowed the peso to float.

They say, we say....

When Filipinos started panicking with the fall of the Philippine peso, the government explained glibly that it was due to speculative attacks. Thus, outside factors were blamed for what was clearly a problem arising from both external and internal factors.

What were the internal factors which made the Philippines vulnerable to external attacks? First, the much-vaunted economic "recovery" was unsustainable. The structure of the economy had not changed substantially. Even as the gross national product was growing, there was a marked slowdown in the growth of the manufacturing sector, as well as of agriculture. These two sectors provide employment in great numbers. Growth did not have palpable impact on employment. In other words, what was happening was jobless growth. At the same time, the savings rate was deteriorating even as the GNP was rising.

Like Thailand, the Philippines enjoyed a boom in the property and construction sector. This was financed heavily by borrowing. Thus, many banks overlent. At the same time, private companies borrowed heavily in dollars even as these loans were unhedged.

On the other hand, NGOs, economists and policy analysts predicted the crisis precisely because the signals were clearly visible from the macroeconomic data. Thus, while the government insisted that the Philippine economy's economic fundamentals are sound, critics insist that it is the other way around.

A passing storm?

Another point of disagreement on the Philippine crisis was whether it was just a "transitory phase", e.g. a passing storm, or whether it was a more serious problem. The government insisted that it was merely a transitory phase in the Philippines' march to growth. A month after the Philippine peso fell, the Secretary of Finance declared, "the storm is over." Soon after he spoke, the peso plummeted further. When it depreciated to P40 to the dollar from P27, the entire country was thrown into shock. It was not prepared for the extent of the devastation due to the claims of government. So far, it has depreciated by more than 70% and hovers between P43 to P45 to the dollar.

Economists and analysts, on the other hand, insist that the problem is more serious. NGOs insist, like Walden Bello, that the present travails of the Philippines are due to the failure of a development model hailed as responsible for the "economic miracle" of Asia.

Effects of the depreciation on the Philippines: Back to the debt!

The first part of this paper recounted the impacts of structural adjustment and the debt crisis on the Philippines. After five years of recovery, the very same impacts are once more being felt. With the depreciation of the peso, incomes have started to shrink even as prices are rising. The rise in prices is exacerbated by a new round of increases in the prices of gasoline and oil products.

Poverty is once more on the rise. Past estimates of 35% of the population living below the poverty line are now being revised. Using the simple formula of people earning less than a dollar a day as below the poverty line, it would seem that 61.8 percent of the Philippines' 70 million residents can be considered poor.

The spectre of unemployment is likewise engulfing the Philippines. The Philippine Chamber of Industries has calculated that at least 500,000 jobs will be lost this year. The numbers are much more horrifying for the tiger economies. In Thailand, 1.5 million people are expected to be retrenched by the end January 1998. More than 900,000 people are expected to lose their jobs in Korea. Unemployment in Indonesia is expected to increase by one million. (Corral: December 1997, p. 5)

At first glance, it might appear that the Philippines is the least hit. However, it must be emphasized that the new unemployed will be added to the millions who have been inventoried as unemployed even before the currency depreciation. For the past five years, the Philippines has been plagued by more than 9% unemployment rate and more than 20% underemployment rate.

Also, many Filipinos work as overseas contract workers in Korea, Thailand, Malaysia, and Indonesia. Once they are retrenched, they will go home and add to the vast numbers of unemployed in the Philippines.

Social cohesion, which has always been fragile, is threatened as a consequence of the crisis. Unrest is palpable among the poor, particularly the workers. They are gearing up for strikes and protest actions due to the increase in gasoline prices, as well as the massive layoffs.

Effects on the national budget

As in many developing countries, the government by itself constitutes the biggest contributor to the GNP. It produces goods and services, and creates jobs. As part of the economy measures which are now being undertaken to survive the crisis, the government recently resolved to decrease expenditures by 25%. This measure was impelled by two factors: the need to produce a budget surplus in order to comply with the IMF's requirement, and the need to recompute the budget because the assumptions on the exchange rate have changed radically.

When the budget was prepared, the assumption was that the rate of exchange would be slightly over P27 to the dollar. As mentioned earlier, the Philippines has a continuing burden of foreign debt. The depreciation of the peso automatically increased the peso requirements for buying dollars to pay off the foreign debt. Also, a substantial portion of the budget will go into paying for purchases of goods and services requiring foreign exchange. The latest estimate (as of January 25, 1997) is that the Philippines will have a deficit of P75 billion, instead of the much anticipated surplus. This is approximately $1.8 billion .

At the same time, the surge in interest rates is hurting not only the business sector, but also the government which continually borrows from the local and international markets for its operations.

While the logic of the government's action is understandable, the impact of the 25% reduction on government expenditures is too frightening to contemplate. Services in health, nutrition, education and labor are already inadequate. Drastic reduction in these services will only result in a repetition of the nightmare of the global debt crisis.

A simple tabulation of the 1998 budgets of four social development agencies (Departments of Education, Health, Labor and Employment, Social Welfare and Special Hospitals) showed that a 25% reduction will amount to P7.6 billion or roughly $180 million. This means that medicines, books, potable water, and other health services will be reduced by this much. The prospect is too frightening to contemplate.

The situation of the Philippines is akin to that of Sisyphus. Since 1983, it has been pushing the rock-hard burden of debt up a high mountain. After nearly fifteen years of struggle and unspeakable sacrifice, the Philippines is nearing the top of the mountain. Then, in 1997, the winds of economic crisis blew and rolled the rock down. Now, the Philippines must start the painful climb again.

Such is the nature of globalization and the never-ending story of debt.

V. CONCLUSIONS

This paper started with the historic voyage of Vasco da Gama to India five hundred years ago. His voyage unleashed a chain of events which placed the rest of Asia, Africa and Latin America under the yoke of colonization, and later, globalization.

What are the conclusions which can be drawn from the process of debt which occurred in Southeast Asia in two different periods?

1. The experience of selected middle-income countries of Southeast Asian conclusively shows that this is part of the seamless tapestry of

colonization and globalization. Most of the countries have been under colonial domination. In the process, their economies and societies inescapably became linked with that of their conquerors.

Colonization involved direct conquest and rule. Colonizers strove to possess not only the human and material resources of the conquered but even the very souls of subject people. Colonization is identified with one country dominating another country. Globalization, on the other hand is not conquest by one country alone, but by a system — an international system where national economies are sucked into the global. An economy is conquered not by one country, but by many dominant countries. It is primarily about trade, finance and economics, but the political, social and cultural impacts are devastating.

The countries' colonial past made it possible for them to be drawn into the web of globalization.

2. The experience of the Southeast Asian countries described in this paper show conclusively the unraveling of a model of development based on accelerated globalization. It is not because they did not liberalize fast enough, as claimed by Western critics. Thailand, Indonesia, and Malaysia developed very fast due to financial liberalization which is a major feature of globalization. The Philippines followed suit when it started recovering from recession due to its massive external debt. Unfortunately, the very seed, financial liberalization, which led to high growth also led to the downfall of these economies.

3. The same experience shows that middle-income countries are not immune from the devastating effects of untrammeled globalization. Not only the poor and the lowest income countries are victimized. Rather, this model of development afflicts the middle-income countries more.

4. Finally, the experience of the Philippines illustrates beautifully the interconnection between colonization and globalization. It also shows how massive debt pressures a country into globalization through structural adjustment. This is followed by a development model whose excesses brings the country back to square one and more debt.

The Philippines was colonized by Spain in 1521, 23 years later than India. For three hundred seventy-five years, it languished under the yoke of the Spanish colonial master. The Filipinos launched a nationwide revolution in 1896, after more than three hundred rebellions. The Spaniards were then followed by the Americans who ruled for over forty years. Then the Japanese came and imposed a brutal, murderous regime. In 1945, the Americans returned. In 1946, independence was "granted" but trade agreements ensured that the colonial trade relationship would be maintained. Thus, it was easy to slip into the web of globalization after such a long colonial history.

Finally, the experience of the Soûtheast Asian countries is repeated in many parts of the world. The story is the same. As economies lurched from one crisis to another; as they move from various forms of globalization to another, always, always, it is the people who suffer and pay for the weaknesses of this dominant economic system.

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FINANCIAL LIBERALIZATION, CRISES, AND MALAYSIAN POLICY RESPONSES

by

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Financial Liberalization, Crises, and Malaysian Policy Responses

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Since July 1997, the currencies of all three second-tier Southeast Asian NICs have fallen precipitously, with the Malaysian ringgit almost touching RM4 to the US dollar in December 1997, its lowest level ever, a tremendous collapse from RM2.5 in July. The stock market has responded in tandem, with the main Kuala Lumpur Stock Exchange (KLSE) Composite Index dropping to almost 500 from over 1300 in the first quarter of 1997. The new lows were initially seen as market reactions to Prime Minister Mahathir's various statements, including his typically tough speech in Hong Kong on 20 September at a seminar before the joint World Bank-IMF (International Monetary Fund) annual meeting.

Arguing that 'currency trading is unnecessary, unproductive and immoral', Mahathir argued that it should be 'stopped' and 'made illegal'. Coupled with an interview in Hong Kong's *South China Morning Post* which appeared the following day, this was widely understood as signaling an imminent ban on foreign exchange purchases unrelated to imports. Despite subsequent denial and clarification by Deputy Prime Minister and Finance Minister Anwar Ibrahim, the market reaction was swift and painful, pushing the ringgit to a new low — which can only be explained by market sentiment, rather than any serious reference to economic fundamentals.[1] Subsequent Mahathir remarks in faraway Chile on the last day of September immediately plunged the ringgit to a new all time low, casting a long shadow halfway round the world on the Malaysian financial sector the next morning.

This is not to suggest that the fundamentals are all alright in Southeast Asia. Although high growth was sustained for almost a decade, during most of which fiscal balances were in order, monetary expansion was not excessive and inflation was generally under control, some other indices have been awry. The export-led growth of Southeast Asian economies since the late 1980s has been followed by a construction and property boom, fueled by financial sectors favoring such 'short-termist' investments — involving loans with collateral which bankers like — over more productive, but often, also more risky investments in manufacturing and agriculture. The exaggerated expansion of investment in such 'non-tradeables' has exacerbated current account trade deficits. Although widespread in East Asia, for various reasons, the property-finance nexus was particularly strong in Thailand, which made it much more vulnerable to the inevitable bursting of the bubble.

[1] Stock market references to fundamentals are often hard to distinguish from sentiment in the macro-economic sense since much of what it considers fundamental information consists of forecasts, expectations and perceptions.

Perceiving the Southeast Asian region as much more integrated than it actually is, the investment decisions of fund managers based outside the region — e.g. in Wall Street or the City of London — have often been 'herd-like',[2] causing a 'contagion' or 'domino' effect throughout the region.

The very logic of hedge fund operations[3] has tended to exacerbate these phenomena, with disastrous snowballing consequences for the region. Other international, regional and, increasingly, local currency speculators and hedgers have also been responsible, but mainly reacting in their own self-interest to perceived market trends, rather than as part of some grand conspiracy. Meanwhile, the 'market' — especially Wall Street and the City of London — has become so fixated with the current account deficit that this indicator, almost alone, has become the fetish of financial analysts, especially since the Mexican meltdown of early 1995. In earlier, different times, some economies sustained similar deficits for much longer, without comparable consequences. As noted in the immediate aftermath of the Mexican crisis of 1995, several Southeast Asian economies already had comparable current account deficits then despite, or rather because of rapid economic growth. Yet, as Fischer observed, the currency markets failed to adjust earlier in Southeast Asia.

In the mid-1990s, as the US dollar strengthened with the US economy, both the Japanese and the Germans allowed their currencies to depreciate against the US dollar, with relatively little disruption, in an effort to regain international competitiveness. After virtually tying their currencies to the US dollar since the advent of flexible exchange rates, most Southeast Asian currencies wrongly resisted similar downward adjustments, which would have reduced, if not averted some of the more disruptive consequences of the recent currency collapses.

Some official Malaysian reactions undoubtedly exacerbated the situation. The ringgit had fallen from around RM2.5 in early July to about RM2.7 before the end of August 1997, when Prime Minister Mahathir returned from a two-month working holiday abroad. Since then, it has gone through the 'bottom', long thought to be the pre-1973 rate of RM3 to the dollar. The rate seemed to hold for the first week after the Prime Minister's return, but then began to tumble, often in response to new pronouncements and policy responses. The situation has been exacerbated by the perception that Mahathir has taken over economic policy making, causing ambiguity about who is in charge and what to expect.

Poor crisis management has not helped. The 'designation' of a hundred major counters — an officially-induced Kuala Lumpur Stock Exchange (KLSE) rule change, ostensibly to check short-selling — also adversely affected buying, causing the stock market to go into free fall. The post-Cabinet meeting announcement on 3 September of a special RM60

[2] In the face of limited information and a novel, rapidly changing situation, such behavior is often considered rational by market players, even if unfortunate.
[3] Hedge funds may, however, go in different directions, e.g. when one fund's currency sell-off provokes another fund to snap up bargain equities, e.g. foreigners were often persistent net buyers of Japanese stocks throughout the bursting of the bubble there in the 1990s.

billion fund for selected Malaysians seeking to unload stock has been seen as a measure designed to 'save' cronies from disaster. The Singapore *Business Times* 8 September 1997 report — that, of Malaysia's billionaires, Mahathir's oldest son Mirzan was the most adversely affected in percentage terms by the stock market collapse — has not helped.

After almost three years of unprecedented popularity in Malaysia after almost a decade of annual GDP growth exceeding sight per cent per annum and a resounding electoral victory in April 1995 with 65 percent of the vote (and 85 percent of parliamentary seats, compared to only 52 percent of the vote and 70 percent of the seats in October 1990), Mahathir's reputation among the business community at home and within the region has taken a beating, ironically not least because of what has elevated his stature elsewhere in the South, namely his bold, but sometimes almost quixotic tilting against the windmills of Western dominance.

Before his Hong Kong speech, Mahathir had railed against Georg Soros for weeks, rather than analyze the consequences of international financial liberalization. Mahathir had repeatedly accused Soros of manipulating the recent currency developments in Southeast Asia, offering no evidence for his latest conspiracy theory. This has actually obscured, rather than enhanced understanding of what has actually been happening. Soros's claim that he was only involved up to ten million US dollars in Thailand was greeted with derision in Thailand and elsewhere in the region, where it was well known that fund managers from his Quantum Fund were heavily involved in the attack on the weak Thai baht from May 1997. While Soros may have been right in terms of his own personal investment, his personal credibility was badly affected.

Not surprisingly, Soros, in turn, accused the Malaysian Prime Minister of using him as a scapegoat for the consequences of Mahathir's own economic mismanagement. Mahathir's call for an end to international foreign exchange markets and currency speculation only seemed to confirm Soros's claim that he had become a 'menace to his own country' as 'interfering with the convertibility of capital at a moment like this is a recipe for disaster'. Soros added that Mahathir's appeal 'does not deserve serious consideration' and was, not surprisingly, endorsed by US Treasury Secretary Robert Rubin, a former Wall Street trader himself.

But it is this same Soros who only recently argued, quite correctly, that the unregulated expansion of capitalism, especially finance capital, threatens to undermine its own future, i.e. that capitalism has to be saved from itself. While admitting that he himself has profited greatly from financial liberalization, Soros argued — in Keynesian mode — that excessive liberalization has been resulting in virtual anarchy, dangerous for the stability so necessary for the orderly capitalist growth and democratic development desired by his liberal vision of a Popperian 'open society'.

With the adverse reactions and disastrous market responses to his Hong Kong speech and other comments. Mahathir's arguments[4] have largely been dismissed outside of Malaysia except for the few who recognize his rantings as those of frustration in the face of a new phenomenon demanding original analysis. Hence, dismissing Mahathir would be tantamount to throwing the baby out with the bath water as Mahathir was addressing a real problem, albeit incorrectly. After all, as many have pointed out, the international financial system and its further liberalization have favored those already dominant and privileged in the world economy, at the expense of the real economy and of development in the South.

The prevailing system of flexible exchange rates was introduced less than a quarter of a century earlier, inaugurating a new international monetary regime with very mixed consequences. Hence, the current regime is relatively new, only beginning after Nixon's 1971 unilateral withdrawal from the Bretton Woods' regime of fixed exchange rates — which had pegged the dollar to gold at US$35 per ounce and the ringgit to the US dollar at RM3. Under the new regime, the volume of foreign exchange trading had grown to more than 67 times the value of the international trade in goods by 1995.[5] Hence, such trading is hardly natural, inevitable or even desirable. For most of human history, including that of capitalism, it has not been 'integral to global trade in goods and services', as claimed by US Treasury Secretary Rubin. In fact, as is well known, various critics have offered various alternatives to the present system such as returning to fixed exchange rates, the gold standard and so on.

Contrary to the claim that 'the market' will exact swift and painful punishment on governments and economies which do not have their macro-economic house in order, the timing, nature and consequences of the mid-1997 financial crisis in Southeast Asia underline the imperfect nature of financial markets. This has been reflected in the long delay in 'rectification'. In a telling episode at the beginning of September, IMF deputy head, Stanley Fischer pointed out that although the current account deficits in Southeast Asia had emerged quite some years ago, markets had failed to adjust — contrary to the predictions of conventional economic theory. (Instead of recognizing the failure of market mechanisms, US Federal Reserve Chair Alan Greenspan gently chided Fischer, expecting the IMF to 'inform' Wall Street.) This is also a market where it seems that the magnitude of the 'overshooting' seems to exceed that of the 'correction' several times

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[4] It has been very difficult for Malaysia to credibly take the high moral ground on currency and other types of speculation because of the well-known behavior of Bank Negara in the 1980s. The Malaysian central bank was known to take very aggressive, short term speculative positions in the major currencies with a view to making a profit. This went on for several years until the Bank lost several tens of billions of ringgit in 1992 while betting on sterling and then withdrew to tamer activities. There is a similar sense about the tin cartel in the early 1980s (Jomo 1990). Mahathir's comments are hence seen as insincere abroad in that he is seen to have directed the government to undertake speculative activities in the past and was able to do so because the international currency and commodity markets are so open. It has been difficult to gain sympathy about non Malaysian speculators after having approved of such activities before.

[5] Since trade-related currency trading is greatly exceeded by investment-related currency trading, it is not surprising that the volume of currency trading is so large. One key question is how much of those investment-related trades are 'healthy', 'appropriate', or 'desirable', and that is hard to determine. These investors want to hedge their personal income and wealth by spreading their investments across many countries and adjusting them quite frequently as conditions change, contributing to market volatility.

over. Further evidence of market-induced anarchy can be found in the 'herd behavior' underlying the 'contagion' or 'domino' effects. In the wake of the Mexican crisis in early 1995, even the International Monetary Fund (IMF) stepped back momentarily from its advocacy of virtually unfettered financial liberalization. Meanwhile, current account deficits in Malaysia and some other neighboring economies had reached all time highs, without any comparable adverse effect. Unfortunately, the short-termism of financial markets extends to our memories and to related policy making and advocacy as well.

In a world economy where foreign exchange spot transactions are worth more than seventy times the total value of international commodity trade transactions, the financial sector has become increasingly divorced from the real economy. With the recent proliferation of new financial instruments and markets, especially in Malaysia, the financial sector has an even greater potential to inflict damage on the real economy. Ever since Lord Keynes advocated 'throwing sand' into the financial system to check the potentially disastrous consequences of unfettered liberalization, Keynesians — and others — have been wary of the financial liberalization advocated by ideological neo-liberals and their often naïve allies.

Nobel laureate in economics James Tobin has called for a tax on foreign exchange spot transactions to enable more independent national monetary policy, discourage speculative capital movements, and increase the relative weight of long-term economic fundamentals against more short-termist and speculative considerations. As a bonus, the tax collected would also more than adequately fund the United Nations system and programs, not leaving it hostage to the whims of US administrations, as is the case. Another Nobel Laureate, Professor Lawrence Klein has mentioned two other options to be considered besides the Tobin tax, namely regional monetary arrangements as well as the introduction of what are popularly known as 'circuit-breakers' into the system — a suggestion also made by the World Bank's Senior Vice President and Chief Economist, Professor Joseph Stiglitz.

But the lobby for financial liberalization remains much stronger and far more influential, dominating most of the business media and key financial institutions internationally, especially in the US. Acknowledging that money is not just another commodity, the *Wall Street Journal*, for example, continues to promote currency boards (instead of central banks) and the pegging of other currencies against the US dollar, while attacking most other international monetary alternatives, never mentioning the advantages dollar pegs have given to the US, such as having the rest of the world finance its huge deficits.

Understanding the Southeast Asian Crisis

In late 1997, Manuel Montes (1998) published the most serious attempt to understand the crisis in Southeast Asia. He begins by considering the most oft-cited popular explanations, suggesting that the crisis stemmed from the banking sector due to imprudent expansion and diversification of domestic financial markets, fueled by short-term private borrowings. Montes suggests that this was especially true of Thailand, but less so for Indonesia, Malaysia and the Philippines (in order of decreasing relevance), underlining the significance of the contagion effect; 'the differences raise questions about how sensitive the currency knockdown (and the associated disinvestment from these economies) are to economic fundamentals' (p. 3).

Despite large current account deficits for the affected countries, more for Malaysia and Thailand compared to Indonesia and the Philippines, he notes that macroeconomic conditions were otherwise sound. He shows high growth and savings rates, and low inflation in the 1990s for the four most affected Southeast Asian economies, with the Philippines a bit of a laggard. By the mid-1990s, all had fiscal surpluses. Instead, Southeast Asian vulnerability was 'as in a classic credit crunch, from an over-extended mismatch in the maturity and currency unit between sources and uses of credit' (p. 2).

Montes sees the Thai crisis as 'the latest in a series of such crises in which a currency attack follows on (or is justified by) an unhealthy domestic banking system, following an episode, of say 3 to 5 years, of vigorous external capital inflows' (p. 7). The currency collapse weakens the domestic banking system by increasing the range of unviable investments based on the previous exchange rate, thus magnifying the crisis. Such crises have resulted in lower growth, higher unemployment and the deployment of taxpayer funds to salvage the financial system and related asset holdings.

Montes cites Kaminsky and Reinhart's (1996) study of 71 balance of payments (BoP) crises and 25 banking crises during the period 1970-95. There were only three banking crises associated with the 25 BoP crises during 1970-79, but 22 banking crises which coincided with 46 BoP crises over 1980-95, which they attribute to financial liberalization from the 1980s, with a private lending boom culminating in a banking crisis and then a currency crisis. Thus, Montes attributes the Southeast Asian currency crisis to the 'twin liberalizations' of domestic financial systems and opening of the capital account.

Montes argues that financial liberalization induced some new behavior in the financial system, notably:

1) domestic financial institutions had greater flexibility in offering interest rates to secure funds domestically and in bidding for foreign funds;
2) they became less reliant on lending to the government;
3) regulations, such as credit allocation rules and ceilings, were reduced;
4) greater domestic competition has meant that ascendance depends on expanding lending portfolios, often at the expense of prudence.

Meanwhile, liberalizing the capital account has essentially guaranteed non-residents ease of exit as well as fewer limitations on nationals holding foreign assets, thus inadvertently facilitating capital flight.

Historically, developing countries in Southeast Asia have successfully induced capital inflows, often by subsidizing them through a variety of investment incentive programs. Montes (p. 11) argues that 'removing controls on capital inflows effectively subsidizes net outflows, a self-defeating stance for a capital-needy economy to take'. Opening the capital account has also provided foreign fund managers with access to domestic bond and stock markets, and given the domestic financial system access to lower cost funds from abroad. Thus, offshore banking operations have fueled intermediation growth as well as competition among domestic financial groups.

The lending boom increasingly involved asset purchases fueled by rising property and stock prices. Montes argues that the Thai authorities hesitated to prick the asset price bubble for two reasons. The dominant liberal economic ideology deemed it inappropriate for government authorities to bother about private sector-driven current account deficits. Similarly, it was felt that greater regulation would undermine healthy financial sector development.

To defuse upward pressure on the exchange rate, the Thai authorities engaged in costly sterilization operations.[6] Montes emphasizes that sterilization measures put upward pressure on domestic interest rates, increasing the differential with foreign interest rates, thus inducing even more inflows. With the exchange rate peg and sterilization measures, the interest rate differential widened, especially as international interest rates declined. Montes argues that the Thai authorities failed to protect the long-term viability of their banking system through prudential regulation, which would have required curbs on the massive increase of financial intermediation for asset purchases.

Montes argues that 'three guarantees' exacerbated the problem of moral hazard, contributing to the banking/currency crisis. First is government support for the domestic financial system.[7] The commitment to an open capital account and the adoption of a virtually fixed exchange rate or quasi-peg effectively subsidize short-term foreign borrowings, supporting foreign equity investments as well as off-shore banking facilities. With these three guarantees, and arguably the expectation of IMF protection of their interests in the event of a crisis, international lenders are encouraged to lend more while not having much incentive to effectively monitor the deployment of their loans. The quasi-pegging of Southeast Asian currencies to a strengthening US dollar since the mid-1990s gave non-US dollar lenders to the region unrealized exchange rate gains as well.

In a useful chapter (four) on fundamentals and sentiments, Montes points out that international financial analysts and macroeconomists mean different things when they speak of fundamentals. Private asset managers seem to refer to 'factors that support the one-year to year-and-a-half stability of key asset prices, especially exchange rates' whereas economics and public officials usually think of the medium term in terms of three years and consider fundamentals 'in terms of the impact of asset prices on real economic variable, such as output growth, exports, and employment' (p. 29).

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[6] In contrast to portfolio investment to buy domestic financial assets, foreign direct investment (FDI) flows for new plant, equipment and intermediate inputs have different macroeconomic implications, with a limited impact on reserves, money supply and domestic interest rates (Montes 1998: 22). FDI is also less easily withdrawn.

[7] Montes points out that incentives in international markets tend to intensify, rather than moderate, over-optimism or over-pessimism due to herd behavior and other factors (p. 27).

Montes goes on to identify the following as key fundamentals of the affected Southeast Asian economies:

1) viability of domestic financial systems[8]
2) domestic output and export responsiveness to nominal devaluations[9]
3) sustainability of current account deficits[10]
4) high savings rates and robust public finances

Despite the sound fiscal situation before the crisis, the Southeast Asian economies are now expected to have even larger fiscal surpluses despite the need for greater public financing of physical infrastructure and social services. To restore confidence in their currencies, they are being asked to cut their current account deficits besides government spending, with ominous implications for economic recovery and sustainability.

Recognizing a limited but still significant scope for monetary independence in the Southeast Asian economies, Montes maintains that economic liberalization should not be allowed to frustrate the sound development of the financial system and improvements in the productivity of investment. He warns that sound macroeconomic fundamentals do not guarantee immunity from contagion and crisis. The scope for monetary independence partly depends on the soundness of macroeconomic management as well as political will. Favoring flexible exchange rates, he warns that capital controls and other efforts to prop up a currency under attack are ineffective and actually subsidize further speculative actions. International cooperation and coordination have often been the best response during such episodes, but are also important for effective prudential and regulatory initiatives as well as to reduce 'policy arbitrage'. He also advocates measures to insulate the domestic banking system from short-term volatility through regulatory measures and capital controls as well as stricter prudential regulation for the region.

Theoretical Catch-up

It seems fair to say that no one fully anticipated the current crisis in East Asia. There were, of course, skeptics who regarded the claims of an East Asian economic miracle as

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[8] Montes emphasizes that sentiments can either favorably or unfavorably influence fundamentals and the health of financial systems; in particular, the collapse of the Southeast Asian currencies due to sentiments would adversely affect the viability of investments made in different exchange rate conditions, which could in turn further exacerbate the domestic banking crisis.

[9] Montes argues that the rural-based economies of Southeast Asia have been better able to carry out real devaluations from nominal changes in currency value, while their export sectors have not been too tied down by supply side inflexibilities to respond to real devaluations. After asserting that stock markets have served to share risks among asset owners rather than raise financing, he argues that except for financial system weaknesses, Southeast Asian real sectors have been relatively immune from the recent asset market frenzy.

[10] Montes points out that equity and portfolio investments have overtaken direct investment, loans and trade credit in providing external financing in the 1990s. He cites Reisen's warning (p. 34) that offers of foreign financing should be resisted if they would 'cause unsustainable currency appreciation, excessive risk-taking in the banking system, and a sharp drop in private savings'. Hence, in a market-sentiment driven world, currencies become too strong with offers of strong external financing and too weak when capital withdraws.

somewhat exaggerated albeit for different reasons, e.g. because they had not achieved much productivity growth and would eventually run up against diminishing returns (Krugman 1994); others argued that the performances of the Southeast Asian newly industrializing countries were significantly inferior compared to Japan and the first-tier newly industrializing economies (Jomo *et al.* 1997). Some of us had warned, in the aftermath of the Mexican meltdown of early 1995, that current account deficits in the Southeast Asia were worryingly high, and that the region was not immune to financial difficulties. But even such pessimists never expected the financial crisis in the region as it has unfolded since mid-1997. We only expected some kind of conventional currency crisis, followed by a temporary slowdown before recovery on a more sustainable basis. Even people like Krugman expected the longer-term slowdown to set in more gradually, with the lead geese first affected.

What has actually happened has been far more dramatic as well as more complicated, with asset prices collapsing, banks and other financial institutions failing, many companies going bankrupt, and probably a far more severe and protracted downturn than even the most pessimistic expected. The East Asian vulnerability to crisis contagion was also unanticipated. In light of the limited trade and investment relations among Southeast Asian economies (barring Singapore) and the fact that other economies elsewhere producing the same exports have not been similarly affected, popular explanations — invoking regional proximity, linkages and competition — do not stand up to much careful scrutiny. The plight of South Korea, further away and economically quite different, has also undermined such easy explanations, encouraging instead new hypotheses about East Asia more generally, implying that those affected are mutant flying geese with Japanese-type economies and problems.

Paul Krugman's (1998) attempt at theoretical catch-up is particularly worthy of consideration in light of his own previous attempts at understanding related international economic phenomena as well as East Asian economic growth. As the crisis is still unfolding, such an attempt can hardly be definitive, especially since we do not even have the advantage of complete hindsight. Yet, as policy is very much being made on the hoof, his attempt to highlight certain relationships may well be illuminating. Hence, Krugman argues that:

> 'it is necessary to adopt an approach quite different from that of traditional currency crisis theory. Of course Asian economies did experience currency crises, and the usual channels of speculation were operative here as always. However, the currency crises were only part of a broader financial crisis, which had very little to do with currencies or even monetary issues *per se*. Nor did the crisis have much to do with traditional fiscal issues. Instead, to make sense of what went wrong we need to focus on two issues normally neglected in currency crisis analysis: the role of financial intermediaries (and of the moral hazard associated with such intermediaries when they are poorly regulated), and the prices of real assets such as capital and land.'

Rejecting the conventional views that blamed either fiscal deficits or macroeconomic indiscipline, Krugman suggests that the East Asian crisis has been brought about by 'financial excess and then financial collapse', involving asset price bubbles and then collapses, 'with the currency crisis more a symptom than a cause of this underlying real malady'. For Krugman, the core of the problem was that East Asian financial intermediaries 'were perceived as having an *implicit government guarantee*, but were essentially *unregulated* and therefore subject to *moral hazard* problems. The excessive risky lending of these institutions created *inflation* — not of goods but of *asset prices*. The overpricing of assets was sustained in part by a sort of circular process, in which the *proliferation of risky lending drove up the prices of risky assets*, making the financial condition of the intermediaries seem sounder than it was' (my emphases).

For Krugman, the crisis was precipitated by the bursting of the bubble: '*The mechanism of crisis... involved that same circular process in reverse: falling asset prices made the insolvency of intermediaries visible, forcing them to cease operations, leading to further asset deflation*. The circularity, in turn, can explain both the remarkable severity of the crisis and the apparent vulnerability of the Asian economies to self-fulfilling crisis — which in turn helps us understand the phenomenon of contagion between economies with few visible links'. This sequencing may, of course, be more relevant for understanding Thailand, whereas the sequencing in the rest of the region appears to have been different.[11]

According to Krugman, East Asian financial intermediaries 'were able to raise money at safe interest rates but lend at premium rates to finance speculative investments'. In fact, he shows that they had 'an incentive not merely to undertake excessively risky investments, but (even) to pursue investments with low expected returns'. Krugman argues that the moral hazard problem involving over-guaranteed, but under-regulated financial intermediaries not only distorted investments, but also led to over-investment at the aggregate level as well as over-pricing of assets. He also suggests why East Asian businesses became extremely leveraged by Western standards as well as their tendency to be over-optimistic about their investments. Access to world capital market allowed moral hazard in the financial sector to translate into excessive real capital accumulation.

He then concludes that such a moral-hazard regime with overpriced assets was vulnerable to financial crisis as disintermediation set in. For Krugman, 'the days of cheerful implicit guarantees and easy lending for risky investment are clearly over for some time to come' as 'financial intermediaries have been curtailed *precisely because they were seen to have lost a lot of money*' (Krugman's italics). The problem is exacerbated by a magnification effect caused 'by the circular logic of disintermediation: the prospective end to intermediation, driven by the losses of the existing institutions, reduces asset prices and therefore magnifies those losses'. His analysis offers 'a story of self-fulfilling financial crises, in which plunging asset prices undermine banks, and the collapse of the banks in turn ratifies the drop in asset prices'.

Krugman stresses that the East Asian crisis differs from conventional currency crisis scenarios in several important ways:

[11] The differences in sequencing do not, however, affect the rest of the argument fundamentally.

1) the absence of the usual sources of currency stress, whether fiscal deficits or macroeconomic indiscipline;[12]
2) the governments did not have any incentive to abandon their pegged exchange rates, e.g. to reduce unemployment;
3) the pronounced boom-bust cycles in asset prices (real property and stock markets) *preceded* the currency crisis, especially in Thailand, where the crisis began;
4) financial intermediaries have been key players in all the economies involved.
5) the severity of the crisis in the absence of strong adverse shocks;
6) the rapid spread of the initial crisis in Thailand, even to economies with few links or similarities to the first victims.

Very importantly then, the traditional indices of vulnerability did not signal a crisis as the source of the problem was not to be found in the governments per se or in national income accounts. The (mainly private) financial intermediaries were 'not part of the governments' visible liabilities until after the fact'. Krugman goes on to argue:

> 'The boom-bust cycle created by financial excess preceded the currency crises because the financial crisis was the real driver of the whole process, with the currency fluctuations more a symptom than a cause. And the ability of the crisis to spread without big exogenous shocks or strong economic linkages can be explained by the fact that the afflicted Asian economies were ... highly vulnerable to self-fulfilling pessimism, which could and did generate a downward spiral of asset deflation and disintermediation'.

For Krugman then, one cannot adequately make sense of the crisis in terms of conventional currency crisis models; for him, the crisis has mainly been about bad banking and its consequences, and only incidentally about currencies.

Krugman acknowledges that his simple model of rather complex economic issues leaves out at least five issues which need to be taken into account for an adequate analysis of the East Asian crisis:

1) financial crises have very severe effects on growth because they disrupt the productive contribution of financial intermediation, which is not merely for rent-seeking, as assumed in the model.
2) the East Asian crises have not only involved excessive investments, but also unwise investments, which are not captured by most of his analysis.
3) the huge real currency depreciations, likely to cause large declines in output, are not well captured by his model, which downplays the significance of monetary factors;
4) Krugman's model assumes that the financial intermediaries do not invest capital of their own, thus leading to the prediction that they will almost always need financial bailouts; in fact, if they invest their own capital, financial intermediaries will have something to lose as well, which would presumably check their conduct;

[12] None of the fundamentals usually emphasized seem to have been important in the affected economies: all the governments had fiscal surpluses and none were involved in excessive monetary expansion, while inflation rates were generally low.

5) his model focuses on domestic financial intermediaries, whereas foreign institutions have played a major role in the East Asian crises; hence, other kinds of market failure, e.g. herd behavior, need to be taken into account.

The analysis offered in this paper is not inconsistent with Krugman's emphasis on the asset price bubbles, excessive investments and other problems caused by moral hazard due to implicit government guarantees for weakly regulated financial intermediaries. It is also in agreement with his acknowledgement that this crisis is quite novel in origin. However, as Krugman himself acknowledges, a more adequate analysis must also account for various other phenomena including:

- the implications of the growth in currency trading and speculation in the post-Bretton Woods international monetary system
- the reasons for the Southeast Asian monetary authorities to defend their quasi-pegs against the strengthening US dollar
- the consequences of financial liberalization, including the creation of conditions which have made possible the magnitude of the crises
- the role of herd behavior in exacerbating the crises
- other factors accounting for the contagion effect

A number of policy issues also deserve careful consideration, including the nature and implications of IMF 'rescue' programs and the conditionalities imposed, as well as of policies favored by the international as distinct from the domestic financial communities, and others affected. The adverse consequences of financial disintermediation and grossly undervalued currencies for economic development also deserve special attention, especially as the crisis threatens the future of growth and structural change in the region, not only directly, but also as a consequence of policy responses. The contractionary policies favored by the IMF, the international financial community as well as others, recently including Malaysia's financial authorities, may well throw out the baby of economic development with the bath water of financial crisis.

Financial Liberalization

An explosion of international financial flows followed the substitution of the Bretton Woods system of fixed exchange rates with a new system of flexible exchange rates. The trend picked up momentum from the 1980s, leading to a US$1250 billion daily foreign exchange market by 1997, and the proliferation of new financial instruments. However, many of the alleged benefits of financial liberalization have not been realized, as the following summary of recent findings (Eatwell, 1997) show.

- First, financial liberalization was expected to move resources from capital-rich to capital-poor countries, when in fact, *net flows* of finance — and of real resources — have been very *modest*, and mainly toward the capital-rich.

- Second, while liberalization was expected to enhance opportunities for savers and lower costs to borrowers, savers have benefited most from *higher real interest rates*.[13]
- Third, the *new financial derivatives* — expected to improve risk management — have actually *generated new systemic risks*, especially vulnerable to sudden changes in sentiment.[14]
- Fourth, improved macro-economic performance — with greater investment and growth expected from better allocative efficiency — has not been realized; in fact, *overall macro-economic performance* has been *worse* than before liberalization.[15]
- Fifth, financial liberalization has introduced a *persistent deflationary bias* on economic policy as governments try to gain credibility to avert destabilizing capital flows, instead of the 'healthy discipline' on governments expected to improve macro-economic stability.

Financial markets seem to function in such a way as to impose their own 'expectations' on the real economy, thus defining their own 'fundamentals' and logic, which in turn become self-fulfilling prophecies. In other words, they do not just process information in order to efficiently allocate resources. Since financial markets operate like beauty contests and the real economy has no automatic tendency to converge to full-employment growth, the presumed analytical assumptions of other market participants become imposed on the economy.

The threat of instability in the now massive capital market forces both government and private investors to pursue risk-averse strategies, resulting in low growth and employment creation. A deflationary bias in government policy and the private sector emerges in response to the costly risks of violating the rules of the game. This is exacerbated by the high costs of debt due to high real interest rates owing to efforts to maintain financial stability in a potentially volatile world. Thus, 'long term price stability' supercedes a high and stable level of employment' as the policy priority. Such a monetarily stable system involving relatively slow growth and high unemployment, can last indefinitely.

A sophisticated liberalized financial system, prioritizing flexibility or the possibility of easy exit, is necessarily fragile, as reflected in:

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[13] Currently, high interest rates represent a very unhappy situation for the region. They are intended, in part, to prop the currency up to maintain confidence but, perhaps more importantly, to allow local companies to pay off their foreign debts. The cost of this is slower growth. With lower interest rates and lower exchange rates, which help the economy grow and help consumers, mismanaged local companies would have to reorganize themselves, or otherwise lose their equity (which they deserve, in many cases, to forfeit). Foreign creditors who were stupid enough to lend dollars to mismanaged companies should see their bank loans and bonds defaulted on. Bankrupt local companies could be bailed out and re-capitalized, with 100 percent equity ownership then going into mutual funds or pension funds distributed equally to the masses of ordinary citizens.

[14] One could argue that some of this is the result of greed, stupidity, and lack of education or regulation. If used carefully, derivatives are ultimately insurance contracts.

[15] There is evidence of a strong positive correlation between financial openness, foreign investment, GDP growth, and per capita income driven by the performance of the Asian countries.

- liquidity crises, *reducing real output*;
- private sector risk aversion, encouraging *short-termism*;[16]
- public sector risk aversion, resulting in a *deflationary policy bias*;
- persistent pressure for ever *greater flexibility*, increasing the ease of exit.

The benefits that the reduction of financial controls has brought to 'emerging markets' must be weighed against the increased instability due to *enhanced ease of exit*. While increased flows of (real) foreign direct investment generally require agreement to unrestricted profit repatriation, this is quite different from the 'instant exit' conditions demanded by financial markets.[17]

Given the power of the dominant ideology which infuses the prevailing international system, it is virtually impossible to assert control over the financial system without a fundamental change in priorities and thinking by the major governments involved. However, the currencies of a small number of major governments — the US, Japan, Germany and the UK — were involved in over three-quarters of currency transactions in 1995. Hence, acting together, they have the capability to control capital flows, but of course, only if they abandon faith in the alleged superiority of neo-liberalism.

There is considerable evidence that in the longer term, economic development has been associated with developmentalist states. The post-war Golden Age — which saw high levels of output and employment as well as short-run efficiency — was premised on active macro-economic management under the Bretton Woods system. Post-war European reconstruction was achieved with tight capital controls. On the other hand, the recent rush to convertibility and capital control deregulation in Eastern Europe has resulted in Russia becoming a significant net capital exporter![18]

Selectively invoking instances of bad or incompetent policy making or implementation does not justify leaving things to liberalized markets that render systematic policy-making impossible. Instead, it emphasizes the importance of creating an environment and developing the capability for good and competent policy to be effective.

Budget 1998: Missed Opportunity?

The negative reaction of the foreign exchange and stock markets to the 1998 Malaysian Budget, announced on 17 October 1997, has been variously interpreted and may be attributed to several factors. The Budget is primarily an instrument of fiscal, not monetary policy, and should not have been expected to address the currency and stock market crises frontally, as many apparently expected it to. Hence, there were unrealistic expectations of the Budget, which were not met even though Finance Minister Anwar

[16] Due to the separation of ownership and management of portfolio investments, though it may be in the interest of investors to 'buy and hold', it is difficult to write contracts to motivate pension managers, mutual funds, and other intermediaries to stay put.
[17] Of course, liquidity is one of the features which induces otherwise risk averse investors to buy into a situation. Furthermore, in any transaction, there is a buyer for every seller.
[18] Of course, capital flight is not an inevitable consequence of financial liberalization, but may reflect the fears and consequent hedging behavior of locals.

Ibrahim announced some monetary measures in his Budget Speech. As it turned out, the Budget was largely predictable and had largely been anticipated and factored in by players. In so far as it was much milder than expected and tried to avoid damaging the real economy by over-reacting to the financial crisis, financial interests were generally disappointed.

Some of their preferences would have seriously damaged the real economy, and the Government wisely avoided caving in to such demands. Unfortunately, it may drag out the 'crisis', but this is arguably better for the real economy, which should have top priority. Many in the financial community were disappointed because the Minister did not raise interest rates, as they wanted him to. In fact, interest rates have been going up, but probably not as much as they wanted, especially for the medium-term. Many critics point out that interest rates in Malaysia have been much lower in most neighboring countries, neglecting to acknowledge that this has long been the case. And despite raising interest rates, Malaysia's neighbors continued to be in trouble.

Anwar's tax initiatives were primarily to influence economic behavior, rather than for revenue purposes. Unfortunately, however, many of the instruments were blunt and, arguably, unlikely to be either effective or equitable. For example, the reduced corporate income tax is unlikely to translate into reduced consumer prices, which is the justification offered. Although the rate is lower in Singapore, there is no need to lower the rate for those companies which have to locate in Malaysia because of the nature of their businesses, whereas other incentives have been successfully used to attract companies which have a choice in locating.

True to form, neo-liberal economists have protested the increase in trade taxes and the re-introduction of non-tariff barriers. In fact, the measures are probably unnecessary in view of the much cheaper ringgit and the slowdown in construction and car sales. The higher taxes on imported cars and CKD units will mainly favor Proton and Perodua, the government's national cars which have yet to make much of a dent in terms of overseas sales. The structure of the taxes also does not encourage other car assemblers to increase local content. Nor do the higher taxes address the larger problem of an excessively high car-to-population ratio, which the Minister claimed they were supposed to address.

Not enough was done on the fiscal front, inadvertently sustaining the macro-economic conditions — particularly the current account deficit — which have allowed currency speculators and others to drive down the ringgit and other Southeast Asian currencies. Despite media hype about a tough Budget, it was surprisingly mild, with little evidence of belt-tightening as far as government expenditure was concerned. Although operating expenditure for 1998 was expected to go down, development expenditure was expected to continue to rise despite huge increases in the mid-1990s. This was probably seen as necessary to offset the anticipated private sector slowdown. Of course, some expenditures are contractually 'locked in', while others are necessary or socially desirable (e.g. most educational or public health expenditures), but this is unlikely to be a sufficient explanation.

The government also missed an opportunity to cancel most of the postponed 'mega-projects', particularly the economically indefensible ones which have not begun. Such measures would have sent a stronger signal about the government's seriousness of intent. The apparent official reluctance to reduce growth rate expectations and to cancel economically indefensible projects — such as the Genting-Camerons highland highway, the proposed Kansai-style new Northern Regional International Airport off Mahathir's home state and the (world's longest) Malacca Straits bridge to Sumatra — did not help to inspire confidence in official policy responses to the crisis.[19]

After all, the main reason the government has been running a fiscal surplus in recent years is because of its sale of public assets as part of the privatization policy, often in dubious circumstances or at heavily discounted prices, both with negative consequences for economic welfare. Now that the privatization policy has been suspended, perhaps also in response to the growing public outcry about some consequences of the policy, the government should encourage discussion of alternative public sector reforms which might be instituted in the public interest. There is even a real danger of 're-nationalization' being invoked to use public funds to bail-out businessmen in serious trouble.

Meanwhile, at least three other concerns have been crying out for government initiative.

First, the *savings-investment gap*, which was 5 per cent of GNP in 1997, *lies behind the current account deficit*, which has exceeded RM12 billion since 1994. The gap has been closed historically by heavy reliance on foreign direct investment (FDI). But high FDI and foreign debt have, in turn, caused growing investment income outflows abroad.[20]

So-called reverse investment, i.e. Malaysian FDI abroad (around RM6 billion in 1996), has exacerbated the problem in recent years. Such investments were often encouraged by the government and sometimes involved the abuse of inter-government relations to favor Malaysian investors, who became the object of much resentment, especially when many failed to deliver on expectations. In some instances, e.g. logging, Malaysian investors have often been distinguished by poor practices no longer permissible for loggers from the North facing more vigilant civil societies.

In some recent years, the current account gap has been temporarily closed by short-term capital inflows, as in 1993 and since 1996, with disastrous consequences, as we have seen, upon the subsequent reversal of such flows. Many recent confidence restoration measures seek to induce such short-term inflows once again, but they cannot be relied upon to address the underlying problem in the medium to long term. In this connection, it is interesting to note that the Chicago school-influenced Chilean government has maintained strict controls on the capital account. Portfolio investments in Chilean stock

[19] Not surprisingly then, many would argue that citizens should not be forced to suffer the consequences of such government actions by being allowed to buy foreign exchange, as it were, to protect themselves.
[20] Of course, the availability of cheap foreign funds — e.g. due to a low real interest rate — can help to temporarily close both domestic savings-investment as well as foreign exchange gaps, especially if well invested or deployed.

are permitted in the New York Stock Exchange, rather than in the Santiago stock market, while unlike foreign direct investment, portfolio capital inflows into Chile are subjected to conditions which inhibit easy exit.

Second, there was a *recent explosion of private sector debt, especially from abroad*, in recent years, not least due to the efforts of 'debt-pushers' associated with the growth of 'private banking'. Apparently, government-owned non-financial public enterprises (NFPEs) have been very much part of this supposedly private sector debt growth phenomenon. The ratio of loans to GNP has risen rapidly in recent years. Meanwhile, commercial banks' foreign liabilities more than tripled between 1995 and 1997.

Meanwhile, only slightly over a quarter of total Malaysian bank lending goes to manufacturing, agriculture, mining and other productive activities; the percentage is likely to be even smaller with foreign borrowings, most of which have been collateralized with assets such as real property and stock. There is also no evidence that the stock market boom in recent years has more effectively raised funds for productive investment; in fact, the converse seems more likely.

This is partly why the foreign financial community's insistence on raising domestic interest rates is quite misleading as much of the recent increase in corporate borrowings has come from abroad. This has exacerbated the impact of the current crisis, with triple pain caused by currency depreciation, stock market collapse and rising interest rates. Meanwhile, the *over-investment* of investible funds, especially from abroad, *in 'non-tradeables'* has only made things worse, especially on the current account.

Concerns about abuse, including nepotism, caused by the Cabinet's announcement of a controversial RM60 billion facility to 'rescue' selected businessmen by utilizing funds held by the EPF, Khazanah and other major financial institutions have not been allayed. The government failed to ensure greater transparency and accountability in the use of the facility. Although the government has since conveyed the impression that the facility has been suspended, the apparent willingness of the government to consider and condone bail-out operations has adversely affected confidence.

Some dangers associated with financial liberalization have now become evident, but are not being sufficiently debated, let alone addressed. Most initiatives in this regard cannot be undertaken unilaterally without great cost, as market reactions to Prime Minister Mahathir's remarks have made clear. Many need to be actively pursued through multilateral initiatives, for which the Government needs the support of neighbors and others. The few options for unilateral initiatives need to be carefully considered, and only implemented, if deemed desirable.

Shock, Anger, Denial, Acceptance?

Unfortunately, the October 1997 Budget was only part of a series of policy measures undertaken by the Malaysian government in the second half of 1997 which have been portrayed by many observers as being tantamount to 'denial' of the crisis and its ostensible roots. However, 'denial' is an inappropriate metaphor to some extent because it is not as if the government did not respond at all, but rather that it did not respond in the manner desired by 'the market', i.e. mainly the Western financial community.

The initial Malaysian government reaction to the 'attack' on other Southeast Asian currencies after the floating of the Thai baht on 2 July 1997 was to rush to its defense, with the ringgit rising to RM2.47 against the US dollar from RM2.53 in mid-July before the authorities had to give up ringgit support operations after making hefty losses of several billion US dollars. It appears that the main reason for such currency support operations and losses in Southeast Asia was the apparent desire of the authorities to defend the quasi-peg, and thus the interests of those responsible for the tremendous recent growth of un-hedged short-term borrowings in US dollars from abroad by politically influential business interests.

According to the Bank of International Settlements (BIS) (*Asian Wall Street Journal*, 6 January 1998), well over half of foreign borrowings from commercial banks were short-term in nature, i.e. coming due soon: Malaysia 56 percent, Thailand 66 percent, Indonesia 59 percent and South Korea 68 percent. In response, the Malaysian central bank announced that only 30 percent of all foreign borrowings were short-term in nature, with another nine percent due in the next year.

There was widespread consensus that the ringgit and other Southeast Asian currencies had become overvalued by their 'quasi-peg' against the US$ as the US economy and dollar had strengthened significantly in recent years. This was reflected, for example, by the yen depreciation from less than 80¥ to the US$ in mid-1995 to almost 130¥ in 1997, or the 1997 float of the Deutschemark against the US dollar. Hence, it was expected that the ringgit would depreciate to around RM2.8 against the dollar, the supposed 'equilibrium' exchange rate based on calculations taking account of purchasing power parity, etc. Instead, it 'overshot' to RM4.88 in early January 1998, i.e. over two ringgit more than the anticipated 'correction' of RM0.3 from RM2.5 to RM2.8, raising serious questions about the market instability inherent in the international monetary system.

Other government responses to the rapidly emerging downward spiral of the currency and the stock market did not help. These included 'designation' of the top 100 stocks comprising the Kuala Lumpur Composite Index (KLCI), which disastrously froze up liquidity in an ill-conceived attempt to curb 'short-selling', for which no responsibility has yet been acknowledged. The Cabinet's announcement of the establishment of a RM60 billion fund to prop up selected stocks and investors, even by buying back stock sold to them at the original purchase prices, i.e. above prevailing market prices.

The government's threat to use the notorious Internal Security Act (ISA) against financial analysts and other commentators for making unfavorable reports about the Malaysian economy only strengthened the impression that the government had a lot to hide from public scrutiny. The Prime Minister's largely ill-founded and bellicose attacks invoking conspiracy theories against Georg Soros, financial speculators and manipulators, the international Jewish community and the International Monetary Fund further reinforced the impression of official Malaysian denial with blame for the crisis attributed abroad. The fact that there was some basis for much of his mis-specified and misdirected rantings was hardly enough to save his reputation in the face of an increasingly hostile Western media. Thus, Mahathir and Malaysia became the 'bad boys' as other governments in the region went 'cap in hand' to the IMF in desperate efforts to restore confidence and secure funds to service the fast-looming foreign debt liabilities, albeit privately-held.

More generally, the middle class has become increasingly outraged about having to pay for the sins and follies of the super-rich with government-controlled public (EPF, PNB and Khazanah) funds as well as private resources being diverted to bail-out the politically well-connected. Meanwhile, Malaysian employees contributing to the EPF will not be pleased by another year of yet lower returns, especially as they will be seen to be due to bail-out operations to rescue the well-connected rich as with the EPF's purchase of UEM shares at four to five times its price in mid-January 1998. The 1998 Budget's tax break for voluntarily increased EPF contributions is unlikely to have much of an impact in these circumstances.

For example, the prospect of government funds being used to compensate Ekran — which received the Bakun project under dubious circumstances — has caused outrage. Awarded to Ekran in dubious circumstances in late 1994 after Mahathir had publicly called off the project in 1990, the government is considering paying compensation to Ting Pek Khiing's company for delaying and taking over the project. In fact, the delay had come about even before the government announced postponement of some 'mega-projects' due to the crisis from September 1997 owing to Ting's apparent change of mind over the contract he had signed with the Swiss-Swedish concern ABB, the principal contractor for construction of the dam. Meanwhile, Pacific Chemicals, another firm controlled by Ting, has already gained handsome profits from logging the area likely to be inundated by the dam's reservoir. The apparent government willingness to compensate Ting raises many complex issues, and underscores the impression that special consideration is being given to him as a long-time favorite of the Prime Minister,.

After a protracted two-month saga from mid-November, the authorities allowed a reputedly cash-rich listed company, UEM, to undertake a reverse takeover of the reputedly UMNO holding company, Renong, to save the company and its chairman, who are reputedly deeply in debt. This bail-out to the tune of RM2.34 billion, at the expense of minority shareholders, gravely undermined public confidence in the Malaysian investment environment in several ways. Stock market rules, including the mandatory general offer required after exceeding the 33 percent ownership trigger point, were perceived to be manipulated to serve the interests of the politically influential.

Halim is believed to have been in serious trouble for various reasons associated with the system of cronyism which has emerged in the last decade, including the use of Renong to take over the Philippines National Steel Corporation (NSC) from Wing Tiek Holdings, controlled by ruling coalition Member of Parliament Joseph Chong. The funds apparently came from a syndicated loan for US$800 million from Malayan Banking, Bank Bumiputra, Bank of Commerce and Rashid Hussein Bank, which is believed to have breached the single customer limits of RM450, RM250, RM150 and RM250 million respectively.

In the first three days after the initial 17 November 1997 announcement of UEM's reverse takeover of Renong, stock market capitalization fell by RM70 billion or 20 percent. Subsequent slides as the authorities dithered over the following eight weeks suggest that between a fifth to a third of stock market decapitalization since July 1997 can be attributed to this episode and its implications. The conclusion of the affair clearly demonstrated that the then newly-appointed executive director of the yet to be formally established National Economic Action Council (NEAC), UMNO treasurer, Government Economic Adviser and former Finance Minister Daim Zainuddin, is in a position to over-rule Finance Minister and Deputy Prime Minister Anwar.

Mahathir's announcement in early December 1997 that the 'land bridge' project over the Isthmus of Kra in southern Thailand would proceed seemed to further undermine the Finance Minister's attempts to emphasize the need for fiscal discipline. However, the supplementary Budget for 1998 announced on 5 December 1997 managed to reassert Anwar's leadership in economic management, at least for the time being. He announced cuts of up to 18 percent of public expenditure as well as other measures intended to restore market confidence. The central bank seems to have followed up by drastically contracting liquidity, which is likely to have severe deflationary consequences, if sustained. This indiscriminate measure has been partially compensated for by increasing funding for food production as well as small and medium industries (SMIs). To save the government-sponsored national car industry, hire-purchase credit for cars has been allowed.

Meanwhile, the authorities seem to be pushing for the rapid merger of banks and financial companies, a particularly difficult process in these turbulent times, with limited chances of success, especially in light of the recent failure of a similar Thai attempt. While the consolidation of the financial sector is generally seen as desirable to achieve economies and other advantages of scale in anticipation of further financial liberalization, the acceleration of its pace in response to the crisis may be less well conceived.

Some of the measures introduced by the Finance Ministry and the central bank since early December 1997 are perceived as pre-empting the likely role and impact of the National Economic Action Council (NEAC) to be chaired by the Prime Minister with Daim as executive director. The NEAC is widely seen as an attempt to over-ride the Finance Minister, who arguably has much stronger support within the ruling UMNO and is seen to be aspiring to accelerate the political succession in the wake of the crisis, which has badly damage the Prime Minister's reputation and popularity.

IMF Role

However, the recent measures are also seen to be closer to what the IMF would like to see, which has raised the question of the desirability of IMF intervention even though the relatively smaller size of Malaysia's foreign (including private) debt does not really necessitate requiring an IMF credit facility with its accompanying conditionalities. In Malaysia, the possibility of IMF intervention enjoys a certain mystique as various different parties have rather different perceptions of the IMF's actual record and abilities. Instead, for many critical of Malaysian government policy, not just in response to the crisis, IMF intervention is expected to put an end to all they consider wrong. This pro-IMF lobby sees the IMF as the only force capable of bringing about desired reforms which domestic forces alone cannot bring about.

But as recent press discussion of the IMF's record and capability suggests, there is growing international skepticism about the IMF's role in and prescriptions for the ongoing East Asian crisis. Most damning of all is the apparent abuse of IMF conditionalities in the Korean aid package to resolve outstanding bilateral issues in favor of the US and other interests. Almost in tandem with financial liberalization, IMF intervention is generally recognized to undermine and limit national economic sovereignty.[21]

Perhaps out of force of habit in dealing with situations in Latin America, Africa, Eastern Europe and elsewhere, where fiscal deficits have been part of the problem, the same prescription ('one size fits all') seems to underlie the recent IMF interventions in East Asia. There is growing doubt as to whether the IMF actually fully recognizes the novel elements of the current crisis and its implications ('old medicines for new disease'). The apparent failures of the IMF — to anticipate the current crisis in its generally glowing recent reports on the region, and also to reverse the situation in the region after interventions in Thailand, Indonesia and Korea — have certainly not inspired much confidence. Nor has the fact that though the Philippines had long been under an IMF program, it was not spared from the contagion.[22]

The IMF's apparent priority for protecting the interests of foreign banks and governments has also compromised its supposed role as an impartial party working in the interests of the host economy. IMF programs invariably involve the domestic financial sector bearing some of the costs of reform while commitments to foreign banks are met. While the IMF insists of greater transparency by the host government and those under its jurisdiction, it continues to operate under a shroud of secrecy. Many of its programs are considered to be primarily contractionary in consequence, with little regard for the social and other adverse consequences of swallowing its medicine.

International Cards Stacked

The challenge at the international level is formidable, especially with the vested interests underlying American as well as European positions on systemic reform. Yet, there have been many misgivings elsewhere too about the nature and volatility of the international

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[21] However, invoking 'national economic sovereignty' may become very dubious when it is clearly hijacked by special interests.

[22] Arguably, the Philippines currency has not taken quite as hard a hit, in part because their (colonial-inherited) banking and accounting standards are considered relatively better, but also because short-term capital inflows have been relatively less given the recentness of its economic recovery.

financial system, with renewed attention to particular aspects with each new crisis. Southeast Asians need to work with others who are like-minded and to draw upon the rich critiques which have developed over the years in developing reform proposals which are likely to gain broad international support.

That is why it is distressing that at the September 1997 Hong Kong annual meetings of the IMF and World Bank, the IMF's policy-making Interim Committee — which represents all 181 IMF member countries via 24 ministers — gave the IMF a mandate to alter its Articles of Association so that it would have additional 'jurisdiction' over the capital account as well as over the current account of members' balance of payments, which it has had for many decades.[23]

In December 1997, the World Trade Organization also concluded its financial services agreement which basically commits member countries to scheduled accelerated liberalization of the trade in financial services. The *Wall Street Journal* noted that the agreement would primarily benefit the United States and Europe since it is most unlikely that the South is in a position to export financial services to the North. It is therefore likely that countries of the South will face even greater problems with their balance of payments as their services, and hence current account deficits worsen. Much of the nascent financial services which have emerged under protection in these countries is unlikely to survive international competition from transnational giants enjoying economies of scale and other advantages.

What Is To Be Done?

As a consequence of recent developments, Southeast Asia now faces domestic policy reform challenges relating to four factors, namely *greater exchange rate flexibility*, the *urgency of financial sector reform*, as well as *handling asset-price bubbles* and *current account deficits*. Before addressing the challenges on the domestic and international fronts, it is useful to summarize these four dimensions of the current crisis.

Without the advanced economies stabilizing exchange rates with regards to one another's currencies, the *quasi-pegging* of an economy's foreign exchange rate has become very *dangerous*. Short-term capital inflows may temporarily supplement domestic savings, but the reversal of such flows can create severe disturbances. While such flows may be influenced by economic fundamentals in the long term, they are determined by speculative sentiments in the short term. Short-term exchange rate adjustments — with disruptive consequences for domestic prices and wages — are then deemed necessary to stem sudden outflows, but these in turn offer an opportunity for currency speculators.

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[23] I am grateful to Anthony Rowley for confirming these details with Kunio Saito, director of the IMF's new Tokyo regional representative office on 17 December 1997.

The executive board of the Fund is currently holding a series of meetings to discuss the detailed implementation of this mandate and will report again to the Interim Committee on the *modus operandi* at the spring meeting. Thereafter, individual member governments have to ratify the change, but a simple majority will be sufficient. In other words, a unanimous vote is not needed to approve the change in the Fund's articles.

Financial sector reform has to be thought of not only in terms of the liberalization insisted on by international financial interests, but also the *new regulation needed* to anticipate and respond to new challenges. While the problems caused by excessive as well as inappropriate regulation are often emphasized by advocates of liberalization, liberal banking policies can result in a weak domestic banking sector[24] unable to withstand competition from abroad, and even the collapse or costly bail-out of weak banks. For most developing economies, policies of '*financial restraint*' are also *still needed* to 'direct' credit[25] to finance productive investments instead of asset purchases or consumption. Greater capital account convertibility, related financial innovation, and the proliferation of non-bank finance companies as well as 'private banking' also pose new challenges for financial regulation.

Easy credit, partly due to capital inflows, have resulted in *meteoric rises in real property as well as share prices* desired by most of those involved. *Banking regulation to minimize such asset price inflation* deserves the highest priority, and is always difficult to achieve in 'good times' without precipitating an asset price meltdown, but will be easier to achieve now that the asset price bubble has burst.

Current account deficits have been *considered 'natural'* in Southeast Asia, as in many other fat growth situations, supposedly reflecting the excess of domestic investment over domestic savings; hence, they were not seen as a source of policy concern in certain policymaking circles. Since the debt crisis of the early and mid-eighties, the cutting of fiscal deficits gained top priority at the behest of the Bretton Woods institutions and others. Developments since the Mexican tequila meltdown of early 1995 suggest that the current account deficit was the Achilles heel of the Southeast Asian economies, precipitating financial meltdowns beginning with the collapse of their currencies 'quasi-pegged' to the US dollar, inadvertently encouraging *massive unhedged private borrowing from abroad.*

No More Denial

How do we deal with the present situation? Obviously, we cannot wish away the present situation by simply claiming that our fundamentals are fine even if that were true. Unfortunately, as we have painfully learnt, the market is driven by sentiments much more than by fundamentals. Hence, although a much more serious current account deficit in 1995 did not result in the present crisis, we have to be careful to minimize our vulnerability due to the economy's openness.

One cannot, for example, liberalize our capital account, and then complain when short-term portfolio investors withdraw suddenly due to their whims and fancies. That is why, as noted earlier, even Chile, the darling of the Chicago monetarists, makes it very

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[24] As in Chile in the early 1980s.

[25] These can involve savers being encouraged with tax policies that do not punish them for putting money away. While banks should still make lending decisions based on economic criteria alone, systemic biases towards short-termism need to be mitigated. The government can prioritize and favor certain types of investments by subsidizing them through taxes or loan guarantees for those sectors or activities it deems important.

difficult — and costly — to rapidly withdraw capital from its economy, and treats foreign direct investment very differently from portfolio investors. Some other authorities go further to distinguish those who are simply short-termist to, say, pension funds with a more medium-term orientation. After all, one cannot expect more birds to fly into rather than out of an open birdcage indefinitely since the basic premise of financial liberalization is 'easy come, easy go'.[26]

In recent years, many Southeast Asian economies became excessively reliant on such short-term capital inflows to bridge their current account deficits, exacerbated by excessive imports to make more non-exportables such as buildings. Ostensibly prudent financial institutions often preferred to lend for real property and stock purchases, and thus secure assets with rising values as collateral, rather than provide credit for more productive ends.

While foreign banks were happy to lend US dollars at higher interest rates than available elsewhere, Southeast Asian businesses were keen to borrow at lower interest rates than available domestically. The costs of hedging — a hundred basis points or so for ringgit-dollar, a few hundred for baht-dollar or rupiah-dollar — now look like a bargain in hindsight. The existence of a well-developed swap market allows Malaysian companies to tap into foreign capital markets, at a not unreasonable cost, by swapping away the currency risk. Hence, the problem was ultimately one of greed: the combination of much lower foreign interest rates and seemingly fixed exchange rates caused borrowers to gamble and not prudently pay the cost for some insurance by hedging.

Hence, most such loans remained un-hedged as Southeast Asian currencies seemed pegged to the US dollar in recent years despite the official fictions of exchange rates moving with the basket of currencies of major foreign trading partners. The boom in private banking in the region in recent years led to competitive lending reminiscent of the loans to Third World governments in the late seventies (which built up to the debt crisis of the early eighties). However, the new fiction in international policy-making circles was that such accumulation of private sector debt did not matter as long as public sector debt was reined in.

Meanwhile, portfolio investors moved into the newly emerging stock markets of Southeast Asia with encouragement from the International Finance Corporation, an arm of the World Bank. In Malaysia, for example, they came in a big way in 1993, only to withdraw even more suddenly in early 1994, leaving most retail stockholders in the lurch. But unfortunately, policy-makers seem to have short memories and did not learn the lessons from that experience as the new unsustainable build-up from 1995 sent stock prices soaring once again despite declining price-earnings ratios. The rest is history, but as a wise man once said, when history repeats itself, the first time its tragedy, the second time farce.

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[26] Financial liberalization means investors have a choice as to when they 'come and go', and of course, the very existence of that choice may encourage them to stick around in certain circumstances.

The challenge now is obviously one of *confidence restoration*, but hopefully, not to restore the *status quo ante*. Before December 1997, it was not yet clear whether the Malaysian government had overcome 'denial' to respond adequately to the crises. As noted earlier, Malaysia's 17 October 1998 Budget tax measures did not help, while expenditure proposals were not tough enough, especially on mega-projects. The Finance Minister had not fully succumbed to pressures to tighten liquidity and precipitate the 'cleansing recession' desired in some circles.

Unfortunately, more than 70 per cent of bank lending was not for productive investments in manufacturing, agriculture and mining, but for other purposes, including real property and share purchases and consumption credit, which should have been rationed a long time ago. After tightening bank credit from December 1997, special funds for investment in food production and for small and medium industries (SMIs) as well as for car purchases (especially for the 'national cars') were increased, though the contractionary consequences of tighter credit are bound to otherwise slow down the economy fairly indiscriminately.

The recent currency and financial crises in Southeast Asia suggest that the Southeast Asian economic miracle has been built on some shaky and unsustainable foundations. Recent growth in both Malaysian and Thailand has been increasingly heavily reliant on foreign resources, both capital and labor. Limited and inappropriate investments in human resources have held back the development of greater industrial and technological capabilities throughout the region. Southeast Asia's resource wealth and relatively cheap labor sustained production enclaves for export of agricultural, forest, mineral and, more recently, manufactured products, but much of the retained wealth generated was captured by business cronies of those in power, who contributed to growth by also re-investing captured resource and other rents in the 'protected' domestic economy in import-substituting industries, commerce, services and privatized utilities and infrastructure.

Despite various weaknesses, this Southeast Asian brand of ersatz capitalism — dominated by *crony rentierism* — has sustained rapid growth in the region for at least three decades, but has come unstuck as it is forced by the forces of economic liberalization to interface competitively with the rest of the world economy. Failure to recognize the nature of the processes of accumulation and growth in the region prevented the design and implementation of an adequate pro-active strategy of well-sequenced liberalization in the face of the apparently inevitable. In this regard, Malaysian government-guided reforms of the banking sector have helped ensure its greater robustness and readiness compared to its neighbors.

While the TFP critique may be theoretically and methodologically faulted, there is little doubt that East Asian growth generally has been boosted by high savings and investment rates. While this might give the impression of 'all perspiration, no inspiration', as suggested by TFP critics, the dominance of FDI in the internationally competitive export-oriented industries suggests the transfer or import of 'inspiration' embodied in new plant and equipment as well as the necessary technological learning to get the job done.

Although the financial systems in the region are quite varied and hardly clones of the Japanese 'main bank' system, as often wrongly alleged, they have nevertheless been prone to the same financial-property 'bubble' phenomena, albeit for somewhat different reasons. Rapid growth on the basis of export-oriented industrialization from the late 1980s gave rise to financial expansion which contributed to a property boom, both in the more market-oriented or 'Anglo-Saxon' Malaysia as well as the more bank-oriented Thailand.

The bursting of the Thai property bubble seems to have precipitated the collapse of the Thai baht, and then subsequently, of the other currencies in the region. While the US economy has been strengthening, the Southeast Asian economies were growing even faster. And while the Southeast Asian economies have been running current account deficits, so has the US, especially with the region, except that it has different consequences given the actual and 'quasi' dollar pegs prevailing in much of the world today.

With the currency collapses, the assets acquired by short-term portfolio and other investors in the region depreciated correspondingly in value, precipitating an even greater sell-out. Outside of Thailand, further property market and stock market collapses seem imminent in view of anarchic over-building and the property-finance nexus. Thus, many will be hit by this 'triple whammy' from the currency, stock and property markets. The higher interest rates being demanded by the financial community and touted as our savior will add salt to the wound, and has shown little success so far in increasing short-term capital inflows. But even when higher interest rates succeed in doing so, such flows can only be temporarily sustained and retained, at great and irreversible cost to productive investments in the real economy. And if such outflows are eventually reversed in the precipitous manner experienced by Southeast Asia in the second half of 1997, much collateral damage will be experienced again.

Political Fallout

The political fall-out in the region has been quite varied. Although there has been lingering resentment of Mahathir's perceived role in exacerbating the problem, Malaysia's gesture of lending a billion dollars each to both Thailand and Indonesia reflects a serious commitment to try to bring about East — including Southeast — Asian regional cooperation on the monetary front, with Japanese support and possibly patronage, which the US seems opposed to. By the end of 1997, the Asian monetary fund idea as well as milder versions involving some autonomous facility had been killed by US and European resistance, partly through the IMF.

In Thailand, the Chavalit government collapsed to be replaced by Chuan, but with little prospect of an immediate economic upturn. By early 1998, the Thai government was insisting on greater US commitment to its recovery as well as re-negotiation of the original IMF package. In the Philippines, the crisis probably influenced Ramos' decision not to run for another term. In Indonesia, the imperious Suharto's more technocratic ministers have jockeyed to use the crisis to push through long-desired reforms, with the support of the IMF, as necessary to address the crisis. Right after announcing an expansionist budget for 1998, Suharto was forced to agree to recant and to dismantle various monopolies and cartels controlled by his family members and cronies. Meanwhile, the possibility of his replacement as president before death is being publicly advocated by dissident elements for the first time in decades.

Not surprisingly, especially after Indonesian President Suharto was forced by the IMF in mid-January 1998 to dismantle several lucrative monopolies controlled by his children and cronies, there has been a growing domestic constituency for IMF intervention in Malaysia to restore confidence and dismantle political as well as economic arrangements, policies and practices which they find objectionable. However, since the relative significance of all foreign borrowings is supposedly lower in Malaysia compared to the three other East Asian governments which have sought IMF credit recently, it is believed that Malaysia is less likely to need such an IMF facility.

In Malaysia, Mahathir has been badly wounded, not only by the financial crisis, but also by some imprudent criticisms of the Muslim ulama'. Stung by foreign media suggestions that he should go, he has come fighting back in typical style, though some of his opponents would like to believe that he has finally been mortally wounded politically. For the time being, however, it appears that heir apparent Finance Minister Anwar Ibrahim will be hemmed in by the Mahathir-dominated National Economic Action Council, with Mahathir loyalist, former Finance Minister and current Government Economic Adviser Daim Zainuddin appointed executive director. As principal architect of the Malaysian crony capitalism of the last dozen years, which arguably bears much of the responsibility for the current crises in Malaysia, his appointment did not inspire the market confidence his 'can-do' reputation was expected to generate.

The imminent collapse of much of the property market, its repercussions on financial institutions and the stock market, as well as the still unknown consequences of recent and forthcoming government policy initiatives still loom large on the Malaysian economic horizon. Those who expect salutary reforms to emerge from the crisis in East Asia are nonetheless less hopeful for Malaysia because the crisis has not been as severe and the economy is much more sound. Furthermore, the consociationalist regime presiding over ethno-populist political mobilization seem likely to continue to sustain some variation of the crony capitalism which now dominates Malaysia's political economy.

* I am grateful to Al Alim Ibrahim, Din Merican and Warren Bailey for their useful critical feedback, but implicate none of them.

There continues to be considerable debate over the principal causes and consequences of the recent currency and financial crises in Southeast Asia, particularly Malaysia. This essay is deliberately polemical as there is clearly no shared understanding of the various contentious issues involved. As far as possible, the language is not technical, in order to be accessible to as wide a readership as feasible. Since events are still unfolding, such reflections should be open to revision with the passage of time, events and trends. Hence, criticisms and suggestions are especially appreciated.

Table 1 Selected Indicators of Four Countries in Southeast Asia

	GDP Gr %	Export Gr %	Import Gr %	FDI Gr %	I/GDP %	Current Account US$ bil.	Current Account % GDP
Indonesia							
1991	7.0	13.5	18.5	35.5	35.5	-4.3	-3.7
1992	6.5	16.6	5.5	19.9	35.9	-2.8	-2.2
1993	6.5	8.4	3.8	12.8	29.5	-2.1	-1.3
1994	7.5	8.8	12.9	5.2	31.1	-2.8	-1.6
1995	8.2	13.4	27.0	106.2	31.9	-7.0	-3.6
1996	7.9	9.7	5.7		32.1	-8.7	-3.9
Thailand							
1991	8.4	23.8	15.8	-17.6	41.4	-7.6	-7.6
1992	7.8	13.7	6.0	4.9	39.4	-6.3	-5.7
1993	8.3	13.4	12.2	-14.6	40.2	-6.4	-5.1
1994	8.9	22.2	18.5	-24.3	40.9	-8.1	-5.6
1995	8.7	24.7	31.6	51.4	42.9	-13.6	-8.1
1996	6.7	-1.9	0.8	13.0		-14.7	-8.2
Malaysia							
1991	8.4	18.6	27.4	71.4	35.5	-4.2	-8.8
1992	7.8	9.7	0.6	29.6	35.9	-2.2	-3.9
1993	8.3	17.0	15.8	-3.4	29.5	-3.0	-5.0
1994	9.2	26.8	32.7	-13.3	31.1	-4.5	-6.2
1995	9.6	20.3	24.8	-4.8	31.9	-7.4	-8.8
1996	8.2	6.5	1.4		32.1	-5.2	-5.3
Philippines							
1991	-0.5	14.5	11.1	2.6	20.0	-1.0	-2.2
1992	0.3	2.8	11.5	-58.1	20.9	-1.0	-1.9
1993	2.1	22.0	29.9	443.0	23.8	-3.0	-5.7
1994	4.4	15.5	16.7	28.5	23.6	-3.0	-4.3
1995	4.8	28.7	22.4	-7.1	22.2	-2.0	-2.7
1996	5.7	18.7	24.0		23.2	-7.7	-4.3

Note: Exports are f.o.b., imports are c.i.f. except for Thailand.
Source: IMF, *International Financial Statistics*, various volumes.

Table 2 Key Macroeconomic Variables, Malaysia 1989-96 (percentage)

	1989	1990	1991	1992	1993	1994	1995	1996
Growth Rate of								
Gross Domestic Product	9.2	9.7	8.7	8.0	9.0	9.1	10.1	8.8
In percent of GDP								
Gross National Savings	29.0	29.1	28.4	31.3	33.0	34.0	34.7	36.0
Consumption Expenditure	65.2	66.6	66.5	63.5	62.3	61.2	60.5	58.1
Private	50.8	52.6	52.6	50.5	49.2	48.6	47.9	46.9
Public	14.4	14.0	13.9	13.0	13.1	12.6	12.6	11.2
Gross Capital Formation	29.3	32.4	36.4	36.0	38.3	40.1	43.0	41.8
Private	18.5	20.9	25.9	24.8	26.7	27.2	30.5	29.2
Public	10.8	11.5	10.5	11.2	11.7	13.0	12.6	12.6
Balance of Payments								
Current Account	-0.7	-2.1	-8.8	-3.8	-4.8	-6.3	-8.5	-5.2
Official Long Term Capital	-2.4	-2.5	-0.5	-1.9	0.6	0.3	2.7	0.3
Private Long Term Capital	4.4	5.5	8.3	8.9	7.8	6.0	4.7	4.5
Long Term Capital, Net	2.0	3.0	7.8	7.0	8.4	6.2	7.4	4.8
Basic Balance	2.7	0.9	-1.0	3.2	3.6	-0.1	-1.1	-0.4
Private Capital: Net	1.5	1.2	3.9	8.0	8.4	-4.5	1.1	4.5
Private Capital: Commercial Banks	1.1	2.0	2.7	6.2	6.6	-7.0	0.1	3.4
Private Capital: Others Private	0.4	-0.8	1.2	1.8	1.8	2.5	1.0	1.1
Errors and Omissions	-1.0	2.6	-0.3	0.1	5.7	0.2	-2.0	-1.6
Overall Balance	3.2	4.6	2.6	11.3	17.7	-4.3	-2.0	2.5
Implicit Capital Inflows	3.9	6.8	11.4	15.1	22.5	2.0	6.5	7.7
Short-term Capital Inflows	1.9	3.8	3.6	8.1	14.1	-4.2	-0.9	2.9

Source: Montes (1998).

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Emulating Southeast Asian Development
The Neo-Liberal Tale of Two Studies

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Emulating Southeast Asian Development:

The Neo-Liberal Tale of Two Studies

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After the high tide of the resurgence of the South during the seventies, as reflected by the United Nations' General Assembly's adoption of the commitment to build a New International Economic Order (NIEO), the empire struck back with a vengeance in the eighties, reflected in what John Toye (1987) has called the 'counter-revolution' against development economics - led by Peter Bauer and Deepak Lal (1983), and articulated, for example in the World Bank's World Development Reports of the early eighties. Their essentially laissez faire approach, arguing for a minimal role for the state, basically asserts that the state has been largely irrelevant or, even worse, actually obstructive of the essentially market forces which have contributed to rapid growth and structural transformation, including industrialization. The original and most articulate exponents of this view include Little, Scitovsky and Scott (1970), but there are many supporters of such a position. This view became especially influential in the early eighties as the ideological pendulum in the Anglophone world swung to the far right after the election of Mrs. Thatcher and Mr. Reagan. Intellectually, this swing was bolstered by Keynesianism's apparent responsibility for the fiscal crises and 'stagflation' of the seventies, the resurgence of monetarism and the emergence of supply-side economics, the public choice school's critique of self-seeking politicians and bureaucrats as well as the property rights school's critique of ill-defined or weak rights as well as greater attention to principal-agent problems.

The poor growth and equity records of the eighties generally, as well as of the IMF's stabilization programmes and the World Bank's structural adjustment programmes (SAPs), raised doubts about the extreme laissez fairism implicit in the new ideology. With the appreciation of the yen and other East Asian currencies after the second Plaza Hotel meeting in September 1985, Japan's economic clout increased tremendously as it became the single largest contributor of official development assistance (ODA). At the World Bank, Japanese executive director Shiratori is said to have offered to finance a study of the rapid and sustained growth of East Asia in the previous quarter century, which seemed to contradict the underlying economic premises of the Bretton Woods institutions' prescriptions of the eighties.

Thus emerged the case for the market-friendly state (World Bank 1991), which was greatly enhanced by the World Bank's (1993) East Asian Miracle (EAM) study, and is likely to be seen as drawing additional support from the Asian Development Bank (ADB) (1997) study entitled *Emerging Asia* (EA). Drawing from neo-classical welfare economics, this view accepts the case for government intervention due to the existence and greater significance of externalities and market failures. This approach has given new life to and justification for development economics - which had come under near fatal assault in the early eighties - by emphasizing the more pervasive and deep-rooted nature of externalities and market failures of various types in developing economies. The persistence of such externalities and market failures provide the rationale for what the World Bank (1993) refers to as 'market-friendly' 'functional' interventions - as opposed to 'market-unfriendly' 'strategic' interventions, which the World Bank did not approve of. While certainly superior to the orthodoxy of the eighties, the new consensus does not go far enough, precisely because it is limited by underlying neo-classical economic orthodoxy.

As a consequence, the World Bank (1993) recommends the Southeast Asian second-tier newly industrializing countries (NICs) - rather than the East Asian first-tier newly industrialized economies (NIEs) - as superior models for emulation for the rest of the developing world, claiming that Southeast Asia has progressed precisely after it supposedly liberalized in the mid-eighties. While the ADB emphasizes the importance of 'good governance' - the buzzword of the mid-nineties - it also claims that , market competition and economic openness have been key to the impressive East, including Southeast Asian growth performance of recent decades despite the considerable evidence to the contrary. Hence, it is useful to critically reconsider these two influential versions of the Southeast Asian economic development experience in order to draw more appropriate lessons.

The World Bank's Miracle Study

In September 1993, the World Bank published *The East Asian Miracle: Economic Growth and Public Policy (EAM)*. According to the EAM study, eight "high performing" Asian economies achieved the highest growth rates in the world between 1965 and 1990. The argument is made as follows. Eight economies - Japan, the four so-called first-tier newly industrializing economies (NIEs) of South Korea, Taiwan, Singapore and Hong Kong, as well as the three second-tier newly industrializing countries (NICs) of Malaysia, Thailand and Indonesia in Southeast (SE) Asia - were identified as high-performing Asian economies (HPAEs), having achieved rapid economic growth and structural change in the post-war period, especially since the 1960s. Since the early 1980s, China has joined their number. According to the Report, the statistical chance of such success on a regional scale is extremely remote. The report concludes: "In large measure, the HPAEs have achieved high growth by getting the basics right. In this sense, there is little that is 'miraculous' about the HPAEs' superior record of growth; it is largely due to superior accumulation of physical and human capital" (World Bank 1993: 5).

While acknowledging considerable government intervention, especially in Japan, South Korea and Taiwan, the study concludes that the gains from industrial policy are ambiguous. The Bank study emphasizes that besides Hongkong, and more contentiously, Singapore, the second-tier Southeast Asian NICs have also achieved rapid growth and industrialization without resorting to industrial policy (Thailand), or by abandoning it (Malaysia, Indonesia). The study emphasizes the difficulty of getting industrial policy right, as well as the special historical, political and cultural circumstances in the

Northeast (NE) Asian economic miracle which enabled competent, meritocratic and insulated technocracies to pursue industrial policy and thus strengthen regime legitimacy. Emphasizing that such conditions are unlikely to prevail elsewhere, the report eschews industrial policy, pointing instead to the second-tier Southeast Asian NICs' supposed record of rapid growth and industrialization without industrial policy as more desirable, alternative models for emulation.

The study was apparently commissioned at the insistence of the Japanese government to gain greater recognition and appreciation of the Japanese experience. This apparently came about after years of frustration with the neo-classical economic orthodoxy and free market conservatism, which has long dominated Bank thinking and policy recommendations, especially since the resurgence of neo-liberal economic fundamentalism in the 1980s. Though it is still unclear whether the publication is indicative of a more deep-rooted shift in Bank thinking, as some insiders would like to believe, the book was nonetheless important for explicitly incorporating some arguments made by proponents of industrial policy, thus acknowledging a position previously considered beyond the pale of economic orthodoxy. However, as pointed out by various critics, in many respects, the publication did not go far enough, as it sought to reconcile undeniable achievements of state intervention with its own neo-liberal *laissez fairism.*

Despite its emphasis on fundamentals, the report pays surprisingly little attention to the actual mobilization and deployment of savings, which has been primarily responsible for the high investment rates as well as the rapid growth and structural transformation which has taken place. As Akyuz and Gore (1994) have pointed out, the high savings rates in East Asia primarily involve corporate - rather than household - savings, i.e. out of profits. This suggests the existence of regulatory and institutional frameworks encouraging such savings and investment behaviour instead of, say, high levels of dividend payments to shareholders, which would be encouraged by institutions, such as the Bank, urging the development of stock markets.

The report concedes that directed credit contributed to the success of North-east Asian economies (i.e. Japan, South Korea and Taiwan); while some observers suggest that this is due to Joseph Stiglitz's authorship of the study on industrial financing, others claim that this was a necessary concession to the financiers of the Miracle study, namely the Japanese Ministry of Finance. In contrast, the report is more disparaging of the contribution of other aspects of industrial policy which lie within the jurisdiction of the Ministry of International Trade and Industry in Japan. While the report acknowledges that industrial policy has been pursued in Northeast Asia, it also claims that the results have been mixed, and that the Northeast Asian economic miracle cannot be attributed to other kinds of state intervention, especially government promotion of selected strategic industries. Besides relying on the ambiguities inherent in making counter-factual arguments, the Bank study resorts to an extremely restrictive definition of industrial policy, which is then translated into a dubious methodology to make its case (see Chang

1994b). By employing this curious methodology, the Bank concludes that the results of industrial policy in East Asia have been ambiguous.

The study also emphasizes the difficulty of getting industrial policy right, as well as the special historical, political and cultural circumstances in the North-east Asian economic miracle which enabled competent, meritocratic and insulated technocracies to pursue industrial policy and thus strengthen regime legitimacy. Emphasizing that such conditions are unlikely to prevail elsewhere, the report eschews industrial policy, pointing instead to the second-tier Southeast Asian NICs' record of rapid growth and industrialization without - or even despite - industrial policy as more desirable, alternative models for emulation. It then goes on to emphasize that the domestic and international conditions faced by most developing countries today are such that industrial policy is unlikely to succeed today in case any government should still want to try.

Instead, the report claims that the Northeast Asian success has been largely due to their ability to switch from distortionary import substitution to allegedly non-distortionary export-oriented industrialization. Wade (1991) has described an interesting variation of this "free market" argument as the "simulated free market" thesis (Little 1981; Bhagwati 1988). Unlike the "free market" thesis, it at least concedes that the South Korean state has been distortionary, but argues that the distortionary effects of import substitution in South Korea were sufficiently negated by and hence compensated for by the same government's export promotion and subsidization efforts.

The report argues that Indonesia, Malaysia and Thailand "may show the way for the next generation of developing economies to follow export-push strategies" (World Bank 1993: 25); unlike the Northeast Asian economies, these three economies followed strategies courting direct foreign investment and creating a favourable environment for exporters without at the same time following policies of financial repression and industrial targeting. Thus, the Miracle study claims that the Southeast Asian second-tier NICs have grown rapidly by relying on market forces and minimal, but appropriate and generally supportive interventions (e.g. in the areas of primary education and infrastructure provision) without, or even despite bad industrial policy, i.e. attempting selective policy interventions - involving trade, finance, technology and human resources - to promote particular industries. Thus, the 1993 Miracle study by the World Bank presents the success of the so-called second-tier NICs (Malaysia, Indonesia, Thailand) as proof that other developing countries do not need industrial policy to achieve rapid growth, industrialization and structural change.

Several points can be conceded at the outset. Historical circumstances are undoubtedly different in Southeast Asia. The post-Meiji experience in Japan and its colonies of Korea and Taiwan resulted in certain industrial, educational and administrative developments in the first half of this century which were quite distinct from those experienced in other ex-colonial economies, and arguably more conducive to subsequent rapid industrialization. More manufacturing activity seems to have developed in these Japanese colonies than in other colonies. With the possible exception of the Philippines under the US, tertiary education developed much more in the Japanese colonies than under European colonialism. Correspondingly, the administrative ethos which developed was meritocratic, potentially developmentalist and nationalistic. The post-World War Two conditions in Northeast Asia made possible land reforms which were not only more equitable and regime-legitimizing, but also conducive to growth and capital accumulation for industrialization. Cold War considerations ensured generous aid at a crucial time as well as tolerant attitudes to NE Asian government policies by the United States administration which would certainly be unacceptable today, e.g. regular violation of intellectual property claims of mainly US-based transnational corporations.

In emphasizing what it considers getting economic fundamentals right, the report glosses over differences among the HPAEs. Perkins (1994) has suggested that there are three rather than just one East Asian model, grouping together Japan, South Korea and Taiwan as distinct from the municipal economies of Hongkong and Singapore on the one hand, and the second-tier Southeast Asian NICs of Malaysia, Thailand and Indonesia on the other. While agreeing with these distinctions at one level, serious attention to other dimensions would complicate the picture. For example, if we put aside the second-tier NICs for a moment, it appears that industrial policy has been much more important in Japan and South Korea, while state-owned enterprises have played a much bigger role in Singapore and Taiwan. Many other similarly instructive distinctions can be made, which suggests that nuanced comparative historical institutional analysis may be more rewarding than the generalizing discourse favoured by the Bank study or the one - or even two-dimensional categorization favoured by others.

The Miracle study's rejection of industrial policy and emphasis on creating conditions to attract foreign investment as policy prescriptions emerging from the study are curious to say the least. Of the eight HPAEs, only Malaysia and Singapore have generally relied much more than most other developing countries on foreign direct investment (FDI), for essentially political reasons. After seceding from Malaysia in 1965, the Singapore authorities deemed it crucial to attract foreign investment to ensure a continued international stake in the security and future of Singapore, even at the expense of discriminating against predominantly ethnic Chinese domestic capital (Rodan 1989). In Malaysia, foreign investment has been favoured by influential elements in the ethnic Malay-dominated regimes to limit and circumvent the expansion and accompanying influence of ethnic Chinese Malaysian capital (Jesudason 1989; Bowie 1991).

Restrictions on foreign investment have allowed internationally competitive domestic manufacturing firms to emerge, often with state support, in most of the East Asian economies. Such regulation has also increased the gains and reduced the losses to the national economy from the presence of foreign investment. The intensive use of FDI may also only have been a temporary phenomenon observed at a relatively early phase of development when domestic capital accumulation, technological capacity and external market access are still very weak; hence, for example, South Korea relied much more on FDI only up to the early 1970s. The importance of FDI at a particular historical moment may largely be due to temporary foreign investor interest, e.g. in response to the Indonesian liberalization in the face of the 1986 petroleum price collapse just when Japan and the first-tier NICs were facing declines in their international competitiveness in the face of their currency appreciations, rising wage and other production costs, increasing political instability, greater pressures for industrial pollution controls and so on, and were seeking to relocate their more labour-intensive and environmentally less acceptable industries.

While the Bank's Miracle study acknowledges that the statistical probability of eight contiguous economies growing so rapidly over such an extended period of time is very remote from its own perspective, it does not deem this regional dimension of simultaneous growth and structural transformation in the region worthy of explanation. As this study will discuss, industrial relocation within the East Asian region has grown tremendously in the last decade, and has contributed a great deal to the export-oriented manufacturing boom in the second-tier South-east Asian NICs. Much of this has been driven by firm responses to changing domestic and regional conditions, including comparative labour and other production costs as well as differential environmental, occupational health and pollution regulation. In this connection, however, there is also considerable evidence that the pattern and pace of "regional industrial restructuring" in East Asia are not simply firm or market-driven, but also very much influenced by Japanese, Taiwanese, South Korean and Singaporean industrial policies, which encouraged such industries to relocate in Southeast Asia and China.

ADB's Emerging Asia

In mid-1997, Asian Development Bank published *Emerging Asia: Changes and Challenges* (EA), believed to be principally authored by Harvard Institute of International Development's Jeffrey Sachs and other external consultants. The ADB's EA study is likely to have considerable influence, perhaps because it is more reader-friendly than the East Asian Miracle volume published by the World Bank. Another reason is that it is more conformist, with few exceptions, uncritically endorsing the neo-liberal ideology and policy agenda of our times.

However, unlike most other studies of Asia, the ADB volume seriously considers geography, demography, the environment, natural resources, and quality of life issues, albeit in ways many of us may take issue with, but nonetheless usefully, though mainly predictably. This is no trivial matter. For example, the WB's EAM study acknowledges that the likelihood of eight relatively contiguous economies all achieving relatively rapid and sustained growth for over a quarter of a century is very, very remote, but did not see fit to come to terms with this. While economics obviously has difficulties in dealing with geography, it is unfortunate that neither study has sought to address Akamatsu's original 'flying geese' hypothesis, or subsequent variations thereof, even if only to reject them.

While the EA study seems to have gone beyond the EAM study in recognizing the significance of geography, the study does not seriously consider the 'flying geese' and other related propositions. Proximity seems to matter, as suggested by the recent domino effect in the collapse of Southeast Asian currencies, but there is no attempt to seriously consider other implications of geography for economic development, whether in terms of agglomeration, regional integration, currency zones, etc.

Similarly, the significance of exchange rate competitiveness is not seriously considered, both for East Asia as well as Southeast Asia. The post-1986 boom in the second-tier Southeast Asian NICs came after their currencies depreciated against the US dollar, and even more against the yen, won, New Taiwan dollar and Singapore dollar, effectively lowering production costs in these economies and thus increasing their attractiveness as production locations.

The EA study claims (p. 77) that temperate countries grew, on average, by 1.3 percentage points more than tropical countries during the 1965-90 period, after controlling for other factors. The study explains this significant shortfall in terms of the greater prevalence of disease, poorer soils, more frequent typhoons and other natural calamities in the tropics.

Surprisingly, the EA study seems to be oblivious to W. A. Lewis' (1969; 1978) pioneering work on the economic condition of the tropics. As Lewis (1978) has shown, tropical exports grew faster than temperate zone exports during the last period of global liberalization from the end of the last century. For the period 1883-1913, for example, French Indochina, Thailand, British Ceylon, West Africa, French West Africa and Madagascar all had average annual export growth rates of five percent or more, while Brazil had 4.5 percent. The comparable rates for temperate settlements, the USA and Northwest Europe were 4.3, 3.8 and 3.5 percent respectively.

While the tropics generally had more modest export bases than the temperate zone, this also suggests that the tropics were able to respond to export demand despite the disadvantages they faced. Lewis emphasized that not all tropical countries were able to seize the opportunities from increased export demand. He suggests that the exports in greater demand were largely water-intensive; hence, only those areas with enough water to substantially increase their exports were able to take advantage of the new opportunities. The more arid tropical grassland areas thus could not benefit from the increased demand for tropical products.

Since the Southeast Asian newly industrializing countries and some other tropical countries have also grown rapidly since the sixties, it is necessary to explain why countries in the tropics have fared so badly in the last few decades. It is not enough to simply attribute the tropical growth shortfall simply to 'pests, diseases, typhoons and other natural calamities' though such factors may not have been unimportant.

In a variation of the Prebisch-Singer argument about the declining terms of trade faced by the countries in the periphery, Lewis has observed that the terms of trade for tropical exports deteriorated badly against temperate exports. In the half century between 1916 and 1966, for example, the index for natural rubber fell from 100 to 16. This suggests that productivity gains in the tropics were largely lost to the worsening terms of trade, and the situation would have been even worse where few productivity gains were made. Such phenomena compel us to reconsider the challenge to conventional international trade theories posed by proponents of 'unequal exchange'.

Intal (1997) has suggested that sub-Saharan Africa has lagged behind in terms of agricultural development since the sixties due to inadequacies in agricultural R&D and infrastructure, crop and agronomic considerations and macro-economic conditions. He argues that higher temperate agricultural productivity has partly been due to long, sustained and larger investments in agricultural R&D, which temperate LDCs (e.g. Chile, Korea and Taiwan) have been better able to take advantage of. The tropical Green Revolution in rice farming since the sixties has mainly benefited irrigated farms in Southeast and South Asia, while drier agricultural practices in Africa have generally been left out.

However, the Malaysian, Indonesian and Thai success with tree crop agriculture offers some hope. The Malaysian experience, in particular, suggests that significant investments in tree crop agricultural R&D (e.g. in rubber, oil palm and cocoa) as well as rural infrastructure have made possible productivity gains in tree crop agriculture as well. The geographic specificities of agriculture imply that for imported agricultural varieties and technologies to be successfully adopted, there is a great need for effective adaptive investments in R&D and extension. Unfortunately, in their desire to industrialize, some governments have neglected agriculture, or worse still, subjected it to considerable policy bias.

The EA study also suggests that being a natural resource rich country is bad for growth. Curiously, the study defines natural resource abundance in terms of the ratio of net primary product exports to GDP in 1971 without distinguishing between extractive natural resources (especially minerals) from agricultural products. So-called Dutch Disease mainly involves the former, which tend to be very capital-intensive and only involve a small proportion of the population in the extraction of the resource.

Consequently, the added income accrues to a few while the appreciation of the country's currency affects the entire population.

Agricultural exports generally involve much more of the population, and increased income usually accrues to all producers, diffusing the adverse consequences of currency appreciation. The Southeast Asian high performing economies have been major agricultural exporters, thus offsetting the problems associated with the mineral exports of Malaysia and Indonesia, in sharp contrast to, say, Nigeria. Generally good macro-economic management has also helped, especially to offset the tendency to indulge in expenditure on non-tradeables.

Citing Lindauer and Valenchik (1994: 288-9), Intal (1997) has argued that the marginal labour productivity and hence the opportunity cost of farm labour for manufacturing is higher in land-abundant African economies compared to land-scarce Asian economies even though average labour productivity is usually higher in the latter. Hence, it is unlikely that the former will be able to compete with the latter in labour-intensive manufactures. The Malaysian experience suggests that such labour-scarce, land-abundant economies can only be competitive in skill-intensive, rather than unskilled labour-intensive manufactures, requiring considerable investments in human resource development.

Comparing wage rates to labour productivity in manufacturing for 1992, Intal (1997: Table 4) shows the high proportion of wages and salaries to value addition per worker in economies such as Hongkong (0.51), India (0.39) and Singapore (0.34) compared to Malaysia (0.28), South Korea (0.26), Philippines (0.23), Sri Lanka (0.19), Thailand (0.15 in 1990) and Indonesia (0.14). This suggests that the low wages received by Indian workers do not automatically translate into labour cost competitiveness. The situation in much of Africa suggests that not unlike Indian labour, African labour may also not be competitive in wage/productivity terms.

While largely accepting the arguments for state interventions to address market failures, the advocates of the developmental state perspective emphasize that the nature of government interventions in East Asia generally went well beyond the market-friendly functional interventions approved of by the World Bank. While the World Bank disapproved of so-called strategic interventions, the proponents of the developmental state perspective insist that selective industrial policies - involving trade, financial and other interventions - have accounted for 'late industrialization' in East Asia (Amsden, 1989; Chang 1994; Wade, 1990). The key argument is that such interventions have been crucial for developing new industrial capabilities which did not previously exist and which would not have spontaneously emerged due to market forces alone. Thus, the old 'infant industry' argument was resuscitated, with insights from Gerschenkeron's (1962) observations on the advantages of economic 'backwardness' as well as the requirements of 'late industrialization'. The developmental state advocates emphasized the role of 'strong states' (in Myrdal's sense) as well as the manipulation, if not distortion of market mechanisms to achieve developmental objectives.

There is, of course, considerable variation in perspectives within the three camps, as well as positions which may be seen as intermediate. For example, a significant number of institutionalists have identified and emphasized collective action problems and co-ordination failures, which may be best addressed by direct government intervention or, alternatively, by private sector collective initiatives, or by improved government-private sector consultation, or even by corporatist institutions and mechanisms. In so far as some such problems may not be generally acknowledged as market failures, the related solutions may not be seen as within the pale of acceptable market-friendly interventions. And in so far as the intervention may be anticipatory or pro-active, rather than reactive, it is more likely to be seen as strategic rather than functional.

As noted earlier, the WB's EAM study approves of market-friendly functionalist interventions - such as ensuring good governance, sound macro-economic management, physical and social infrastructure provision and high savings and investment rates - while eschewing market-distorting strategic interventions. Nevertheless, given the significance of the latter, particularly in Northeast Asia, the EAM study considered the impact of the latter, particularly 'directed credit' and 'industrial policy-related trade interventions. The EAM study insisted that the latter failed in East Asia,while conceding that 'directed credit' worked. However, the WB suggested that the conditions and circumstances of such limited success in Northeast Asia were very unusual, if not unique (Confucianism, bureaucratic capability, favourable initial and international conditions, etc.), and therefore not to be emulated.

Growth accounting exercises - suggesting little total factor productivity (TFP) growth in most of the region - have also been invoked by the WB, Paul Krugman (1994) and others to suggest the inferiority of East Asian growth in achieving technical progress. The main conclusion drawn is that rapid growth in the region has largely been due to massive factor (capital and labour) inputs due to high savings and investment rates, foreign direct investment, growth of the wage labour force in the formal sector and human capital investments. Further factor inputs are bound to run up against diminishing returns, and rapid East Asian growth cannot be sustained, at least at the breakneck pace of the last three decades.

There is no time here to go into an extended discussion of the theoretical as well as methodological issues involved. However, Dani Rodrik's observation (in Collins and Bosworth 1996: 120) that 'the evidence on investment rates is direct and speaks for itself, the evidence on TFP is indirect and has to be interpreted with care'. Also, Collins and Bosworth' s (1996) more recent findings suggest that East Asian economies have been evolving toward greater TFP gains since the eighties as they attain a higher stage of development. They also argue that future growth in the region can be sustained as the educational and skill profiles of the labour forces continue to grow.

Many East Asians have been deeply offended by Krugman's comparison of East Asian growth with that of the Soviet Union in earlier times, and the implications that East Asian economic performance has not been all that miraculous and that slower growth is unavoidable and imminent. However, there has been less critical attention to the basis of his analysis, namely the more conventional neo-classical growth accounting exercises by Alwyn Young (1994) on the one hand, and the more heterodox exercise by Kim Jong-Il and Lawrence Lau (1995).

Krugman is probably right in claiming that the new endogenous growth theory cannot be invoked against his arguments as even higher TFP residuals would then be expected. However, if technological learning only becomes important beyond a certain stage of development or when technological progress requires changes in the labour process more conducive to such learning and shop-floor innovation, one would have different expectations of TFP growth in East Asia outside of Japan.

But even if we accept the theoretical and methodological bases for Krugman's claims (which are not unproblematic), there is good reason to suspect his conclusion of lack of technological progress when one considers the consequences of differences in price determination in different product markets which affect growth accounting exercises. In this case, the important distinction is between the more technologically sophisticated products, enjoying legally protected monopolistic rents, and other more mass-produced products in far more competitive markets. The differences in the nature of the labour markets have also had some bearing on product price determination. Most East Asian workers outside of Japan have been under-remunerated owing to international labour immobility, among other factors, resulting in the relative under-valuation of the prices of East Asian exports in international trade.

The different economic performances of the three regions considered by the EA study do not merely involve differences in economic growth, or even of structural transformation, though these are not unimportant. Before the nineties, the World Bank's first-tier East Asian HPAEs (including Singapore) grew by almost two percentage points more than the three second-tier Southeast Asian NICs (Malaysia, Thailand and Indonesia); the difference was even greater on a per capita basis owing to the higher population growth rates in the latter. When one considers the far larger contribution of natural resource rents to the latter's growth performance, the former's achievement is even greater.

Whereas the EAM study obscured this difference, the EA study addresses it in terms of regional differences. Unfortunately, neither study pays sufficient attention to the major policy differences between the two regions and their consequences in terms of 'late industrialization'. Industrial policy has been far more extensively deployed in Japan, South Korea and Taiwan than in the second-tier Southeast Asian NICs. The success of such industrial policy is reflected in the greater industrial and technological capabilities of the former compared to the latter.

Neither study comes to terms with the fact that the former selectively kept out foreign investment, with FDI only accounting for a modest share of gross domestic capital formation. In contrast, FDI has been far more important in Southeast Asia, especially in Singapore and Malaysia, and that too partly for political reasons. In Singapore, the government was initially concerned with quickly developing a strong foreign stake in the future survival of Singapore after it seceded from Malaysia in 1965. The ruling People's

Action Party (PAP) also remained skeptical of domestic business interests, who had supported other political parties before the PAP came to power. In Malaysia, the ethnic Malay-dominated government seems to have favoured foreign investment as an alternative to ethnic Chinese domination of the national economy while the ethnic Malays expand their stake.

In making regional generalizations, the EA study glosses over many important differences within the three main regions considered. In reviewing the EAM study, Dwight Perkins (1994) suggested that generalizations about East Asia obscured the existence of at least three distinct East Asian types among the eight HPAEs - the Northeast Asian HPAEs (including Taiwan), the Southeast Asian HPAEs and the two city states of Hong Kong and Singapore. The significance of industrial and technology policies as well as state-owned enterprises in the island republic, in contrast to the recently returned British colony, underscores the difficulties in making facile generalizations. Any alternative categorization would also be moot, but the recognition of such variety is often obscured in stressing regional similarities. State-owned enterprises have performed well in Singapore and perhaps in Taiwan as well, but less well in Malaysia and Indonesia, which is not surprising given the circumstances of their establishment and management.

The ADB's EA study argues that *market competition, openness*, and *export orientation* were the key ingredients of East Asia's miraculous economic performance. It is not possible to address these claims comprehensively here, but fortunately for me, others have already done so very persuasively.

On the claim of market competition, one can refer to the World Bank's discussion of the importance of 'contests' in East Asia. In line with the Austrian School critique of the neo-classical economic fetish for perfect competition, East Asian governments have not been insistent on competition to avoid wasteful, excessive competition and to enable firms to achieve economies of scale. Contests or managed competition as well as managed exposure to international markets have instead been used to force firms to become internationally competitive as quickly and as reasonably as possible.

Both studies also repeat the neo-liberal mantra of trade liberalization and economic openness without fully acknowledging the critical difference between 'free trade' *a la* Little *et alia* and the juxtaposition of export subsidies against import protection, as in Northeast Asia. As many have noted, the East Asian governments have not been as open to free trade as claimed by the EA study. Instead, Bhagwati (1988) and others have argued that free trade has been 'simulated', with the distortionary consequences of import protection in East Asia offset by export subsidies, but this is certainly not free trade as normally understood. Nor were East Asian governments open to FDI as suggested by the Emerging Asia study. As noted earlier, FDI in Japan, South Korea, and even Taiwan has accounted for a smaller proportion of gross domestic capital formation (GDCF) than is the norm for developing countries. Even in the Southeast Asian HPAEs, all with higher than average FDI/GDCF, there has been significant regulation of FDI.

The EA study claims that consistently open economies grew by an average of two percentage points more than considerably closed economies during 1965-90. This finding is dependent on the definitions and categorization of countries as open or closed as done by Sachs and Warner (1995). They assert that Thailand has been consistently open, that Indonesia has been open since 1970 while the Philippines has only been open from 1988. Comparing these three countries, Intal (1997: Tables 1-3) shows that such an interpretation would require a rather peculiar, if not arbitrary reading of the evidence and classification of the countries. Citing Naya (1989: Tables 2.8-2.9), he shows:

- average import duties in the Philippines in 1982 were slightly lower than for Indonesia
- in 1980 and Thailand in 1983
- for intermediate and capital goods, the average import duties for the Philippines in 1982 were lower than for Thailand in 1983.
- quantitative import restrictions and other non-tariff barriers in the Philippines in 1983 were lower than in Indonesia in 1980 for crude materials, chemicals, basic manufactures and transport machinery

Citing trade-weighted trade control measures from UNCTAD (1987: Supplement) for the mid-1980s, Intal shows that the total tariff and 'para-tariff' measures were higher in Thailand than in the Philippines for 'all manufactures' as well as both chemicals and machinery & equipment. Meanwhile, all non-tariff measures were greater in Indonesia than in the Philippines for both 'all manufactures' and chemicals, and only slightly less for machinery & equipment. Then, citing Ariff and Hill (1985: Tables 3.3, 3.5, 3.7), who only offer comparable figures for Indonesia and the Philippines, he shows that the effective rates of protection for intermediate goods in Indonesia in 1975 and 1980 were much higher than for the Philippines in both 1974 and 1980; the data suggest that the converse was true for capital goods.

The point is clear. The usual indices of trade openness do not allow Sachs and Warner to categorize the Philippines very differently from Indonesia and Thailand. Claiming that the former was closed and the latter two were open would most certainly distort and affect findings about the alleged relationship between trade openness and economic growth since the latter two have performed so much better than the former in the last three decades. Intal comes close to suggesting that their adverse view of government's role in agricultural development - as reflected by their emphasis on 'state monopoly of major exports' as a measure of the closedness of an economy – affected Sachs and Warner's categorization and related claims.

The EA study also ignores the problems of liberalization and openness, such as the causes and consequences of the recent financial crisis in Southeast Asia. Recent experience contradicts the claim that 'the market' will exact swift and painful punishment on governments and economies that do not have their macro-economic house in order. Rather, the timing, nature and consequences of the mid-1997 financial crisis in Southeast Asia underline the imperfect nature of financial markets. For example, this was reflected in the long delay before 'rectification' of years-old Southeast Asian current account deficits - as acknowledged by International Monetary Fund (IMF) deputy head, Stanley Fischer, in an exchange with US Federal Reserve chairman, Alan Greenspan (*New Straits Times*, 2 Sept. 1997). In a world economy where foreign exchange spot transactions are worth more than seventy times total international trade transactions, the financial sector has become increasingly divorced from the real economy. With the recent proliferation of new financial instruments and markets, the financial sector has an even greater potential to inflict damage on the real economy.

Even Georg Soros has argued that the unregulated expansion of capitalism, especially finance capital, threatens to undermine the system's viability and future, i.e. that capitalism has to be saved from itself. While admitting that he himself has profited greatly from financial liberalization, he argues that excessive liberalization has resulted in virtual anarchy, which is dangerous for the stability so necessary for the orderly capitalist growth and democratic development desired by his liberal vision of a Popperian 'open society'.

Ever since Lord Keynes advocated 'throwing sand' into the financial system to check the potentially disastrous consequences of unfettered liberalization, Keynesians – and others - have been wary of the financial liberalization advocated by ideological neo-liberals and their often naïve allies. Nobel laureate in economics James Tobin has called for a tax on foreign exchange spot transactions to enable more independent national monetary policy, discourage speculative capital movements, and increase the relative weight of long-term economic fundamentals against more short-termist and speculative considerations, besides more than adequately funding the United Nations system and programmes. As many have pointed out, the international financial system and its further liberalization have favoured those already dominant and privileged in the world economy, largely at the expense of the real economy and development in the South.

Dani Rodrik (1994) has challenged the World Bank's EAM study's claim of the significance of export orientation. The economic histories of Japan, South Korea, and Taiwan suggest that most industries began by producing for the domestic market as has been typical of import-substituting industrialization. The East Asian difference has been in effectively requiring and facilitating the rapid transition to production for export, often through the creative deployment of trade policy, as suggested earlier.

All this is not to imply that industrial policy has always been well-motivated and successfully deployed. The World Bank's claim of trade policy failure is methodologically problematic, and does not even bother to distinguish government interventions motivated by different considerations, e.g., the desire to enrich a politically influential, or otherwise favoured concessionaire. The EA study cites problems with the Korean heavy and chemical industrialization drive, but just as with the policy failures attributed to the Japanese Ministry of International Trade and Industry (MITI), such selective evidence is not conclusive proof of the failure of industrial policy.

The EA study is quire correct in emphasizing the new constraints in the articulation, elaboration, and implementation of industrial policy, especially those imposed by the new international ,economic governance, particularly through the World Trade Organization (WTO). But instead of urging Asian governments to work together in their common interest to resist the emerging international economic governance, the EA study seems to urge precisely the opposite, i.e. acceptance and conformity.

Unfortunately, neither the EAM or EA studies go very far in trying to explain or understand why government interventions have, on balance, accelerated structural transformation and resulted in the development of significant industrial and technological capabilities in East Asia, and to a lesser extent, in Southeast Asia. This suggests that better understanding of the political economy of government intervention can take us some way towards greater appreciation of some reasons for the different outcomes of government intervention in the three main Asian regions **considered by the EA study.**

- This paper draws from other work, including Jomo *et al.* (1997), which offers a different interpretation of the second-tier Southeast Asian NIC experiences. It disputes some, though not all, of the World Bank's explanations for rapid growth and structural change in the second-tier Southeast Asian NICs. It reviews the historical and contemporary factors contributing to rapid economic development in the region, especially in the last decade. While there is little disagreement about the broad macro-economic and other trends noted by the Bank, the study offers a more nuanced explanation focusing particularly on the nature, role and consequences of regional location as well as state intervention, especially industrial policy. After identifying some distinctive characteristics of the Southeast Asian second-tier NICs which would require qualification of the tendency to speak of the East Asian region and experience in homogenizing terms, the role of ethnic Chinese business networks in the region is also mentioned. East Asian regional economic dynamics, particularly since the yen and other East Asian NIE currency appreciations of the mid-1980s, catalyzed a chain of developments that have sustained rapid growth throughout the region since then. Various chapters look at economic growth, industrialization and industrial policy in Thailand, Malaysia and Indonesia respectively, critically considering the nature, role and implications of state intervention in these economies. The evolution and outcomes of development strategies, particularly industrial policies in Indonesia, Thailand and Malaysia, especially with respect to investment, trade and labour, are considered. This raises the question of whether the second-tier NICs offer a superior or more feasible model for emulation by identifying the sources as well as sustainability of their growth, and examining the role of industrial policy in the three countries, with special attention given to related labour, human resources and technology issues. The concluding chapter draws some lessons from this study, especially for policymaking by other developing countries. It critically reconsiders some of the major policy implications and recommendations of the Bank's Miracle study as well as of other efforts to interpret the Southeast Asian component of the recent rapid growth and industrialization in East Asia.

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Palestinian-Israeli Relations: From Conflict to Reconciliation?

An Abstract by Moshe Ma'oz

During the century-old conflict (since the 1880's) in Palestine between Arabs and Jews, Palestinian Arabs and Zionist Israelis, the mainstream among the Palestinians considered the Jewish Zionist movement a European-colonialist invader and occupier, that illegitimately and forcibly dispossessed them of their land and established a Jewish state (Israel in 1948) on a large part of it. Following the 1967 War and the occupation of other parts of Palestine (the West Bank and the Gaza Strip), Israel formally annexed East/Arab Jerusalem and created Jewish settlements on these territories.

By contrast, the Zionist-Jewish community in Palestine considered itself as a national liberation movement, aiming to deliver the Jews from their 2000 years of exile and revive their national, social and cultural life in their ancient land of Israel.

The mainstream of the Jewish-Zionist community in Palestine, under the British Mandate, acknowledged the national rights of the Palestinian Arab community and, in 1947, adopted the UN Partition Resolution (181) of 29th November 1947, which provided for the creation of two states, Arab and Jewish, in Palestine.

The Palestinian Arabs rejected the UN Resolution and, with the help of five military expeditions from neighboring Arab countries, attacked the newly established Jewish State in 1948, but were all defeated. Only on 15th November, 1988, after four more decades of military and political struggle, did the PLO (the legitimate representative of the Palestinian people) accept UN Resolution 181, while pronouncing the creation of a Palestinian state (alongside Israel). Israel, however, under the premiership of Mr. Shamir, the right-wing Likud leader, has continued to reject the Palestinians' rights of self determination in the West Bank and Gaza, while constructing more Jewish settlements on these occupied territories.

Only in September 1993, did Israel, led by Mr. Rabin, the Labour leader and the PLO led by Mr. Arafat sign the Oslo Peace Accord, thus bringing about an historical and psychological breakthrough in the century-old conflict between Arabs and Jews in Palestine/Eretz Israel. Despite various difficulties and delays, the Israeli-Palestinian agreements were carried out fairly well and in an atmosphere of mutual trust and cooperation.

However, since late 1995 early 1996, the Oslo process has encountered serious obstacles and almost came to a standstill by the spring of 1997. The major causes for this stalemate have been Palestinian-Hamas terrorist attacks in Israel and the new policies and measures of the Israeli Likud government against the Palestinians. Consequently, the pre-Oslo mistrust between Israeli and Palestinian leaders has been revived and is likely to further deteriorate into armed clashes. By contrast, as most Palestinian Arabs and Israeli Jews, including many of their leaders, still believe in peaceful coexistence, the prospects of pursuing and completing the Oslo process - are by no means negligible. Are Palestinian-Israeli relations reverting to a renewed conflict or leading toward historic reconciliation?

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MODELS OF DEVELOPMENT IN WEST ASIA AND NORTH AFRICA AND THEIR IMPACT ON REGIONAL INTEGRATION

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Models of Development in West Asia and North Africa and their Impact on Regional Integration

Mohammad El-Sayed Selim

Of all the major world regions, West Asia and North Africa (WANA) has had the longest and most varied relations with Europe. Throughout the millennium after the advent of Islam, this area was on the descendant. The Arabs developed a thriving civilization, which they passed to Europe. The Ottoman rule in WANA in the first half of the sixteenth century heralded the beginning of a long cycle of isolation from the emerging European Renaissance and societal decay. During the centuries of the Ottoman rule the interaction between WANA and Europe was disrupted and there was a decline in level of technological development and scientific knowledge. For example, when the Ottoman Sultan Selim I, invaded Egypt in 1517, he forcibly deported all the technical strata to Istanbul thereby disrupting the normal development of the country. However, the Ottomans succeeded in protecting WANA from the Spanish and Portuguese onslaught on the Arab world after the fall of the Arab rule in Andalus in 1492, and the subsequent scramble over imperial control of Africa and Asia. As a result, WANA came to be the last region to fall under Western imperialism. This process began to occur with the French intrusion into Egypt in 1798, but gained momentum in the fourth decade of the nineteenth century.

Contrary to the widely-held belief that the advent of the French campaign to Egypt represented the beginning of the modernization process in Egypt, when Napoleon invaded Egypt , the Arab world was already experiencing a process of civil revivalism motivated by the weakening of the Ottoman empire. In the Arabian peninsula, and what is known now as Libya, the Wahabi and Sanoussia movements respectively succeeded in unifying the tribes under one single authority, and establishing a viable model of the Arab Muslim state. In Lebanon, Prince Bashir II, who ruled between 1788 and 1840, achieved significant progress in rejuvenating the Lebanese society. Further during the first four decades of the nineteenth century, the Arab world witnessed numerous projects to make up for the weakness of the Ottomans by building modern states. These projects relied mainly on local resources and to a lesser extent on European technology without sacrificing Arab Muslim culture. The most important of these was the Egyptian project led by Mohammad Ali between 1805 and 1840. Mohammad Ali was able to achieve the difficult task of modernization without dependence on the West. The conclusion to be drawn from this review is that when forces of imperialism began to descend over WANA, this area was already experiencing radical national projects.

By the 1830s, European imperialist powers began to extend their domain to WANA. In 1820, Britain forced the tribal heads in the coastal areas of the Arabian Gulf to concede its influence and in 1853 they were forced to accept British political supremacy in the Gulf. In 1827, France invaded Algeria where it was confronted with national resistance lasting for almost thirty years and in 1839, Britain occupied the port of Aden. But more importantly, Britain, in co-operation with the Ottoman empire and the Great powers, was able to bring the Mohammad Ali modernizing state to an end in 1840, and to restore the Ottoman markets which Mohammad Ali was able to control. After the fall of Mohammad Ali's national project, the European imperialist scramble over WANA began. In 1881, France occupied Tunisia and Egypt fell to British occupation in 1882 which was extended to Sudan . In 1907, Persia was divided between Britain and Russia according to the Russo-British agreement of 1907, and in 1911 and 1912 Italy and France formally occupied Libya and Morocco respectively. After the First World War, the Arab East was divided between France, and Britain according their secret deal of 1915 known as the Sykes-Picot agreement, and Zionist colonization of Palestine was formally acknowledged.

The conservative western school argues that the late arrival of western imperialism into WANA meant that the region came to experience "halfhearted pussy-footing imperialism," an imperialism which would neither create nor tolerate stable and orderly institutions. This school goes even further to argue that western imperialism has introduced and reinforced forces of modernism into WANA(1). The radical and liberal schools contended that imperialist control of WANA had disrupted the national development projects turned Arab societies into dual societies dependent upon Europe in technology, and culture. The national modernizing projects were forcibly reversed and new models of dependent development and dual societies were imposed (2). These contending views reflect the mixed impact of imperialism on WANA. Imperialism introduced some WANA societies to modern technology and helped to build modern infrastructures. However, such introduction occurred mainly at the cost of subjecting local economies to the interests of imperialist ones, destroying the local technologies, eroding the independent bases for a self-reliant development, and in many cases destroying national cultures.

After the First World War, present WANA states began to emerge. Egypt, Turkey, Persia (Iran), Saudi Arabia, and Iraq emerged as independent states during the 1920s. The process of independence slowed down in the inter-war period but accelerated after the end of the Second World War.

WANA newly-independent countries were confronted with the agrarian trap whereby the economy is mired in the production of cheap agricultural commodities, the system of production which denies modern skills to all but a privileged few, and the forcible integration of their agrarian economies into an unequal global trade system and international division of labor. They purported to achieve the tasks of economic development and social equity under conditions of scarcity of resources and post-colonial indirect control. Throughout this process, they adopted different strategies of state-building and development . The objective of this paper is to review the development models pursued by WANA countries since the end of World War I , to assess their viability as means of development , and outline the present attempts to re-structure them given the global pressures for privatization and structural adjustment.

I

WANA Models of Development

Despite the drastic variations of the models of development adopted by WANA countries after the World War I, these models shared certain common characteristics, namely, Westernism, statism, , and External Renterism. A brief review of these characteristics may be in order.

(i) **Westernism**:

Because of their Western colonial legacies and Western-educated and oriented elites, virtually all WANA developmental models purported to emulate the Western experience in some way or the other. Despite their emphasis on cultural authenticity and self-reliance, the goals of development were clear, i.e. to achieve what the West has already achieved at least in the area of economic development. In some cases this goal was simply to Westernize, as in the cases of Turkey under Ataturk and Persia under Reza Shah. In both cases, the quest was towards emulating the Western secular ideals and values to the detriment of the traditional ones. The Israeli developmental model is an extension of the Western experience. The West played a crucial role in the creation of Israel and continued to support its economic projects through direct economic aid and the exportation of human skills. In the case of the Arabian Gulf states, the entire development process occurred under Western supervision. Quandt described the Saudi development model as an "economic enterprise under American political supervision." (3) In the cases of Morocco, Algeria, and Tunisia, the French model is viewed as the ideal one. Despite the anti-Western foreign policy orientations of some other WANA states, the objective of the development process was to re-incarnate Western economic achievements. This was clearly articulated by Nasser when he emphasized in the early 1960s that "our objective was to achieve in 30 years what Europe had already achieved in 300 years." It is important to notice that the decisions of some WANA countries to resort to the Soviet Union for developmental assistance were taken only when the Western options were exhausted. The only exception to the Westernist orientation was the former Marxist regime of Southern Yemen

(ii) **Statism**

WANA models of development are characterized by the legitimacy of the central role of the interventionist state. States monopolize resources, control large investment budgets, and the nation's infrastructure, and employ large numbers of people. The state plays a number of functions related to social engineering, and economic development. Ideologies vary but not the crucial role of the interventionist state. Such state is viewed by WANA peoples as a legitimate one. They may question the legitimacy of a particular regime, but they agree that the state and its leaders have a right and an obligation to set a course for the society and to use public resources to pursue that course.

The emphasis on state interventionism may be deeply-embedded in the geopolitical setting or national cultures. But it gained momentum after independence because of the high magnitude of the colonial legacy of underdevelopment and dependency, and the scarcity of resources relative to the requirements of development. Throughout the region it was assumed that the private sector could not be relied upon to undertake the crucial functions of resource mobilization and planning. Reliance on private entrepreneurs and market forces to allocate scarce resources would not achieve development and social equity.

Turkey was the first WANA state to inject the concept of state interventionism in the development process. In 1931, Ataturk, the founder of present Turkey issued a manifesto that contained six principles. Among these was the principle of etatism. Ataturk defined this principle as meaning that "the government take an active interest especially in the economic field , and to operate as far as possible in matters that lend themselves to the safeguarding of vital and general interests." (4).Within a few years of the enunciation of these principles, Turkey established a planned development model within its first five-year plan in 1934. The model focused on the creation of a large public-sector and import-substitution under the auspices of the state. During the 1950s, the victory of the Democrat Party ushered in a liberal anti-etatist phase. After the 1960 military coup, Turkey returned to etatism.

The Turkish model was emulated by Iran under Reza Shah., and his successor Mohammad Reza Bahlavi. They created a powerful state which controlled by the end of the 1970s almost 43% of GNP. This tradition was reinforced under the Islamic Republic of Iran by a wave of nationalizations.

The emphasis on the role of the state in development was echoed by other models which were later on adopted by WANA countries . Some of these countries, such as Egypt (1957-1974) and Syria (1963-present) adopted socialist models which explicitly emphasized upon the central role of the state-led public sector. Others, such as Saudi Arabia , Kuwait, and Jordan pursued market economy approaches. Despite these ideological differences, in all cases the state dominated the development process. The private sector in the Arabian Gulf states is an extension of the state. Its very survival depends on the subsidies provided by the state through oil revenues. Israel is no exception from such statist developmental orientation. It was Ben-Gurion, the first Israeli prime Minister, who developed the doctrine of etatism (in Hebrew mamlachtitut) and subordinated to the state his Labor Party and its powerful trade union affiliate, the Histadrut. The end result was a " large, paternalistic welfare state with vaguely socialistic objectives and extensive public ownership. In this system, the citizen would be perceived as an object available for the activities of the state and its bureaucracy." (5).

Consequently, regardless of the ideological slogans , the development process in WANA countries took the form of state capitalism. This term refers to a process in which the state enterprise controls economic interactions indirectly or directly. In this respect, one may distinguish between two major variants of state capitalism in WANA. The first was a model whereby the state supports the private sector by providing the infrastructure, raw materials, semi-manufactured goods, financial support, and protective legislation, and absorbs major risks. However, it transfers external rents to expand its own activities. This was the model pursued by Morocco, Turkey, and the Gulf Co-operation Council (GCC) states, Egypt after 1974 when the Economic Open Door policy began, and Tunisia after 1969. The second model of state capitalism was one in which the state dominated all aspects of resource allocation, and captured the social surpluses and external rents. The state controlled the economy through a master central plan which identified certain goals to be achieved in a specific time frame. Turkey in 1930s, Egypt between 1957 and 1974, Algeria since 1962 , Libya, and Tunisia between 1964 and 1969 adopted this model. In most of the cases, this model had an explicitly socialist and redistributive variety in which equity issues take precedence over profit-and-loss criteria in assessing state activities. It also focused on the pursuit of an import-substituting industrializing strategy.

State capitalism was mostly applied within an authoritarian framework of power. The state controlled and/or monopolized economic and political power, with few exceptions such as Lebanon , Israel, and Sudan in the inter-coups eras. Democray was viewed either as a constraint on resource mobilization, or as facilitator of foreign intrusion, or as a

Western concept which contradicted traditional cultural values, or simply as a luxury. Ruling traditional or military elites decided the main components of its variant of state capitalism, and de-politicized the masses and mobilized them to accept such variant. The masses were rarely involved in the decision-making process leading to the adoption of a specific development model. Most WANA countries adopted the single party or the no party systems.

Authoritarian State capitalism constrained the ability of WANA states to achieve meaningful regional integration. The dominance of state bureaucracies and enterprises linked political relations with socio-economic transactions. Accordingly, crises in political relations spilled over non-political transactions. Projects to create an Arab free trade area which started in the mid 1960s were caught in the "Arab cold War" and economic reprisals were the traditional response to any political crisis in inter-Arab relations. For example, some GCC states withdrew their contributions in the Arab Organization for Industrialization, a promising framework for the integration of Arab defense industries, when Egypt signed the peace treaty with Israel in 1979. One may cite many other cases in which Arab state bureaucracies utilized economic integration as a means in their political rivalries. Further, regional integration could hardly occur under conditions of political authoritarianism. Authoritarian regimes lack the traditions of bargaining and compromise which are pre-requisites for the resolution of the integration crises.

However, these were not the only factors which delayed the creation of a single economy in WANA. The competitive nature of WANA economies played a major role in such delay. Most of these countries produce and export raw materials and import manufactured goods. Almost 92% of the exports and 65% of the imports of the Arab states in WANA take the form of raw materials and manufactured goods respectively. Under these conditions, it was difficult to increase inter-Arab trade beyond its low level of 5-7% of total Arab foreign trade. Further, the Arab-Israeli conflict proved to be a major obstacle to the creation of a single economy in WANA through which Arab and Israeli economies would integrate. For the past fifty years it was, and in my judgement still is, impossible to enter into meaningful Arab-Israeli economic co-operation because Arab-Israeli relations were always characterized by the presence of major territorial disputes and strategic disequilibrium. Under these conditions, integrative ventures would be viewed as a means to reinforce the status quo. One may recall that when Western Europe began the integrative process in 1949, these two conditions were not present.

(iii) External Rentierism

The concept of external rentierism refers to the accumulation of externally-generated income constituting a large portion of the national income without corresponding local productive sectors. External rent becomes the main generator of domestic economic activities(6). Israel represents the first model of external rentierism in WANA. The state depended heavily on the external inflow of rent from Jewish communities living outside Israel and from Western countries. Until today, Israel remains the largest recipient of US foreign aid (US $3.1 billion annually). After the 1974 "oil boom" almost all WANA countries have become rentier states either directly through the exportation of oil (mainly the GCC and Libya) or indirectly through remittances and financial assistance (such as Egypt and Syria) (7).

External rent reinforced the role of the state in development as the state became the only recipient and distributor of the external rent. It also weakened the relationship between income and effort, as it became possible to obtain huge revenues without a corresponding effort. Although the inflow of external rent has helped the GCC states to jumpstart the development process, most of the development achieved relied mainly on external human skills and , as such, lacked any indigenous and durable roots. This was in contrast with the Israeli case in which external rent was used to create locally-generated infrastructures.

External rentierism has not only reinforced state capitalism, but also constrained the creation of a single economy in WANA. Granted that the flow of external rents has led to the rise of new form of socio-economic transactions (such as labor migration) which linked most WANA economies more than ever before. However, it also led to the emergence of the process of status inconsistency especially in inter-Arab relations. This term refers to a process in which states do not possess equal shares of the elements of power or status in a regional system. This would occur when a state possesses high economic capabilities but limited military ones. This process characterized inter-Arab relations after the flow of the oil rents in 1974. Egypt lost its leading economic regional role which was captured by some other oil-exporting Arab states. However, it continued as the leading Arab power in military, social, and cultural terms. Consequently, Egypt lost its ability to steer inter-Arab relations in the direction of integration, and new Arab economic powers began to claim Egypt's role, which, in turn, led to the intensification of inter-Arab rivalries.

II

WANA Development Models: The Record and the Future

State capitalism as a model of development was an extension of the deeply-embedded historical traditions in WANA region of state control. It was also a response to the colonial legacy which required a model of development which would enable WANA countries to jumpstart the development process and achieve a structural transformation in a limited time frame. To what extent were the two variants of state capitalism able to achieve the goals of development?. In answering this question one must recall that in most cases WANA models of development were applied under crisis conditions. The region has been an arena of regional wars, and great power rivalry, which made it one of most over-armed regions by all accounts. Military expenditure has traditionally represented between 10% and 50% of GNP (compared with a global average of 5-6%), and WANA's contribution to global military expenditure is almost four times its contribution to global GNP. WANA's high military expenditures and over-armament reinforced the underdevelopment dilemma and the numerous regional wars led to the waste of valuable resources (8).Further, the sudden oil boom of the 1970s has led to the rise of serious social dislocations and deformities. The infusion of tremendous external rents led to the rise of a social money-hunting race especially that it became easy to accumulate wealth without a corresponding developmental achievement.(9) It also led to a deeper penetration of WANA by Western powers in their quest to re-circulate the petro-dollars through arms sales. So, one may argue that WANA's development models were never put to a real test.

Considering these constraints, WANA development models have achieved a great deal in terms of structural transformation. Both absolute and per capita national output grew at reasonable rates in most countries of the region even before the oil boom, the share of manufacturing industries in output and employment also grew, and literacy and education rates improved. This performance was no mean achievement in view of the speed of population increase and the constraints on the application of the models which we have just mentioned. Meanwhile, there were some basic failures. The state-led growth model suffered from the problems of and allocative and bureaucratic inefficiencies. Industries were created to generate jobs and/or to substitute imports regardless of cost-benefit economic considerations. State enterprises were dominated by inefficient bureaucracies which led to the waste of scarce resources. Further, many countries in the region tried to invest more resources than were saved domestically which led to external indebtedness Further, because of the lack of a genuine mass participation, political corruption increased and the regimes failed to achieve the goals of equitable income distribution.

These problems were exacerbated in some WANA countries by declining terms of international trade, increase in the cost of energy importation, and increase of social expenditures as a result of the high levels of population increase. All of this led to problems of debt default and chronic balance-of-payment deficits. In order to deal with these problems, especially those related to debt default, many WEANA countries resorted to the World Bank and the International Monetary Fund (IMF). Between 1956 and 1984, fourteen WANA countries (such as Turkey, Egypt, Syria, Morocco, Iran, Tunisia, and Israel) entered into agreements with the IMF calling for reductions in government spending and increases in interest rates in order to stimulate savings and dampen inflation rates. By the mid-1980s, the IMF was calling for the introduction of a new development model which evolved around the notions of "structural adjustment" and "privatization." The new model advocated by the IMF calls for the reduction of administrative interference in pricing mechanisms and to allow supply and demand to determine price levels, the phasing out of subsidies of consumer prices and inputs in the manufacturing sector, educing government spending, revising terms of trade prevailing between the agricultural and non-agricultural sectors, and streamlining the public sector and stimulating the private sector. Later on, the last element was modified to mean phasing out the public sector, that is, dismantling state capitalism, through privatization.

The IMF formula was presented to all WANA countries as a prescription to bail them out from their economic troubles, regardless of their different socio-economic backgrounds and problems. The basic assumptions of the formula are that the lesser the role of the state, and the more integration into world capitalist economy, better the economic performance. Historical record tells us that there has never been a single model of development which could be applied across the board and to all countries. Further, the experience of the East Asian states during the last thirty years shows that the state has played a crucial, but different, role in the development process. The East Asian state did not own the means of productionas was the case in WANA states. It played a crucial role in indicative planning , persuading the private sector to move into areas of production which were urgently needed, and preventing local capitalism from becoming an agent of foreign capitalism. In our judgement, the emphasis of the IMF on privatization and integration into world economy is a part of strategy to make sure that WANA countries would be able to re-pay their debts, and their markets would be open to the manufactured goods of the capitalist countries. This is the logic underlying most neo-rgional projects in the post Cold War era, including the Euro-Mediterranean project submitted to most WANA countries in 1995. This project envisages the establishment of a free trade area in the Euro-Mediterranean world in which only manufactured goods will be taded freely. Agricultural commodities, in which WANA countries enjoy a relative advantage, will not be incuded(10).

Most WANA countries accepted the IMF new model with some reservations. However, after the global transformations of the early 1990s, which led to the demise of the Soviet Union, and the dominance of the capitalist Western coalition, virtually all WANA countries have fully endorsed the IMF structural adjustment and privatization programs. For example, in 1991, Egypt devised a comprehensive structural adjustment program, which was supported by a Standby arrangement with the IMF and a Structural Adjustment Loan with the World Bank. The application of this package has made noteworthy achievement in the areas of current account balance, the budget deficit, inflation rate, and nominal exchange rate. However, it generated a recessionary trend, and negatively influenced most real variables such as the growth rate of GDP, GDP per capita, the consumption per capita, the merchandise exports, the unemployment rate, and the real wages per employee in the public sector(11). The Egyptian experience is typical of the experience of other WANA countries.(12)

Given this experience, WANA states are not likely to withdraw from the social functions as envisaged by the IMF. They will attempt to reconcile the IMF demands with their social restributive and allocative responsibilities. At the moment, their is a great deal of interest in WANA countries in the East Asian models of development. Further, the East Asian economic crisis has shown WANA countries the limitations of integration into global economy. What is likely to emerge from these soul-searching processes and cross-cutting pressures is a new model of development which trakes into account the special saocio-economic characteristics of WANA societies.

Endnotes

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WEST AFRICA : CONTINUING DEPENDENCE AND GLOBALIZATION

by

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I. INTRODUCTION

'Dependence' and 'globalization' have become, at different historical periods, fashionable concepts in the social sciences and catch-phases for journalists and politicians of every stripe. While dependence, conceived simply as external reliance, was increasingly used in the 1960s and 1970s to explain the causes of underdevelopment of the Third World countries of Africa, Latin America and Asia, globalization has in recent years become a very familiar term and almost a byword for both the right and the left in their analyses of the international economy and polity. In both political and academic discussions, the assumption is all too often made that a process of globalization is well underway in the contemporary world and that this represents a qualitatively new stage in the development of international capitalism. Hence the wide assertion that we live in an era in which the greater part of social life is determined by global processes, in which national cultures, national economies and national borders are dissolving. Dependence and globalization both imply external domination in different forms. In this regard, they demonstrate an element of continuity between the colonial and early independence and the present post independence periods.

The impact of dependence and globalization on the economies of West Africa and, indeed, the rest of Africa South of the Sahara, has been heightened in recent years by the combination of increasing regionalization and liberalization of world trade, rapid changes in technology, coupled with the new trading environment ushered in by the Uruguay Round and the establishment of the World Trade Organization (WTO) which are creating a radically new world environment which poses formidable challenges to the West African sub-region. The new conditions demand fundamental changes in policy and perspectives, indeed new policy initiatives by the countries of the sub-region, if they are to avoid their marginalization from the mainstream of the world economy.

The challenges are made more grave by the failure of the West African countries to tackle successfully some of the major problems impeding rapid growth and structural transformation as a consequence of their incorporation into the expanding capitalist system over a period of some four centuries. This failure continues to manifest itself in the slow growth of GDP and uncertainties about the future, little progress in manufacturing industry, relatively static trade structure and limited progress with diversification, and declining share in world trade. All this has retarded the efforts of the West African countries to reduce their continuing dependence and to effectively meet the challenges of the growing globalization which is not only making them more dependent than when they were colonies; it is also taking a new form of external domination. With little progress in promoting sub-regional economic integration, substantial losses and few gains expected from the implementation of the Uruguay Road and poorer prospects for official development assistance (ODA) receipts in future years, the task of development and structural transformation promises to be even more difficult, despite the recent significant shift to political pluralism, the recovery and the positive changes taking place on the African continent and the strengthening of private initiative leading to signs of hope optimistically described as the seeds of African renaissance.

It is against this background that this paper seeks to examine the main features and impact of continuing dependence and globalization on the peripheral economies of West Africa and the challenges that they pose to the sub-region. Following this introductory section, section II of the paper devotes attention to West Africa as a portrait of neo-colonial mesh, while section III examines the efforts towards reduction of dependence. In section IV, the implications and challenges of globalization are reviewed. Section V highlights the agenda for policy responses.

II. WEST AFRICA: A PROTRAIT OF DEPENDENT ECONOMY

Background

The present structure of underdevelopment in West Africa, as in other parts of Africa, stems from the incorporation of the continent into the expanding capitalist system over a period of some four centuries. This process of incorporation had its beginnings in the sixteenth century when the mercantile phase of capitalist expansion brought European explorers and traders to the coast of Africa. By the nineteenth and early twentieth centuries this incorporation of Africa into the international capitalist system had been completed with the colonial partition of the continent. Consequently, the continent as a whole but, particularly West Africa, was fragmented like a patch-work quilt into a number of separate colonial units under the various capitalist metropolis of Western Europe, principally France, Great Britain and Portugal.

Under colonialism, the basic features of the present political economy of West Africa, like the other regions of the continent took form. Colonialism provided the context within which 'the development of underdevelopment', to quote Andre Frank's phrase, took place in Africa. In the colonial period the traditional pattern of economic relationships in Africa were destroyed and in their place were created satellite economies whose primary function was the production of one or a few cash crops or raw materials for export to the colonial mother country. The European demand for African products, and the brutally self-interested way in which it was satisfied, led to a form of development which made the economies of West Africa and the rest of Africa heavily dependent on the metropolitan economies.

A considerable amount of literature exists on the problem of dependence. This literature has arisen largely from dependency theory, particularly the debate over the relationship of dependence to underdevelopment, as copiously highlighted in the works of Andre Gunder Frank, F.H. Cardoso and Osvaldo Sunkel, to mention only a few.[1] The availability of this literature obviates the need for going into a lengthy discussion here. We will limit ourselves to a few illustrations of the extent of the persistence of dependence and a brief discussion of aspects of dependence, which are particularly salient to the subject under discussion.

An economy is dependent to the extent that its position and relations to other economies in the international system and the articulation of its internal structure make it incapable of autocentric development. As Dos Santos puts it, a dependent country is one whose development is 'conditioned by the development and expansion of another economy'.[2] The result of such dependence for any country is continued uneven development, stagnation, unemployment, income inequality, regional disequilibria and low integration among economic sectors. This marginalization and exploitation are effected through an apparatus of domination, which, in dependent countries, takes the form of an alliance between internally privileged groups and external interests and forces, all of which benefit from the status quo. Thus, while external relations are the starting point for the analysis of dependence, most of the emphases of dependency theorists like Cardoso and Faletto is on the internal class relations of dependent countries.[3] As Kwame Nkrumah of Ghana, the pace-setter of the African independence, notes in his last published work, the alliance between he local bourgeoisie and foreign capital has been further consolidated by the increased "participation" of the African bourgeoisie in the local operations of the giant, multinational corporations.[4] The economies of West Africa, as discussed below, are reflected in this definition of the concept of dependence.

Neo-colonial Mesh Economy

West Africa represents the most heterogeneous conglomeration of states in all Africa, and has the largest number of mini-states. There has been no generally accepted geographical definition of the West African sub-region; neither has there been any universally accepted notion of what countries constitute it. While the core of the sub-region has not been in dispute, there has always been a considerable divergence of opinion among geographers 'as to the exact definition of its outer limits...'[5] One geographer, Harrison Church, has defined it broadly as the whole of the area lying west of the boundary between Nigeria and the Cameroon Republic. This would include 19 different countries and several islands.[6] In 1961 the United Nations Economic Commission for Africa took broadly the same definition, but excluded the islands.[7] For the purpose of this study, I have accepted the definition of Boateng[8] and that of Rimmer[9] which covers the area of ECOWAS - the Economic Community of West African States[10] consisting of 16 sovereign entities: 8 French-, 5 English-, 2 Portuguese- and 1 Arab-speaking countries. These countries, which are not of equal significance economically or in population, cover approximately one-fifth of the land mass of the African continent. They occupy nearly 2.5 million square miles, an area larger than Europe excluding Russia, and share among themselves a total population of almost 150 million in 1980. Table 1 below illustrates the various sizes of the 16 countries as well as the population, income, and growth.

Other significant characteristics of West Africa are first, the level of poverty and second, the standard of living in the sub-region which is one of the lowest in the world.[11] The average GNP was about $760 per capita in 1980, including subsistence incomes. Seven of the 16 West African countries are officially listed among the 30 least developed countries of the world. These are Benin, Burkina Faso, Cape Verde, the Gambia, Guinea, Mali and Niger. In all, 13 of the 16 ECOWAS members are listed among 42 countries that are at the greatest disadvantage in the world economy.

Since independence the economies of the West African countries have exhibited a variety of structural characteristics that reflect and reinforce the sub-region's dependency on the capitalist world system. As these economies have been structured to meet the needs of that system, their performance since the early 1960s must be evaluated within this context. Salient aspects of the structural characteristics of the economies are reviewed in this section, though the discussion is by no means exhaustive.

A significant aspect of this structural dependence is that all the West African countries do not only belong to one or other of various currency and trading groups; they also exhibit the continuity of the presence of the metropole in most sectors. Thus, though 'Independence in Africa meant a change of the dramatic personae in the state; it did not involve the general re-establishment of national control over the economy or society... The new ruling classes, especially in the more dependent countries, were able to rule only through collaboration with external interests...'[12] This trend has effectively conditioned the development of the West African countries and consequently delayed the emergence in many of any signs of building-up developmental capacity for autonomous decision making. Since the ex-colonial powers in West Africa employ different methods to maintain neo-colonial control, it is useful to group the ECOWAS countries according to the metropolitan power with which they are linked. France and Britain being the dominant ex-colonial powers in West Africa, the analysis will concentrate mostly on them and their former colonies.

One of the ECOWAS groups - and perhaps the one whose dependence on the former metropole is most pervasive and intensive - is composed of the former French colonies whose monetary systems are very closely linked to the French franc. Their membership in the franc zone is central to the whole issue of France's relations with its ex-colonies. It is this link which has so far given Paris almost total economic, financial, and ultimately, political control. The surrender of these states to monetary control from France in effect deprives them of the right to exercise an essential component of their sovereignty. Not only has this placed serious constraints on their monetary independence, it has also created the conditions for privileged trading ties between France and these countries, 'favouring of French capital and dependence on foreign capital...' and reinforced the relative power of the French enterprises already in existence, and the continuation of dependence on export commodities to the international market.[13]

One noticeable result of this control from Paris is that movements in the exchange rate of the French franc - as occurred in late 1969 and early 1974, or any French devaluation, which is decided exclusively by Paris - automatically affect the trading balance and the balance of payments of these countries by increasing their already considerable external debt. On the other hand, these states can neither revalue nor devalue their currencies independently. Furthermore, as a consequence of the existence of a fixed parity with the CFA franc prior to the 1994 devaluation, the franc zone has created an avenue for the free transfer of capital. There is no control over the repatriation of capital abroad and this is a basic impediment to any accumulation of capital domestically. It has enhanced the position of foreign capital in the banking system and has naturally left an open path for French capital into the country. Given the structure of foreign capital present in all the embryonic industrial sectors of Francophone Africa, this free transfer has encouraged the investment of transnational corporations (TNCs) based in France through local subsidiaries; this has again stimulated the outflow of capital.[14]

Besides, the structure of the economies of these countries is characterised by the paucity of indigenous control over key sectors. Countries like Senegal and the Cote d' Ivoire have a very high proportion of foreign firms and technical assistants. In the case of the former, a critical Senegalese has observed that industrialisation remains largely in foreign hands, which has meant retaining overseas linkages rather than generating domestic ones.[15] Similarly, the much heralded boom that the Cote d' Ivoire has enjoyed since the 1950s has been superficially propelled for the benefit of the expatriate population who dominate the entire economy. Moreover, both development efforts and investment decisions are largely determined by the interests of

TABLE 1. WEST AFRICA: POPULATION, INCOME, AND GROWTH (GNP - 1980)

Country	Population	Area	Population density (inhabitants per sq km)	Rate of population growth 1970-80	Aggregate ($)m	% of sub-group	% of ECOWAS	Per capita ($) 1980	GNP per capital (% real av. Annual growth) 1960-80	Real GDP growth (% average annual growth) 1960-70	1970-80
CEAO											
Ivory Coast	8.3	322	25.8	5.0	9.550	56	8	1,150	2.5	8.0	6.7a
Burkina Faso	6.1	274	22.3	1.8	1,280	7	1	210	0.1	3.0	3.5
Mali	7.0	1,240	5.6	2.7	1,340	8	1	190	1.4	3.3	4.9
Mauritania	1.5	1,031	1.6	2.5	660b	4	1	440b	1.6a	NA	1.7
Niger	5.3	1,267	4.2	2.8	1,760	10	2	330	-1.6	2.7	2.9
Senegal	5.7	196	29.1	2.8	2,560	15	2	450	-0.3	2.5	2.5a
	33.9	4,330			17,150	100	15	510			
Mano River Union											
Guinea	5.4	246	21.9	2.9	1,590	45	1	290	0.3	3.5	3.3
Liberia	1.9	111	17.1	3.4	1,000	28	1	530	1.5	5.1	1.7
Sierra Leone	3.5	72	48.6	2.6	980	27	1	280	•	4.3	1.6
	10.8	429			3,570	100	3	330			
Other ECOWAS countries											
Benin	3.4	113	30.1	2.6	1,[illegible]50		1	310	0.4	2.6	3.3
Ghana	11.7	239	49.0	3.0	4,920		4	420	-1.0	2.1	-0.1
Nigeria	84.7	924	91.7	2.5	85,510		75	1,010	4.1	3.1	6.5
Togo	2.5	57	43.9	2.5	1,020		1	410	3.0	8.5	3.4
Guinea-Bissau	0.8	36	22.2	NA	130		•	160	NA	NA	NA
The Gambia	0.6	11	54.5	3.1a	150		•	250	1.7	NA	NA
Cape Verde	0.3	4	75.0	2.0a	100		•	300	NA	NA	NA
Total ECOWAS	148.7	6,143			113,600		100	760			

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bThe estimates of GNP and growth rate for Mauritania should be treated with reserve. Alternative World Bank estimates (e g Atlas) suggest a substantially lower GNP ($530m.) and a negative annual growth rate (-0.7%).

•less than half total unit shown.

NA not available

Source: World Bank, 1981 World Bank Atlas (Washington, D.C.: The World Bank, 1982) and World Bank, World Development Report 1982 (New York: Oxford University Press, 1982).

metropolitan investment as well as those of the Westernised elites - the so-called "comprador class" or "auxiliary bourgeoisie" who control the political machinery and collaborate with the foreign capitalists to deplete the resources of the territory.[16] As Samir Amin has argued in a revealing study, the type of growth that the Cote d'Ivoire has experienced over the years 'does not automatically result in an economic take-off, but in an increased external dependency and the blocking of growth'. He has characterised the Cote d' Ivoire example as 'growth without development'.[17] In other words, there has been negligible "spill over" from growth to development.

The second ECOWAS group of countries comprises the four Anglophile states of the Gambia, Sierra Leone, Ghana, and Nigeria, which have been members of the sterling bloc, and still share membership in the Commonwealth. On he eve of independence, each of these countries acquired independent currencies issued by their respective central banks. Although the strength of the economy of each depends on levels of foreign exchange reserves and balance of payments, each country still maintains a sterling link. Unlike France, Britain is more thoroughly integrated into the growing world-imperialist system. The British have not chosen the technique of continued direct involvement in their former colonies; instead they have allowed for a concentration of effort by TNCs. Resources are extracted and employed for the benefit of Britain in particular, and international capitalism in general, without the more overt use of direct national power over the internal affairs of former dependencies. Consequently, the former colonies of Britain give the appearance of having greater control over their own destinies than do those of France. This illusion is quickly dispelled, however, by the realisation that the economic dependence of both groups on externally based capitalism is roughly equivalent. For example, while French monopolies control 95.7 per cent of Niger's economy, 87.4 per cent of Senegal's, and 80 per cent of Cote d'Ivoire's; according to 1974 UN sources on TNCs, British monopolies control 87 per cent of the Gambia's economy, and 84.4 per cent of Sierra Leone's. In Nigeria, foreign monopolies continue to control 65 per cent of all industrial investment and a similar percentage holds true for Ghana as well.[18]

In addition to the French- and English-speaking groups, there are today three ECOWAS countries that do not belong to either international community but stand in a more or less isolated position. These countries are Liberia, which belongs to the dollar area and uses the U.S. dollar as legal tender; and Guinea-Bissau and Cape Verde which have their currencies linked to that of Portugal.

Of considerable significance is the trade pattern of the ECOWAS sub-region.[19] For if trade dependence is a characteristic feature of developing countries, such dependence is chronic in the ECOWAS countries. As Table 2 shows, trade of the sub-region with developed countries for the period 1968-74, for example, averaged about 87.0 per cent of total trade while intraregional exchange for the same period was on the average about 3.4 per cent only. The channels of the West African countries are geared towards enhancing trade with former colonial powers in particular and with the industrial countries in general. The direction of trade between them follows the lines and patterns of dependence. As Kwame Nkrumah painfully remarked, 'Our trade... is not between ourselves. It is turned towards Europe and embraces us as providers of low-priced primary materials in exchange for the more expensive finished goods we import'.[20]

Besides monetary and trade dependence of the West African countries is the cultural and technological dependence. Dudley Seers has highlighted the particular importance of cultural dependence because of its role in shaping 'the way governments perceive their problems'.[21] Cultural dependence also takes the form of addiction to foreign technology especially in manufacturing, but also in agriculture, architecture, civil engineering, etc., which makes the importation of foreign equipment and materials seem essential. Cultural dependence in West Africa not merely determines in large part the pattern of consumption and the choice of technique in every field and increases 'brain drain'. It also shapes, in some degree, government development policy, and thus the whole economic structure.

Such then, is the state of dependence of the West African countries whose destiny is still in large measure shaped (i) outside the sub-region and (ii) within the sub-region by foreign forces. Thus although these countries have been 'independent' for more than three decades now, the basic structure of their economies have not fundamentally changed. None of the countries is, as yet, within striking distance of self-sustaining growth and economic independence. Yet the creation and maintenance of meaningful political independence requires the attainment of national political economies. A state whose economy is characterised by concentrated external dependence can hope to have neither a significant degree of control over the rate of growth and nature of allocation of domestic resources, nor a high level of external credibility from which to bargain.

The central problem for the sub-region, therefore, has always been how the West African countries can break free from the historical conditions in which they find themselves. For since all social systems seek to ensure their continued existence, it follows that dominant countries - in the case of West Africa, the former colonial powers - will try to retain the bases of their dominance over others and thus see to it that dependent countries do not follow their 'dream of independence'. This, then, is the crux of the matter. By he early 1970s, when dislocations in the international economy revealed the extreme vulnerability of almost all the countries in the sub-region, the West African governments were faced with a choice between continuing to support the inherited structure of dependence or beginning to initiate a viable strategy that can really transform the West African economies from a dependent structure responsive to the external demands of the world market to an integrated economy responsive to domestic needs and resources.

III. TOWARDS REDUCTION OF DEPENDENCE

Historically, West Africa was the advance guard of the nationalist revolution that swept away the European colonial empires in Africa in the two decades following World War II. Since coming into power, the new West African leaders, like their counterparts elsewhere in Africa, had insisted that political independence was the essential preliminary to a fundamental restructuring of the colonial economy, and many students of West Africa seemed to agree that the political hegemony of the colonisers was a critical factor in the underdevelopment of West African social formations. After more than three decades of political independence in West Africa available evidence on the validity of this assumption is ambiguous. Revolutionary changes in the structure of West African economies, like those in the rest of the continent, have clearly not occurred, and even their growth rates have been less than satisfactory.

By the time political independence came, the colonial economy had so to speak, matured; its structure was firmly set and could not easily be changed. The new government no longer

TABLE 2: SHARE OF INTRA-WEST AFRICAN TRADE* IN TOTAL EXTERNAL TRADE (U.S. $ MILLION)

Description	1968	1969	1970	1971	1972	1973	1974
(a) Total trade with all countries of the world	3,846.6	4,546.6	5,683.4	6,684.5	7,503.5	10,548.5	21,435.3
(b) Intra-regional trade (ECOWAS)	144.8	133.9	162.3	236.4	241.9	428.3	975.3
(c) (b) as % of (a) (average for the period)	3.8	2.9	2.9	3.5	3.2	4.1	3.7
(d) Exports to all countries of the world	2,017.6	1,392.2	2,954.3	3,397.2	4,126.4	6,094.5	13,902.3
(e) Exports to countries in the sub-region (ECOWAS)	75.1	66.1	86.2	140.4	127.1	231.1	411.3
(f) (e) as % of (d) (average for the period)	3.7	2.8	2.9	4.1	3.1	3.8	3.0
(g) Imports from all countries of the world	1,829.1	2,154.5	2,728.5	3,287.3	2,277.1	4,454.0	7,533.0
(h) Imports from countries within the sub-region (ECOWAS)	69.7	67.8	76.1	96.0	114.8	197.1	384.0
(i) (h) as % of (g) (average for the period)	3.8	3.1	2.8	2.9	3.4	4.4	5.1

*Excludes Guinea-Bissau

Source: I.M.F., I.B.R.D., Direction of Trade 1968-1972, 1969-1973, 1970-1974.

enjoyed the freedom of fabricating an economy from the start. The fully formed economy that it inherited imposed a certain logic and rigidity on the course of future development, and this logic was essentially one that favoured the persistence and even the reinforcement of the syndrome of disarticulation and dependence.

Strategies for Development

As Ake has rightly underlined, one important impulse for change in African economics is the desire of African leaders, apparently shared by heir followers, for development.[22] The informal and formal pronouncements of the West African leaders and their counterparts in the rest of Africa give one the impression of an unshakeable commitment to the idea that they must try to achieve development, perceived as the primary condition for their own welfare, the legitimation of their leadership and the well-being of their countries. They are convinced that there is a link between the underdevelopment of their countries and the most fundamental problems which plague their states, such as poverty, the high incidence of disease, unemployment, military weakness, ignorance, technological backwardness, cultural deprivation, short life-expectancy, social disorganisation, and the high incidence of political instability. They see development of their economies as the necessary condition for dealing decisively with these problems. That is how development has come to be an obsession in the West African sub-region as in rest of the continent. Various development strategies were adopted.

(a) Increase and Diversification of Primary Commodities

One development strategy which was popular in West Africa during the earlier years of independence, and which continues to recur in development plans, is the expansion and diversification of agricultural export commodities. It was one of the central issues of the Lagos Plan of Action (LPA) adopted by African leaders in April 1980, and it is high on the agenda of the African Priority Programme for Economic Recovery (APPER) 1985 and the United Nations Programme of Action for African Economic Recovery and Development (UNPAAERD) 1986-1990.[23] Under pressure to earn foreign exchange for development projects, West African countries were tempted to turn to the expansion of output of agricultural commodities.

This strategy met with only very modest success. To begin with, the developed market economies were very reluctant to allow free access to the commodities of agricultural producers in West Africa. Although this reluctance was gradually overcome since the African-Caribbean-Pacific (ACP)-European Union (EU) Lome Convention in February 1975, this has been a far cry as Lome, as highlighted elsewhere, 'has become an empty shell'[24] The products of the countries which received preferential treatment in the EU did not expand their market share; rather their share of the EU market shrank. The export stabilisation (STABEX) of the Lome system which has helped to some extent to insulate a large number of ACP states from the worst effects of instability in earnings from primary commodity exports, has been inadequate to cope with the scale of short-term instability in the commodity markets.[25] Not only is STABEX chronically underfunded, the Lome conventions as a whole have not contributed much to diversification of West African export commodities.

Besides, the strategy also suffered from the problem of demand, which arose in part from the shift in the consumption patterns of developed countries towards a preference for consumer durables, from the availability of synthetic substitutes and from the slow rate of increase of population in the developed countries.

But even without these difficulties, the strategy would still have been a failure from the point of view of the most fundamental objectives of the development effort as stated by West African leaders. Indeed the success of the strategy would have strengthened the existing international division of labour and helped to stabilise West Africa in her role of primary producer. That apart, the strategy had great potential for perpetuating the exploitative dependence of West African economies on the metropolitan economies. It encourages a perspective of development which links the prospects of development to the nature of the vertical links between the West African economies and those of the metropolitan countries. And it sees the solution to the problem in terms of export gaps, export earnings stabilisation arrangements, and access to the markets of industrialised countries, and discourages attention being paid to the self-reliant evaluation and exploitation of local resources and local capabilities. This type of perspective on the problem of development fosters dependence, disarticulation and ultimately the limitation of West Africa's resource base. Nor has the strategy of import substitution made any impact on reduction of dependence.

(b) Import Substitution

As a strategy, import substitution was a very popular approach to development in West Africa in the late 1950s due perhaps to the fall of demand for primary products and the subsequent fall in foreign exchange earnings. Import substitution was not only held to be necessary to correct the differences in the income elasticities for imports and exports; it was also said to have some potential for decreasing under-employment. Besides, import substitution was credited with the ability of making more goods available than foreign exchange constraints would normally allow in the absence of import substitution. Above all, it was said to aid industrialisation and the diversification of the economy.

Unfortunately, however, the pursuit of import substitution-led industrialisation has not been very rewarding as reflected in the 1976 and 1977 reports of the United Nations Economic Commission for Africa.[26] On the level of economics there was perhaps not enough critical understanding of the limitations of import substitution as a means of generating development. A case in point is the Nigerian experience, which is typical of the West African experience of import substitution efforts in the sub-region as highlighted by Peter Kilby.[27] In so far as import substitution was taken as a major tool of industrialisation and diversification in Nigeria, the evidence shows that it has not been a success. On the whole, the evidence is that the policy of import substitution has had at best a marginal effect on the promotion of industrialisation, on diversification, and on the reduction of dependence, the major changes that the West African leaders wanted to effect with it. How about the strategy of export promotion?

c. Export Promotion

The desirability of export promotion is another approach to development which has enjoyed considerable popularity in West Africa, although this popularity does not appear to have been justified by the practical commitment to it or by its effects in solving the problems it was supposed to solve. These are the same problems which import substitution was supposed to solve, namely industrialisation, self-reliance, a better balance of trade, savings in foreign exchange and the diversification of the economy. But how have the policies of export promotion fared in West Africa in encouraging industrialisation, diversification, self-reliance and better terms of trade?

Like import substitution, the strategy of export promotion has not worked well in West Africa, as evidenced in the numerous data about the performance of African economies available in government publications such as Development Plans, as well as in publications from agencies such as the World Bank and the United Nations Economic Commission for Africa. West African countries are not yet in a position of exporting significant quantities of manufactured goods.

The poor results of the pursuit of export promotion in West Africa, as in the rest of the continent, have been due to many factors. First, there was the usual problem of breaking into a highly competitive international market. The disabilities imposed by the underdeveloped state of West African economies - the high capital-output ratio, the rudimentary development of infrastructures, the limited opportunities for linkages and economies of scale, etc. - made it difficult for the policy of export promotion to succeed. Second, the international atmosphere has not been helpful to the African quest for export promotion. To begin with, there is the shift of demand in industrialised countries from cheap primary semi-processed goods to high quality goods. Third, the disparity in the rate of increase of the prices of manufactured goods relative to primary goods, debt servicing, etc. created serious balance of payments problems for the West African countries. This pushed them to take drastic steps to restrict imports. This protectionism was unfortunately unfavourable to export promotion (although it favours import substitution). Fourth, the Lome Convention has not helped much. Although by the conventions the EU countries have promised free entry to virtually all the products of the ACP countries, this is hedged with qualifications and the mechanism of covert protectionism. More worrying is the lack of impact of some of the Lome arrangements supposedly designed to promote industrialisation and the export of manufactures in the ACP countries as detailed elsewhere[28] and should not detain us here.

d. Regional Economic Integration

The last development strategy to be considered is regional economic integration as reflected in the signing of the Treaty of Lagos on 28 May 1975 by the West African countries to establish the Economic Community of West African States (ECOWAS for the English-speaking and CEDEAO for the French-speaking). This event represented the culmination of many years of effort by these states to increase the economic mass, and therefore the bargaining base, of their economies. Through a pooling of economic 'sovereignty' their intent is to transform their economies so as to extend the struggle for political decolonization into one for economic decolonization.[29] The creation of ECOWAS was also a response to the recognition by the West African countries that the fragmentation of the sub-region - the product of colonial balkanisation - into narrow domestic markets renders a shift in he pattern of production, designed to reduce dependence, both difficult and costly.

In brief, therefore, the inauguration of ECOWAS must be seen as an attempt by the West African states to enhance their economic opportunity and to reduce their external dependency. Thereby they hope to overcome the existing structures of neo—colonialism and under-development. The lessening of the high degree of external dependence is a precondition for achieving basic structural development goals.[30] But to what extent is ECOWAS as an economic integration scheme sufficiently equipped in terms of resources and power to disengage, even if partially, the peripheral West African countries from inherited dependency on the former metropolitan powers and, by extension, from the existing pattern of asymmetrical economic and political relationships prevailing in the international system? The objective of dependency reduction would necessitate, first, the alteration of traditional trade and investment relationships with a view to making it possible for the West African countries to secure fuller control of their economic and political destinies. It would necessitate, second, among other things, a deliberate restructuring of the present mode of production and an adoption of regional policies to regulate external linkages in the interest of domestic development.

Although ECOWAS has been in operation for more than two decades, like the strategies of import substitution and export promotion, the Community has not been able to achieve its main objective of reducing dependence and promoting development. Intra-community trade has not been stimulated, and has shown a tendency to decline in importance. Hence, in trade, the old patterns of dependence largely remain, even though West African economies have rather more room for manoeuvre. Nor has ECOWAS made much progress in policy integration, that is, in the foreshadowed measures of positive economic integration and policy harmonisation. Similarly, its performance in monetary and financial integration leaves much to be desired. The West African ClearingHouse established by ECOWAS in 1976 to mitigate payment difficulties has not seen the light of day.[31]

What, then, has gone wrong with this all-engaging issue of dependency reduction in West Africa? It has become evident that the dependence of West African economies on external demand for primary products imposes severe constraints on the ability to diversify and to reduce disarticulation. Foreign exchange is needed to carry out development projects, but to earn foreign exchange countries are obliged to continue along lines of production which reinforce their inevitable role in the international division of labour. The narrowness of the resource base of West African economies in turn deepens their dependence. For one thing the resources from this narrow base are usually too meagre, so that external borrowing has to be resorted to and foreign investment sought, etc.

Besides, up to a point the indigenous capitalist class in many West African countries are really, as noted above, agents of Western capital and by extension part of the structure of the imperialist exploitation of the sub-region. In so far as they fall into this role, they are unable to champion effectively those changes which will liberate West African economies from heir exploitative dependence and diversify the economy. The conflict of interest between indigenous capital and Western capital quite often resolves itself partly in an accommodation resting on the delimitation of spheres of influence and collaborative arrangements. The process of indigenisation in West Africa, for instance in Nigeria and Ghana, was essentially interesting not so much as economic nationalism but as the articulation and institutionalisation of this accommodation. The effect of this type of accommodation is to arrest a development which has great potential for fundamental change. In this sense the contradiction between local and Western capital aids the forces of inertia. Hence the continuing dependence of West Africa which in recent years, has been heightened by the process of globalization.

IV. GLOBALIZATION: IMPLICATIONS AND CHALLENGES

A recent agency seminar organised by the United Nations Conference on Trade and Development (UNCTAD), held in Geneva, from 15 to 17 April 1996, has defined globalization as a term which refers 'to the growing interaction of countries in world trade, foreign direct investment and capital markets'.[32] Technological advances have abetted the globalization process in transport and communications and by a rapid liberalization and deregulation of trade and capital flows, both at the national and international levels. Much of the analysis and thinking about globalization has focused on the more visible aspects of globalization, notably, the sea-changes taking place in the pattern of production, pace of diffusion of knowledge and information and the convergency of factor markets. Less well understood and analysed, however, is the phenomenon of marginalization or the extent to which globalization has affected the least developed countries, particularly those in Africa which are at the periphery of global processes.[33] This section focuses attention not only on West Africa but the whole of sub-Saharan Africa. This is because one can hardly distinguish between the West African sub-region and the other sub-regions of the continent so far as the effects of globalization and dependence are concerned.

Features of Globalization

There has been much publicity about globalization, a process or a state of affairs that holds much promise for the future of "planet earth" and not a little trepidation among the people of many countries, particularly those in sub-Saharan Africa, for whom even nationhood, as analysed in the case of the West African sub-region, has not delivered the things that they had expected. These countries are yet hardly nations, and now they are being pressed, especially by the multilateral financial institutions, to forget their nationhood and go for globalization, something that they cannot yet comprehend but which they know would be too big for them to handle.

For there is a widespread perception that globalization may, at some cost, limit the autonomy of policy making at the national level. The best way to achieve development, in the view of the multilateral financial institutions, is to enhance the role of the market, while diminishing that of the state. The role of the latter should be confined to creating a suitable environment (including macroeconomic policies) for private enterprise to flourish and competitive markets to function. Scholars like Horsman and Marshall have asserted that the era of the nation state is over, and that national-level governance is ineffective in the face of globalized economic and social pressures[34]. World market forces which are stronger than even the most powerful states have sidelined national politics and political choices. Hence the nation state has ceased to be an effective economic manager. It can only provide those social and public services international capitals deems essential and at the lowest possible overhead cost. Nation states like those in West Africa are perceived by authors like Ohmae[35] and Reich[36] to have become the local authorities of the global system. They can no longer independently affect the levels of economic activity or employment within their territories: rather, those are dictated by the choices of international mobile capital.

Hence the continuing dependence of the West African countries after more than thirty years of attaining nationhood has been reinforced by the phenomenon of globalization. Already these countries have found that their politics, their economy, their social and behavioural systems are all under the control, directly or indirectly, of the old colonial masters and the great powers.

In the bipolar world of the Cold War period the countries of West Africa and those of the Third World as a whole had at least the option to switch allegiance even though allegiance often amounted to acceptance of hegemony. In a unipolar world they have lost even the choice to submit. They have to submit to the successful super-power and its cohorts whether they like it or not.

With that experience it is incomprehensible to think that globalization will mean more independence for these countries, or mean more equitability for them. Globalization can only mean one thing - loss of the nominal independence they have had since the 1960s with nothing to compensate.

There is yet another disturbing implication of globalization. The phenomenon of globalization would leave the West African countries totally exposed and unable to protect themselves. True globalization may result in increasing foreign investments in these countries. But such investment will depend on the competitive advantages that these countries have. If investment like trade is linked to labour rights and wages, etc. then corrective measures taken by the West African and other developing countries will remove their competitive advantage. Without these advantages why should foreign investors invest in these countries?

On the other hand, if fairly successful developing countries were to open their economies to all and sundry, the huge corporations in the developed countries will overwhelm the small companies in the developing countries of Africa and the rest of the Third World. The huge banks can afford to lose in a small country when they are making profits in their own country or in other developed countries. The local banks cannot afford such losses and will either shut down or be forced to merge and lose their identity. The same thing can happen to telecommunications companies, power companies, construction companies, etc. Hence the effect of economic globalization would be the demise of the small companies based in the West African sub-region. Large international corporations originating in the developed countries, particularly those of the former colonial powers, will take over everything.

The manufacturing, trading and telecommunications companies together with the banks will grow and merge, controlled and run by the huge core companies of the developed world. The little players from the West African countries would be absorbed and would disappear. Their shareholders, big players when they were in the small companies, will wield insignificant authority in the huge conglomerates. And so will their chief executive officers and other executives, reduced to mere names on the payroll.

Already, because of lack of success in manufacturing industry, in the acquisition of technology, in attracting foreign investment, and in developing efficient service industries, West African countries have not been able to participate to any significant extent in the globalization of world production and the development of industrial linkages across countries, which has been one of the most remarkable developments of recent years, and a major factor explaining the dynamic growth of the Asian countries.

V. POLICY RESPONSES TO CHALLENGES OF DEPENDENCE AND GLOBALIZATION

Many approaches to the challenges of the age-old dependence and to the new challenges of the world economy will be of a similar nature, whether they respond to the multilateral challenges of the implications of the recent Uruguay Round Agreements, to the regional challenges of large-scale integration system or to liberalization and globalization. True, most African countries have been or are too weak to benefit from globalization or to keep up with its speed, given their frail institutional and general capacity and management ability. True also, too many people and individuals have been excluded from the benefits of globalization, especially in the developing world. But West Africa and, indeed, the whole of Africa, cannot escape globalization whether it likes it or not. Thus Africa should not just complain but position itself to become an active player in the globalizing economy.

What needs stressing is that the forgoing analysis of dependence and globalization has important policy implications for the countries of West Africa and the other African sub-regions, requiring careful reflection on policy responses by the countries individually and collectively. West Africa faces the critical problem of building its competitiveness in an atmosphere of progressive multilateral and regional liberalization of world trade, increasing globalization of production and rapid changes in technology. The African continent as a whole must, therefore, develop an effective response to these changes in order to participate in the global trends that are going to shape the future of international economic relation. What are the prospects for West Africa and the rest of sub-Saharan Africa in effectively meeting the challenges of globalization and dependence? How can the recent promising trends towards an emerging dynamic continent be sustained?

An Emerging West Africa?

No doubt the prospects for development in Africa as a whole are much brighter now than they have been in the past several years. Economic recovery and growth are taking hold in more countries. And in nearly half of the countries of the African region economic growth has outpaced population for two years in a row.[37] According to the Economic Commission for Africa's Report on the Economic and Social Situation in Africa, 1997, preliminary figures indicate that the economic recovery underway since 1994 has continued.[38]

With particular reference to West Africa, the growth momentum that started in the sub-region in 1994 was maintained in 1996, despite threats to sustained agricultural production in a few countries and the problems and uncertainties of post-war reconstruction in Sierra Leone and peace settlement in Liberia. Sub-regional GDP growth is estimated at 4.2 per cent in 1996, compared to 3.4 per cent in 1995 and 2.5 per cent in 1994.[39]

Nigeria, by far the largest country of the sub-region population-wise (106 million in 1987 according to World Development Report 1989), registered a significant economic recovery in 1996, aided by high oil prices, increased oil output and a budget surplus that sustained macroeconomic stability, plus of course the favourable improvements in the agricultural sector. GDP is estimated to have increased by 3.8 per cent, against 2.3 per cent in 1995.[40]

In Ghana, the second largest country in West Africa in terms of population, which according to World Development Report 1989, was 13.6 million in 1987, GDP growth was 5.0 per cent in 1996, which compared favourably with the 4.2 per cent in 1995 and 3.8 per cent in 1994. Inflation has been on the decline, from 70 per cent at the end of 1995 but remains higher than the target of 20 per cent for 1996.[41]

Significantly, too, virtually all the French-speaking countries of the CFA zone are expected to register increasing benefits from favourable investment opportunities emanating from the economic reform programmes under way since 1994. The ECA Report has noted that, in Cote d' Ivoire, the largest CFA franc zone economy in the sub-region, GDP growth fell below expectations but was still a respectable 6 per cent in 1996, driven mainly by strong recovery in agriculture and water, power and construction sectors, as well as revival in manufacturing and services.[42] The Report highlights the case of Senegal, where GDP growth is estimated to have reached 5 per cent in 1996 due to the expansion in the tourism and construction and services sectors, and export-oriented activities.[43]

Despite the series of important gains and the positive changes taking place in West Africa and on the continent as a whole, the spectre of marginalisation remains, as social indicators remain below those of other developing regions. Poor income growth, as well as environmental and population pressures keep almost half of Africa's 758.4 million people as at mid-1997 in poverty. In fact, absolute numbers living in poverty in West Africa and in the rest of the continent are increasing. Against this background, how can the 16 countries of West Africa or the 47 sub-Saharan Africa's countries as a whole prepare themselves to enter the new millennium as global players and equal partners with countries of other continents and nations? How can an African renaissance be engineered and sustained? What type of leadership and commitment will be required to enable the West African sub-region to effectively meet the challenges of dependence and globalization?

Policy Measures

To sustain the present positive trends and to effectively meet the challenges of the world economy the following policy measures would be required.

i. Adopt selective integration

As far as economic development in West African countries is concerned, the "first best" policy with respect to liberalisation and globalization is not to seek rapid and close integration but rather to define careful policies of selective integration or what may be called strategic integration. To benefit from the dynamic gains that would flow from integration with the world economy, more rather than less government intervention in economic management would be required.

As experience has shown, the role of governments, today and in the third millennium will be more crucial than in the past - in setting the policy and legal framework, building institutional and human capacities, putting in place the necessary infrastructure, creating an appropriate enabling environment, where necessary, sponsoring entrepreneurship and enterprise creation.

ii. Enhance human resources development

Major efforts are required to enhance human resources development which is crucial to raising the productivity and competitiveness of the economy. The strengthening of human resources and of institutional support for trade becomes an imperative if the countries of West Africa are to cope with existing and future complex multilateral trade agreements whose scope tends to cover areas traditionally considered as the exclusive domain for autonomous national policy-making.

There must be massive investment in at least basic education, primary health care, basic social services of safe water and adequate nutrition and in the extensive provision of family planning services. Massive investment in human development is key for tackling poverty, improving the comparative advantages in Africa's external trade position and attract private investment flows so essential for further development.

iii. Promote trade and investment

Trade and investment are important vehicles for integrating West Africa and the rest of the continent into the global economy and reaping benefits which accrue from it. A policy framework to promote investment in West Africa must address issues relating to the political climate, a conducive economic policy framework, increased public savings and investment, increased private savings; attracting foreign investment, and enhanced regional co-operation and integration. In regard to trade-expansion, West Africa must embark on a more dynamic course marked by increased participation in world trade and a more purposeful engagement in international exchange of resources. To do this the countries of the sub-region would need to enhance their international competitiveness in the world markets.

iv. Achieve macroeconomic stability

As rightly recommended by a recent UNCTAD conference, it is essential that governments, particularly those of West Africa, achieve macroeconomic stability and attach importance to institution-building if they are to develop a sustainable approach to globalization. Externally oriented liberalization policies must likewise be carefully planned and monitored as to any possible undesired effects or outcomes.[44] Certain basic principles can be suggested. For one thing, a sweeping liberalization of import regimes should not precede but should go together with enhanced export capacity and performance. Also, exchange rates should be maintained at realistic levels. An over-appreciation of the exchange rate will reduce the competitiveness of export industries and therefore should be avoided through prudent and credible macroeconomic policies.

v. Deploy the right policy instruments beyond SAPs

West African governments need to deploy the right policy instruments beyond the precepts of short-term structural adjustment, essentially guided by the requirements of long-term structural transformations. The sub-region must be moving away from traditional dependence on primary commodities (agriculture, forestry, fisheries, mining and extractive industries) and modernise, expand and diversify its production and exports, carefully identifying right markets for value added products and services, empowering the feeble local private sector and engaging in non-traditional items for knowledge-intensive production. In particular, West African countries must stimulate the service sector and modernise ports and communications. Not only should the manufacturing and services sector be developed; importantly too, West Africa must develop its agriculture to enable it to feed its population.

vi. Remove physical, social and institutional infrastructure constraints

Physical, social and institutional infrastructure constraints must be removed. Ideally, this should be embedded in pro-poor policies comprising broad political participation, accountability and transparency, enhanced roles for community groups and NGOs. Massive investment in human development, as noted above, is key for tackling poverty, improving the comparative advantages in West Africa's external trade position and attract private investment flows so essential for further development.

vii. To vastly extend and upgrade educational, scientific and technical infrastructure

Furthermore, West Africa must vastly extend and upgrade its educational, scientific and technical infrastructure so as to enable it to enter the mainstream of technology use and internalisation, acquiring new technological skills, developing new materials and building non-traditional economic activities. The sub-region should embrace the new information technologies which hold the promise of leapfrogging and a more effective delivery of services in the fight against poverty through long-distance learning, telemedicine, natural resource management, environmental protection and enhanced popular participation.

viii. Explore new opportunities in the world market

There is the need for the West African countries to actively explore areas where there may be growing opportunities for expanding their exports of goods and services, and take advantage of the opportunities provided by tariff reductions and better market access under the Uruguay Round on the one hand, and of growing import demand in large scale integration systems derived from their better growth prospects on the other. In this connection, export promotion efforts should target the following objectives, among others:

- Geographical diversification of trade towards rapidly growing markets including developing countries in South East Asia and Latin America.
- Explore new market opportunities in traditional agricultural sectors as well as processing industries;
- Diversification of industrial exports; and
- Exploiting new opportunities in services.

ix. Enhancing South-South co-operation

Developments on the international scene, characterised, among other things, by the new trading environment ushered in by the Uruguay Round, are creating a radically new world environment which makes it necessary for developing countries to strengthen co-operation among themselves in order to achieve collective self-sufficiency and improve their position in the world economy.

Interregional co-operation among developing countries of Africa, Asia and Latin America can provide additional support to the diversification efforts of West African countries. This should involve, for example (i) promotion of transport and communication networks and facilities, including shipping lines between West Africa or Africa in general, Asia and Latin America; (ii) establishment of mechanisms for financing of South-South trade and investment; (iii) promotion of multinational production and services; and (iv) establishment of a network of technical support centres for research, consultancy and training.

x. Strengthening West African integration process

Meaningful economic integration, as outlined in the 1993 ECOWAS Treaty, is indispensable if West Africa is to industrialise, develop the capacity to participate effectively in the evolving global linkages and markets, reduce her vulnerability to fluctuating overseas markets, mobilise and maximise scarce resources of capital and skills, and finally forge the way to effective West African unity - political and economic. To this end, the process, as highlighted in a recent study,[45] must go beyond the mere integration of markets. It must deal as well, and effectively, with the integration of physical structures and the integration of production. This will encourage and facilitate the participation of West African countries in the global trend towards the integration of production processes on a worldwide basis, involving the establishment of linkages between production units in different countries.

New initiatives in the process of West African economic co-operation and integration should involve, among other things:

- speeding up the liberalization provisions of ECOWAS
- encouraging current efforts to rationalise the integration organs in West Africa so as to prevent not only costly duplication, but also to establish certainty and a better investment climate;
- promoting new efforts to achieve the harmonisation of macro-economic policies at the ECOWAS sub-regional level;
- promoting greater role for service and enterprise or private sector - the business community, chambers of commerce and industry - in the integration process;
- encouraging strong political commitment of the West Africa governments to advance integration towards common objectives and to give regional economic co-operation and integration a central role in the activities of governments; and, above all,
- ensuring full participation of all sections of the West African society, particularly, the socio-economic groups - trade unions, professional associations, employers' organisations, student and academic bodies, women's and peasant organisations, newspaper and media executives - in the process of West African economic co-operation and integration.

CONCLUSION

This paper has attempted to analyse the phenomenon of dependence and globalization as it relates to the peripheral economies of the West African sub-region. It has stressed that despite the attainment of nationhood of the sixteen West African countries, the problem of dependence continues to bedevil efforts towards development. In technological, trade, monetary, as in other areas, the old patterns of dependence largely remain, even though West African countries have now rather more room for manoeuvre. These countries continue to rely on the industrialised capitalist countries for their technology as well as for trade and monetary systems. The persistence of dependence has been deepened in recent years by the growing interest in both official and private quarters in the phenomenon of globalization which is threatening to marginalise the countries of the West African sub-region and, indeed, the rest of sub-Saharan Africa from the mainstream of the world economy. To meet the challenges of external domination which has been characterised by dependence and globalization, the paper has highlighted a number of what may be considered as appropriate policy responses. Taken together, these measures, perhaps, will reduce somewhat the continued vulnerability of West Africa to outside forces, with important implications for regional and continental development practice and policy.

NOTES

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[10] For a full-scale study of ECOWAS, see S.K.B. Asante, The Political Economy of Regionalism in Africa: A Decade of the Economic Community of West African States (ECOWAS) (New York: Praeger, 1986).

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[42] Ibid., p.16.

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Africa In The 21st Century: Development of Democracy Or Democratic Development?

by

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AFRICA IN THE 21ST CENTURY: DEVELOPMENT OF DEMOCRACY OR DEMOCRATIC DEVELOPMENT?

By

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The late Guyanese historian, Walter Rodney, remarked in his seminar work **How Europe Underdeveloped Africa** that".....the vast majority of Africans went into colonialism with a hoe and came out with a hoe", Forty years after independence, the African is still with hoe. But while under colonialism it was survival in servitude, now that very survival itself is at stake.

The Euphoria for Independence

It was only 40 years ago that the decolonisation process really started in Africa. Ghana is considered by most Africans as having blazed the trial for independence, though before the independence of Ghana in 1957, Morocco, Tunisia, Libya, Sudan, Ethiopia, Liberia and Egypt were already independent. At the time of the euthoria, the hopes of many people were that with independence, Africa will be able to solve all its problems. The crying motto at the time was: Seek first political freedom, and all else will follow. It was believed that independence will bring in national unity and solidarity, will eradicate starvation and illiteracy, will abolish diseases and provide housing, schools and universities, and raise life expectancy. But independence has not fulfilled all of Africa's dreams. Instead the continent has witnessed a series of wars, killings and assassinations, hunger and starvation, refugees and displaced persons, natural and man-made disasters-- all causing damages of enormous proportions to the African society. It is true that some of the problems were inherited from colonialism, but most of them were of Africa's own creation.

The Army Enters ' Ikulu' (State House)

At the founding meeting of the Organisation of African Unity in 1963, the delegation of the military regime that overthrew President Olympio was refused admission because it came into power through unconstitutional means. But that did not act as a warning to possible coup makers in other places. Africa has seen 60 coups in the last four decades.

At the 1964 OAU Summit in Cairo, a resolution was passed calling on African states to recognise colonially inherited borders,* yet 15 border disputes have erupted involving 30 countries. Africa had seen also 15 civil wars, some of which are still going on until now. In 1967 at the signing of the OAU Convention on Refugees, it was hoped that the number of refugees would dindle in the continent, but today it is the only region of the world that has the biggest number of refugees.

Poverty in the Midst of Plenty

Africa has vast reserves of chromium, gold, manganese, uranium and platium. Congo Kinshasa alone is endowed with vast cobalt reserves, industrial

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* At the International Conference on 'Leadership in Africa: Forty Years After Independence' held in December 1997 at the University of Dar es Salaam, former Tanzania's President, Mwalimu Julius Nyerere, explained the reasons that led him to introduce the resolution in 1964: he had received in 1960 a delegation of Maasai Elders from Kenya, headed by an American Missionary, wanting Kenya's Maasai to be incorporated into Tanzania. in 1962 Dr. Kamuzu Banda of the then Nyasaland (now Malawi) approached him with an idea that Mozambique be sliced up, with a part going to Nyasaland, the second part going to Southern Rhodesia (now Zambia) and a third part going to the then Tanganyika; in 1963, during the founding meeting of the OAU, Somali and Ethiopia were at war over Ogaden

diamonds and copper. Africa's uranium potential can easily satisfy all its projected energy requirements for years to come. The continent presently consumes only one-sixth of its current oil output, and by itself would have ample reserves to last for many decades. All this wealth lies in a continent where infant mortality rate is at 145 deaths per 1000 births; where tetanus, measles, whooping couph and diptheria annually kill over 400,000 children in Nigeria and 100,000 children in Congo Kinshasa. Millions of children of pre-school age die every year as a result of manutrition-linked conditions. One million people died in the 1984-85 Ethiopian famine,and millions more in Mozambique and other places in the years that followed. Africa is a continent where 240 million of its people are poor, and where one out of every three Africans is underfed, yet pays over 46% of its export earnings to service debt obligations.

Man-Made Problems

Immediately after attaining its independence in 1962, after a seven-year war with the colonial power France, Algeria was forced to go to war with Morocco over a border dispute. Somalia was one of the only countries (the other being Morocco) that abstained from the 1964 OAU resolution on border questions, only to come and show its reasons why it abtained when it went into war with Kenya over the North Front District, and with Ethiopian over Ogaden region. Nigeria was at war with itself when the Ibbos in Biafra were threatened with genocide. But, of course, great destruction and devastation occured in Southern Africa where ideological differences, ethnic animosities, apartheid hegomonistic plans and big-power rivarly combined to put the region's socio-economic advance to a halt and to send it back to barbarism. Rwanda and Burundi epitomise the cheapness of life in Africa and show that when it comes to crimes, some leaders in Africa can surpass Hitler, Pinochet and Pol Pot.

But how can somalia be explained? A people of the same colour, the same religion and the same ethnic background who speak the same language, yet kill each other more ferouciously than in the Palestinian-Israeli War! The clan rivalry can be explained only in terms of the allocation of resources, and the ursurption of the control of the sources of those resources. Siad Barre, the Aideeds (both father and son) and the regime in the seccessionist region are all fighting for the control of the diminishing resources. The shifts of alliances with external forces (Soviet Union, apartheid South Africa, United States, Egypt, Kenya Saudi Arabia, etc.) that one saw happening in the last years of Siad Barre regime and soon thereafter can be explained in this context.

Debts for Underdevelopment?

Another Sword of Democles hovering over Africa, and that bears directly to the questions of peace and stability, is the debt crisis. With the rise of the oil prices and the drastic decline of commodity prices, the African economies were faced with an acute crisis. By the end of the 1970's, real commodity prices were, on average, 13% lower than their levels in the 1960's. The collapse of the prices imposed a foreign exchange loss of US$ 2.2 billion in 1979-81.

The solution, recommended very strongly by the international financial institutions at the time, was to borrow from the commercial banks and to take loans from the western donor countires. It would be remembered that at the time the banks were overflowing with petro-dollars, and were more than willing to off-load them to whoever wanted them at very low interst rates. This counsel of the 'wise' was followed religiously by the African states.

The result was that the African countries found themselves heavily indebted. Since most of the borrowed money was not put into use in the productive sectors of the economy to produce more wealth, there were serious problems when it came to repaying the loans. As M'Baya has aptly put it: "Debts entered into for purposes of financing development were transformed into debts for underdevelopment".

In the 1980's these countries were caught in a squeeze when debts became due at the same time as interest rates soared. The short end of the long story is that today African countries are constrained by debt to the extent that they spend 25 cents to US$ 2 on debt serving for every dollar that they earn overseas. According to the UN Economic Commission for Africa, the continent paid out US$ 200 billion in interest in 1983-1991. This was more than the entire debt it owed in 1982. And the debt has been soaring. By 1992 it stood at US$ 289 billion, representing 95% of the continent's GDP. These countries cannot pay their debts. Some of these countries have external debts four times their GNPs. They have to choose between paying their debts and feeding their populations, providing desks to their school-children, fertilisers to their peasants, chloroquine and other medicines to their sick, and clean water to the rural poor. In any case, as Cheryl Payer and many others have pointed out, the dominant causes of the debt crisis are external, and Africa cannot therefore be held responsible for the debt crisis. But the commercial banks, the international financial institutions and the creditor governments insist that these countries can, and must, pay. And the Bretton Woods institutions have become debt-collecting agences. Yet the obvious response ought to be to repudiate these debts.

That will cause no ripples in the financial world. For one thing, Africa has long repaid its original debt. For another, the cancellation of Africa's debt will be no big loss in a world where, as Susan George observes, five times that sum can easily be lost on Wall Street in an afternoon without undue stress. Morality demands that Africa's debt be cancelled.

The Inevitable Road to Marginalisation

The Structural Adjustment Programmes (SAPs) or Economic Recovery Programmes (ERPs) that had been introduced into Africa, as a solution to the continent's deep crisis, are not just economic policy measures, but they are hightly political too, induced by the political fundamentalism of fantastics. A number of measures proposed by the economic recovery programmes do bring a lot of suffering to the majority of the people, and in some places create social unrest, resulting in what has been termed the 'IMF riots' in several countries. In fact the word at the grassroots in Mozambique was that SAP brought to the cities the suffering that RENAMO created in the rual areas.

The basic assumption of SAP is that reforms will increase savings (hence investment), productivity, and exports -- which in turn will raise the incomes of the working poor. SAP/ERP requires a grater reliance on the market forces to determine prices and allocation of production inputs and finance. There are so many shortfalls in this strategy that one does not need to deal with them here. Numerous recent studies have shown the fallacy of the intellectual arguments behind such a strategy. What is important for us to note here is that the strategy is not working. In fact it is causing more problems than it is supposed to solve.

Almost forty African countries are implementing a structural adjustment programme of one sort or another. None of the countries following the scriptures to the letter can show an over-all success. The African countries are told to emphasize on export promotion of primary products, privatisation, user charges, etc. None other than the **UNDP, in its 1993 Human Development Report**, shows the fallacies of some of these directives. The Report states that it is not true that private enterprise can deliver better results. "Not all public enterprises lose money, and not all are always more inefficient, than private sector firms".

A study on Kenya showed that several public manufacturing firms were performing better on the basis of a number of indicators than private sector companies. A study of the state-owned steel industry in the Republic of South Korea reveals that it is among the most efficient in the world. The Report tells us to bear in mind that privatisation may not be the only way to reduce losses in public enterprises. This is not to say, however, that we continue with the public sector enterprises even when they are making losses. It only cautions us that privatisation is no panecea, and if it is hastily concieved or executed, it might achieve very little. But what is important is the admission in the Report that privatisation is not merely a technocratic excercise but also a political process. Other studies indicate that many experiences of privatisation in the South lead to oligopolistic-monopolistic power of the dominant groups, resulting in market concentration, not market democratisation.

A great emphasis is placed on export of raw materials; and as part of the drive to boost exports, governments are required to raise producer prices for export crops. The result of that is that countries with no food security are busy exporting pyrethrum, cut flowers and tobacco. In Zimbabwe, because of the producer price mechanism, the farmers abandoned the production of food and expanded their efforts on the production of tobacco and cotton. Thus even when the extent of the drought was clear and the prospect of hunger loomed very high over the country, the Zimbabwe Grain Marketing Board was still exporting grain, honouring the requirement that it balanced its books. Zimbabwe, which was once a surplus maize producer, ran a deficit of one million metric tonnes in 1991, and in 1992, more than half the population required food aid assistance. Over in Malagasy, because of the incentives given to the farmers there for cultivation and export of corn, as part of the export-oriented logic, forests were burnt in order to obtain more land. One would not be surprised if in the near future the African farmers are advised to embark on the cultivation of poppy, coca or marijuana, since a hectare of such crops yields 10 to 20 times more than coffee or cotton, and the demands for them are growing and the profits much higher!

In many African countries, trade liberalisation has led to the collapse of local industries. Again in the case of Zimbabwe, which has a stronger industrial base than any other country in the Southern Africa region except South Africa, its manufacturing output in the first half of 1993 was 19% lower than in 1992, which was in turn 12% lower than in 1991.

The effects of SAPs are felt even much more in the social services, particularly in health care, education and the provision of clean water.

Ghana (and now Uganda) has been paraded as a 'success story' in Sub-Saharan Africa. But no other person than Ghana's President, Jerry Rawlings , himself who stated that "Ghana's economic recovery programme has not solved the country's economic problems as its gains have yet to be felt in most households and pockets". **The UNDP 1993 Report** stated that the statistics on Ghana show clearly that the so-called 'success story' "has not yet been translated into improved living conditions for the majority of the people". It is envisaged that, with some luck, Ghana might, by the year 2000, be able to attain the levels of output which it had in 1960.

But this is not to say that there are no people in Africa who benefit from SAPs. These are:

- Top executives in the public services, who, owing to the technocratic demands of the SAP, are called upon to attend numerous conferences, workshops and seminars and are also engaged as consultants and advisors;

- Top executives in private business who deal with foreign capital and have benefitted from the injection of foreign exchange in the economy;

- Local agents of foreign business and institutions providing specialised services such as hotel and advertising agencies;

- Beneficiaries of divestiture measures who are able to buy up or buy into sate-owned enterprises;

- Large land-owners and big-time commercial farmers who benefit from higher producer prices and other incentive packages;

Further more, the political class also continues to lead the same lifestyle of conscepicuous consumption, thus creating tensions in society:

SAPs as a donor solution is easy to impose, but they only grasp the manifestations of the crisis. In an article titled **Human Dignity as a Universal Value**, the President of the Development Commission of the European Parliament put it so well when he said:

> The...structural adjustment criteria of the Bretton Woods institutions are perfect for Sweeden but are completely outlandish for a country like Zambia or Mozambique...Let us stop the massacre. For there is no country where it has been successful, at least as far as the people are concerned. Why? Statistics indicate that over the past ten years there has been a permanent transfer of capital from the poorest countries of the world to the richest countries.

The economic crisis of the late 70's and early 80's led to serious crisis of political legitimacy. The popular discontent has swept away most of the military regimes and authoritarian governments. The solidarity and unity that was manifested during the struggle for independence and soon thereafter was now being questioned by demands coming from different social groups. The national movement has given way to political formations with diverse, and many times opposing, interests. As Adebayo Adedeji has pointed, the crisis was

> largely the result of political and social conditions on the continent, characterised by poor administration lack of political accountability, and the non-participation of the majority of the people, further reduction of the decision making base, the confidence crisis between the government and the governed....The transformation of the entire political economy into an economy of despotism where authoritarianism and cleptocracy replace democracy, responsibility of public authority and political empowerment, have not only negatively

impacted on individual freedoms, but have also even marginalised individuals in the development process, the result being that, in the hat of it all, the population has been entirely forgotten.

It is from this background that calls for political pluralism and multiparty democracy started to be heard. Although the introduction of multiparyism in the continent has not come without problems and conflicts, some have characterised the phase in which Africa is going through at present as the struggle for second liberation.

Towards an IMF State in Africa?

Early debates on the post-colonial state in Africa centred mostly on the class character of the state, and which forces were in control of the state (Arrigi and Saul, 1974; Leys, 1975; Mamdani, 1978; Othman, 1980). The paradigms set by Hamza Alavi and others (Alavi, 1972; Girling, 1973), when analysing the post-colonial state outside Africa, were accepted unquestioningly, and it was implied that they were considered relevant for Africa. What those debates lacked was an analysis of the functions and tasks of the state. It was just assumed at that time that once a state called itself 'socialist', then it would have the same purposes and functions as those of a developed capitalist state. Perhaps this lack of a proper analysis of the functions and tasks of the post-colonial state in Africa might explain why in mot cases African scholarship followed the whims of the African political leaders instead of basing itself on a scientific inquiry. And now, faced with the situation where all African countires, regardless of their past ideological strances, are confronted with deep political and economic crises, African scholarship fails to give proper explanations. As Lemarchand puts it:

Peasants avoid (the state), urban workers despise it, military men destroy it, civil servants rape it and academics ponder the short-and long term results (1988).

'The State of the Whole People'?

Soviet theory of the late 1960s and early 1970s held that the Soviet state was no longer a dictatorship of the proletariat but a dictatorship of the whole people. The idea was that the Soviet society had alrady reached a stage of developed socialism when all classes had withered away and class contradictions had disappeared. The state then was only a legal entity for purposes of international relations.

Some of the ideologue of Africa's post-colonial era transplanted this theory into Africa by maintaining that there were no classes in Africa, and thus the state was of the whole people. What some studies revealed on the existence of classes in Africa [Hussein, 1970; Nkrumah, 1970] and the nature of the state as a class instrument was discarded for political expediency. The reason behind this was to conceal the class forces that were in power. The oppressed and exploited classes were made to believe that the 'state' was theirs too.

The Intellectual Rationale for One-party System in Africa

The first victim of the post-colonial political arrangement in Africa was 'democracy' itself.While the independence movement rallied around itself broad sections of the population, with a character of a mass political phenomenon, what followed the demise of the colonial rule was an elitist arrangement.The principles of anti-colonialism and fullest democracy on which the independence movement was rooted gave way to a monolithic political centre and the creation of a 'personality cult'. Individuals who were leaders among equals were now raised to a highest mountain and were supposed to be endowed with all the virtues.Such was the fertile ground for the rise of dictators and one-partyism in Africa.

Most of African countries gained their independence through the dominance of one major political party. In most cases this party was national and pan-territorial. Nyerere argues in fact that there were no political parties, in the Western sense, but nationalist movements representing the interests and aspirations of th whole nation [Nyerere, 1963]. Only in a few cases, such as the Sudan and South Africa, did political parties in the Marxist sense, i.e. factions articulating class interests, emerged [Lerumo, 1971]. It was possible then, after independence, for the dominant party to portray itself as the national movement, and to mobilise all sections of the community to rally around it. The tasks then became nation-building and the creation of national integration, unity and cohesion.

The imposition of the one-party system had been explained in different ways. There were those like Nyerere, Senghor and Kaunda, who appealed to Africa's past, claiming that in pre-colonial societies, classes were unheard of, and people sat down under a tree to discuss their problems until they came to a consensus. But once a consensus was achieved, everybody was expected to toe the line. This argument was transplanted on the post-colonial African societies by maintaining that they too were classless, and if political parties, in the modern sense, are to articulate class interests, then they cannot exist where classes are non existence. This analysis pretended to be ignorant of the fact that one of the things that colonialism did was to introduce classes where they did not exist, and excerbate class divisions in places where classes had already appeared prior to the coming of colonialism. To maintain at the morrow of independence that Africa was classless was to turn foul of this reality. It was also felt that the dangers of multi-party system included that of aggravating 'tribal' antagonism [Mazrui, 1991]. But what has been too often noticed in Africa was that the one-party regime shields the incumbent leadership from justifiable criticism of its conduct' [Sklar, 1967]. As Howard states:

> some African intellectuals persist in presenting the communal model of social organisation in Africa as if it were in fact, and in maintaining that the group oriented, consensual, and redistributive value system and hence that it ought to be the basis of a uniquely African model of human rights. Ideological denials of economic and political inequalities assist members of the African ruling class to staly in power. [Howard, 1986].

Among some of the proponents of the one-party system in Africa were those who believed that it was possible to have democracy within such a system [Nsibambi, 1988]. The belief was premised on the fact that multi-party politics breed trickery and dishonesty; this is especially so during election time when:

> each party is led into conducting its election campaign by the 'political' tactics of evasion, distortion and even downright lies about the other party's motives and intentions. Nor does it stop there. Once in Parliament, as we have seen, members of the opposing parties must still observe the rules of the party unity which, in themselves, must inevitably stifle not merely freedom of expression, but, indeed, honesty of expression [Nyerere, 1962]

There were yet others who come to the one-party system through fear of democracy. The idea was that under one-partyism it would be possible to centralise power and monopolise politics. It was under this group that the cultivation of the 'personality cult' reached its heights, and the holding of alternative ideas or dissenting opinions was considered treasonable.

For a long period the one party system was mistakenly equated with socialism; it was believed that a society aspiring to build socialism had necessarily to have a one party system. The then Soviet Union was given as an example. But nobody cared to look at the Soviet history, and examine the reasons which led that society into a one-party state. Nor was anybody interested in the fact that there were several other socialist countries (China, Poland, GDR, etc) which had multi-partyism recognised in their constitutions, and had non communist political organisations, although the 'leading role' of a communist party was constitutionally guaranteed.

Socialism vs Capitalism Debate

The last thirty years saw fierce debate in Africa on the question of a development path. With the exception of Malawi and the Ivory coast, no African country could admit openly that it was building laissez affaire capitalism. Many of them came up with different versions of 'mixed economy' and different faces of so-called 'African socialism'. Some African leaders (Nkrumah, Nyerere, etc). were convinced of the relevance of socialism to their situation; but many others got on the bandwagon because it was fashionable at the time to be seen as a 'socialist'. Moreover, socialism could always be used as a way of stopping pressure from the internal popular forces, and as a card to play against East and West in the ideological rivalry. But by the end of the decade several of these 'socialist' regimes had been overthrown by the military.

With the decline of 'populist socialism', we saw the rise in the seventies of 'scientific socialism' and the establishment of so-called vanguard parties.

Congo Brazaville, Benin, Malagasy, Somlia, Ethiopia and Burkina Fasso, all under miliary rule, declared themselves followers of 'scientific socialism', and in all those countries the parties hoisted by the regimes were called 'Marxist-Leninist'. In Angola and Mozambi que where the liberation movements came to power after prolonged armed struggles, the nationalist parties were also declared Marxist-Leninist. All that is history now, because popular discontent has swept away all those military regimes. Though FRELIMO is still in power, the cruelty of the war with RENAMO, and the pressures from the United States, Portugal, the IMF, the World Bank and others, have forced it to abandon its Marxist garb. MPLA in Angola, no doubt because of the peculiar situation it has been thrown into as a result of the war, seems to be reluctant to throw away its leftist poses. However, it has in its programme replaced 'scientific socialism' with 'democratic socialism', and no longer refers itself as a Marxist-Leninist party.

What was generally agreed, though, despite different political stances, was that the state had an important role to play in the proposed transformation. And until the 1980s this position was accepted by the international financial institutions and the donor countries (World Bank, 1981) and massive support was given through the state to various development projects. Things changed with the appearance of Reaganomics and Thatcherite "people's capitalism" on the international stage.

The Interventionist State

The state was very crucial in the development of capitalism [Miliband, 1973]. Not only did it direct research into the development of science and technology, but also increased the accessibility of remote areas through road, rail and sea transport. It not only decided on avenues for investment but also on priorities. The welfare programmes of the modern bourgeois state were all propelled by an interventionist state. The countries of late capitalism, the so-called Asian Tigers, could not have achieved what they did without a strong interventionist state. At present it is in the North that one finds the strongest presence of the state in the economy. The instistence, therefore, by the IMF and the World Bank that the African state should be stripped to a skeleton, and its role be limited to the maintenance of law and order, cannot be supported.

Developmentalist State

The modern African state is a colonial creation. During the colonial period the colonial state did everything; it organised labour, directed it to farms and mines; compelled it to build roads and raiwaly lines; and specified for the farming communities what to produce. At independence, the colonial state was adopted and legitimised. If one is looking for the origins of the 'overdeveloped' and 'overburdened' state in Africa, then one has to look at the inherited state.

Because of the expectations of the African masses at the time of independence and the aspirations of the new classes in power, the state had to be developmentalist. It took upon itself the task of integrating into a cohesive nation different ethnic and linguistic groups, but went further into developing physical infrastructure and providing social services. However, it also undertook the construction of grandiose development projects which were of no direct benefit to the poor, either rural or urban. Vast public funds have either been siphoned out of the country or been diverted to support the costly demands of the ostentatious life styles of the ruling elites.

The IMF/World Bank State

The present economic crisis in Africa has brought to the fore debates on what went wrong. While everybody agrees on the causes.of the crisis, there are differences as to who has mainly been responsible for the predicament that is facing our continent now. It is true that the undemocratic nature of the intenational economic ststem and the natural clamities have ontributed to the crisis. But what about the bad development policies pursued by different African regimes of whatever political colouring? Are the donor countries and aid agencies also not to blame?

The World Bank has been involved in Africa since independence, and the IMF has been in the forefront in he last twenty years. Many African countries are now applying SAPs and ERPs under the guidance fo the IMF and the World Bank, but what one sees in the whole continent are complete failures.

Africa at the Cross Roads

The major political achievement of Africa in the last forty years since the independence of Ghana in 1957 is the almost complete liberation of the African continent. With the exception of Western Sahara, Mayotte, Diergo Garcia and the Reunion, the rest of Africa has attained political independence. Various studies on general economic and social trends in Africa, and of individual African states, have shown that SAPs are not working. If anything they are infact exacerbating the problems in Africa. These programmes cannot resolve the legacy of underdevelopment. As the former President of Algeria, Ahmed Ben Bella, stated: ".....although colonialism only died yesterday, officially at least it weighs still heavily, crushingly , on our future and we have not finished dressing its wounds."

Democracy and Development: Walking on Two Legs

Everyone agrees now that food security is very important in maintaining political independence. Africa must feed itself, and this cannot be done by depending on the hoe and leaving the individual peasant to fed for himself. State intervention in agriculture is necessary. Countries of the North subsidise their agriculture at the rate of US $200 billion annually. Norway alone in 1993 did spend NKR 12.8 billion as state subsidy to its agriculture. The European Union spent 60% of its 1992 budget on the Common Agricultural Policy. Where then is the rationale in demanding of African countries, for whom even food security is still a dream, to abolish subsidies on agriculture.

Market forces seem to be the fashion now, but can market forces marketise development and alleviate poverty? Do markets know equity?

Where do we move from here? The democratisation process taking place in Africa at present is a positive development. But it should not end with the establishment of multi-partyism and the right to elect who should rule. Democracy is all-embaracing, and its human rights criteria include the right to life, work, education, health, etc. It requires a political culture of tolerance and an atmosphere in which 'hundred flowers blossom and hunadred schools of thought contend'. The state cannot shirk from its responsibilities. While I would not like to define its tasks, it must be interventionist, developmentalist and democratic.

Planners, economists and politicians in Africa need to go back to the drawing boards and devise a *democratic development strategy*. They have to understand that 'development' is not the copying of the production and consumption patterns of the North or replication of the experiences of Japan and the so-called Asian Tigers, because the international context from which they emerged was different. *Democratic Development* in Africa is about bread and shelter, chloroquine and 'Kitenge', schools and clean water, better roads and state intervention in agriculture. It means involving the majority of our people in the definition and control of political issues and the political process. The outlines for that kind of strategy cannot be found in the documents from the IMF and the World Bank, but in the African **Alternative Framework to Structural Adjustment Programme** adopted by the Organisation of African Unity, and the recommendations of the report of the South Commission, **The Challenge to the South**. The philosophy behind such a strategy is self-reliance and national independence.

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INTERNATIONAL CONFERENCE

on

COLONIALISM and GLOBALIZATION

Five Centuries after Vasco da Gama
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COLONISATION CONTINUUM: THE NEVER ENDING STORY

by

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COLONISATION CONTINUUM: THE NEVER ENDING STORY

By Bittu Sahgal

To deprive a man of his natural liberty and to deny to him the ordinary amenities of life is worse than starving the body; it is starvation of the soul... the dweller in the body. Mohandas Karamchand Gandhi

As India approaches the 21st Century we need to recognise the threat within and to redefine war. The image of an invading army should be recognised as a rare and confinable threat. Infinitely more dangerous is the Trojan Horse battle being waged under the cloak of international and national trade and commerce. Conventional war kills instantly. The war that I refer to kills slowly and targets our most vulnerable citizens.

In the avaricious race to secure more luxuriant lifestyles for ourselves, around 50 million Indians have begun to affect the stability, security and livelihoods of over one billion others. This powerful minority is colonising the entire subcontinent and in the process they are shattering the ecological stability of one-fifth of humanity. Neither water nor food is any longer secure for the victims of this colonial misadventure. These have been snatched from rural India by urbanites in what would have been considered an act of war, had the 'transaction' taken place across an international border. Predictably, the affected rural communities are angry and sullen. They are now prime tinder for the destabilisation of India.

The roots of violence

Punjab. Kashmir. Assam. The central Naxal belt. All these were once relatively peaceful states. A contributory cause for their descent to violence has been the erosion of the life-support system of communities -- clean water, fertile soil, forest supplies such as fuel, fibre and fodder... and, of course, food. Not the food in the public distribution system, but that available from village ponds, rivers, pastures, forest fruit-trees and marginal fields. As a result of a sustained assault on coastal India I predict that the coastal towns and villages will emerge as the new arenas of violence. Marine pollution and coastal land degradation have combined to cause fish catches to plummet. Millions of once-self-sufficient communities now migrate to urban India. Others have taken to landing explosives, weapons and contraband of all descriptions.

What exactly have we done to coastal and forest communities which is so reprehensible? We have converted their habitats to mines, dams and urban complexes. Our thermal plants, copper smelters, chemical complexes, refineries, prawn farms, five star hotels and national highways have combined to degrade the quality of resources and life of those who were not invited to our urban celebrations. Thus pushed, fisherfolk are fast moving to urban slums where they join millions of rootless souls. We respond by demolishing slums and making such victims pay over 100 times more for water than we do. They have virtually no access to our health, law and justice systems. In search of justice therefore, they often prefer to settle scores outside courts, in ways that shock the gentle sensibilities of the middle class. Cocooned in air-conditioned homes, cars and offices, this lot pretends not to recognise this recipe for the destabilisation of Indian society. Like a cancer, the double barrel assault of ecological degradation and injustice thus sets India against India.

Our land was once blessed by some of the most extravagant gifts by nature: dense forests, water-stocked Himalayan ranges, a productive coastline, fish-rich estuaries, grassy pastures, rich soils, a bountiful river system, abundant rain and a warm climate. We devalued these resources and converted them to cash on the advice of turn-coat economists indoctrinated by the World Bank. Today our forests are virtually gone. Our coastline is fast becoming a toxic soup. Our aquifers have been so poisoned with industrial and agricultural effluents that it will take at least two or three hundred years (and yet undiscovered techniques) to make much of our drinking water fit for human consumption again. The air in our cities is unbreathable and tap water contains fecal matter. Breast milk in parts of Punjab is so contaminated by DDT that it is dangerous to infants! Nuclear plants such as Tarapur, just outside Mumbai, spew radiation in doses which no civilised nation should be expected to tolerate. Himalayan forests are in tatters and one tiger loses its life to poachers every day. This, proponents of the new economic policy, call 'development'.

Poisoned Progress

The impact of chasing the mirage of development is not restricted to the mere colonisation of resources. The consumer lifestyle also acts to destroy natural resources without anyone ever having a chance to user them. Such destruction points to the usurpation of the resources of those yet to be born. This is intergenerational colonisation, the ultimate adventure. This act of treason is performed 'in the national interest' by political and corporate collaborators from among us who conspire with powerful multinational corporations and governments to generate and despatch millions of kgs. of toxic wastes to India. Arsenic, mercury, PCBs, and dioxins move malevolently and speedily towards India by sea and air to poison forever our coastal waters, lakes, aquifers, rivers, soils... and people.

Apart from the direct import of toxic wastes such as lead and PVC scrap, dirty industries too are moving to India at break-neck speed. The chlorine industry, for instance, which is being phased out in industrial nations (because of a direct connection with growth and genetic mutations in humans through the production of dioxins-endocrine disrupters) is systematically being relocated in India. Unwanted, old and decrepit factories have begun to scar states such as Gujarat in particular. Additionally, hazardous compounds are being sent to India for 'recycling' without asking why the industrial nations of the North do not wish to recycle their own stocks of lead batteries and contaminated zinc ash. Our Ministry of Environment and Forests (MOEF) knows of these threats, but its technocrats willingly fain helplesses to resist pressures from their political and financial masters. Many grow richer in the process. The Supreme Court of India has been watching such events with increasing disquiet and it recently censured the MOEF by stating that: "It appears that the breaking of the law was being encouraged more by the Ministry." What kinds of poisons are being dumped within our borders? Where are these being dumped? Have the affected communities been warned? Have any baseline studies been undertaken to monitor the impact of hazardous waste contamination? Such questions require urgent answers, but we see no evidence that our leaders are even peripherally interested. On the contrary, they view such issues as irritants and obstacles on the fast road to progress.

Little wonder that India, enjoys the dubious distinction of harbouring the world's largest number of development refugees. These are people who have had to leave their homes because the forests, grasslands, rivers, wetlands and coastal habitats were usurped "in the national interest" or became unusable because they were either poisoned or altered beyond description. The development dream has turned into a toxic nightmare.

The most convincing proof of this trend is the falling fish catch off the western coast of India. Not so long ago, Goa, Maharashtra and Gujarat, for instance, were among the most productive fish-producing states in India. No longer. Where fishing boats could catch a boat-load of fish in a few hours, they must now stay at sea for days on end, often to no avail. Directly responsible are the industrial effluents released from centres such as the Gulf of Kutchh, Vapi, the Thane Creek, Patalganga and Chiplun/Guhagar and the wounded estuaries of Goa. Here- chlorinated compounds, heavy metals, among other substances, and mine tailings have laid waste the breeding grounds of fish, lobsters, crabs and prawns. Five years ago, the National Institute of Oceanography actually unearthed evidence that heavy metals such as mercury lay buried at a depth of 50 mm on the bed of Mumbai's Thane Creek. Instead of taking the companies to task the hopelessly politicised Maharashtra Pollution Control Board rewarded more than six delinquent organisations by approving capacity expansions.

Sulfur dioxide and nitrous oxide-laden grey-yellow clouds have become the new symbols of Third World countries. The toxic smog that envelops us produces a variety of illnesses ranging from emphysema, to chronic bronchitis. The very young and elderly suffered the worst. The key culprits are millions of vehicle owners who spew thousands of tonnes of toxic pollutants, including lead, into the air every day. To this chemical cocktail are added hundreds of tonnes of city garbage such as papers, plastic and even leaves (potential compost) from street corners and landfills.

In almost all-urban centres, factories and industrial estates manufacture a lethal array of products involving dyes, chemicals, heavy metals and pesticides, in the heart of populated areas. Many pharmaceutical companies have installed shoddy incinerators to 'deal' with their wastes. Such incinerators merely convert the toxins from solid to gaseous form, which enable our bodies to absorb the toxins even more efficiently. This is why almost 2,000 hospital incinerators were shut recently in the USA. This is also why Canada just banned the incineration of PVC. Right now, however, incinerator manufacturers from the USA are scouring India in an attempt to sell their death machines to unaware municipalities. Community effluent treatment plants are equally misleading options. These actually serve as a cloak behind which dangerous processes are operated. The solid and liquid wastes from such facilities have often proven to be even more toxic than what goes in. Clearly, the toxic waste import into India, when married to the amount we generate within the country, is assuming "chemical warfare" proportions. The victims are the poor, the very young, the infirm and the elderly... the precise categories of citizens who should be on the receiving end of protection.

On Friday, May 10, 1996, Justices J.S. Verma and B.N. Kirpal observed (in response to a public interest petition filed by the Research Foundation for Science) that it was better to have no law at all than have laws, which were not followed. The judges threatened to record a finding of "breakdown of government machinery" and noted that the Central Ministry of Environment was encouraging laws to be broken, rather than followed.

Public pressure can reverse such trends. Creeks and coastlines washed by the Southeast Monsoon can be detoxified. Alternatives to the most poisonous wastes do exist. A stroke of a pen could prevent the import of toxic wastes. Investments in public transport and pedestrian plazas can help to decongest Mumbai's streets and our lungs. But none of this will take place if we continue to allow industrial hoodlums to profit by trading on our health.

Gandhi betrayed

Day after day, despite new scams and convictions hitting the headlines, we continue to be subjected to the sight of politicians of all hues, wearing the uniform of Gandhi even as they abuse his nation-building value systems. Which is why, Gandhi's cry: "Enough is enough In the name of God... go!" has begun to cleave the air once more. This time by the millions who reside in Dakshin Kannada, Narmada, Guhagar, Tehri, Indravati, Pooyamkutty and Koel Karo against the neo-colonial get-rich quick brigade. Such communities are joining hands against the inheritors of British power-India's politicians, planners, big businessmen and bureaucrats. These latter-day brigands festoon themselves in tricolour images, yet see no irony in regularly and unashamedly using black legislation crafted by the British - The Land Acquisition and Official Secrets Acts-to accomplish their dark deeds. The direct result of this has been the annihilation of over 95 per cent of the adivasi cultures of India. Sadly, the displacement of adivasis and the loot of their lands, forests, rivers and ancestral properties continues unabated. In fact, virtually the only places where forest communities are still able to lead their traditional lifestyles today are our over 500 protected wildlife sanctuaries and national parks. Here the threat of urbanisation has been stopped thanks to the Wildlife (Protection) Act 1972 and the Forest (Conservation) Act, 1980. But a series of denotifications threatens to extinguish even these relic pockets.

Given such ruthless exploitation, it is little wonder that the seeds of separatism and violence have sprouted through the length and breadth of our once-peaceful land. Indeed, those who fear the dismemberment of India should consider whether our country has not already been split in two-rich India... and poor India. Only self-inflicted myopia prevents us from recognising this tragic reality.

I cannot help but feel that, were he alive today, Gandhiji would have been forced by inner compulsion to launch yet another satyagrah. This time against the haves of India, because we have outdone the British in our acquisitive quest for 'development'. Never in the history of free India have so few people grown so rich at the cost of so many. Even as we delude ourselves with the notion that India is progressing thanks to its industrial and financial policies, we must face up to the fact that our own consumptive lifestyle is actually turning us into predators. When the British left, with unseemly haste we began constructing Nehru's modern temples. And where did we site our mega-projects? Deep in the hinterland, from where we began to suck all resources towards urban centres. Predictably, such acts resulted in mass migrations, as people followed their resources to our cities. Here we spurned them. We herded them into slums and hovels in which conditions were worse that those that prevailed in the infamous refugee camps during the dark days of partition. Apart from their resources, we also stole from the proud people of India that one asset so vital to the human spirit-dignity. It is a mystery to me how we have managed to absolve ourselves of responsibility for such crimes. Even now, at conferences, seminars and from the hallowed corridors of Parliament House one hears that calumny: "India could be at par with America, the UK, or Japan, if only we did not have to carry the burden of the teeming millions who drag us down at every step."

How different things would have been had Gandhiji been alive today. If we had him at the forefront of the human rights and environmental movement he would have travelled from village to Indian village to consult with the people. Instead of dispensing knowledge to them, he would have learned from them their technologies for survival and sustainable development. He would then have prevailed upon the rest of us in urban India to set an example of simple, ecologically sound, living for the benefit of others. Gandhiji had provided solutions to our current environmental problems even before they had manifested themselves. He was not merely a man before his time, but also an environmental prophet whose precious life was squandered on a people who, even decades after his death, have failed to recognise his true worth.

Protecting the infrastructures of survival

When confronted with demands to improve the management of our natural assets the development set breaks into a familiar chorus: "Anti-development, anti-national, anti-progress!" Only a mass of public opinion will be able to quiet this shrill and hurtful lot.

Clearly India needs to dedicate itself to the upkeep and maintenance of its existing infrastructures and past investments before contemplating the purchase of new and flashy toys of development. And the misguided economists who have graduated from the World Bank school of exploitation need to contemplate Gandhi's advice, to examine whether what is done will first benefit the citizen on the lowest rung. This they must be made to see was not sentimentalism, but pragmatism. That there is no other way for a nation of one billion people to coexist and thrive.

Unfortunately, the powerful minority has taken advantage of the pressure put by the World Bank and the IMF to commercialise the Indian nation. Community wells, rivers, coastlines, forests, grazing lands and even people's homes have become little more than raw materials for blind personal ambitions. Legitimised by the guidelines laid down by a new economic policy (a scarcely concealed plan to auction India to repay past and future foreign debt) businessmen have taken to profiting from the construction of nuclear reactors, highways, airports, prawn farms, chemical factories and storages, refineries, thermal plants, five star hotels, deep sea ports and other urban infrastructures. As we have seen, these so-called development projects are, without exception, carved out from the survival infrastructures of ecosystem people - fisherfolk, forest dwellers, marginal farmers, pastoralists and the rural poor.

There is another way

Despite spending crores of rupees since Independence-and destroying priceless natural assets such as rivers, forests and soils-our dams, thermal plants, mines, roads and cities are all crumbling. Why are they under-performing and what can we do to improve our infrastructures? Here is a three-point beginning:

1. ***Acknowledge the problem:*** Every single one of India's over 1750 large dams is dying young. Not one produces as much power, or irrigates as large a command area as its promoters had promised. Our canal systems are leaking and waterlogging and soil salinity conspires to rob us of our food security. The plant load factors of the vast bulk of our thermal plants is abysmal and our transmission systems are literally falling apart. The nuclear power sector has taken more from the nation than it has delivered. Floods and droughts take a greater and greater toll of our people and the per capita availability of water is less today than it was 50 years ago. More than 90 per cent of our people have no access to safe drinking water and the few sources that are pure are likely to be poisoned by scores of new factories being set up. Our coastal areas have been ruined by misguided attempts to industrialise regions that were always water-poor. Over extraction of water and dumping of toxins threatens to permanently damage our ground water. Not one city has adequate medical or residential facilities, yet we continue to displace thousands more millions each year. The less said about our roads and highways the better.

Unless we acknowledge that our past investments on infrastructure development have let the nation down and that we must incorporate radically new strategies for the future, we are destined to regress into a "business as usual" mode from which there is unlikely to be any escape. The first cure for alcoholism is to acknowledge the problem.

2. ***Invest in maintenance and efficiency:*** Every rupee we spend on efficiency today will yield us greater returns than a rupee invested in creating new infrastructure. We need massive investments in terms of both labour and finance to desilt our water reservoirs, repair our tattered watersheds, reline our canal systems, resurface our roads, repair and improve our transmission lines, retrofit turbines, replace inefficient pumpsets and motors and detoxify our soils. There is a name for this strategy, which involves employing millions of people in the rural hinterland (thus staunching the migration of people to urban centres). It's called preventive maintenance and every household in India practices it to perfection. This is why our people are among the most environmentally friendly in the world. If our government was able to do imbibe simple attitudes that almost every housewife possesses, in a span of one decade India could become a world power in terms of our ecological security, food self-sufficiency and financial stability. One proviso, of course, would be our recognition of the futility of replacing the infrastructures of survival (forests, grasslands, lakes, rivers, coastlines and wetlands) with the infrastructures of commerce (dams, mines, roads, factories). Fortunately, nature is a self-repairing machine. The moment we stop destroying our natural assets, they will themselves return to life.

3. ***Go back to the future:*** In the crucible of India's cultures lie solutions to the problems of tomorrow. Rather than fall for the line that is being sold to us by the OECD countries (that we can and should consume more and produce more to look after our people), we need to make attitudinal changes to recognise that the purpose of development is not growth, but stasis. No organism or system can keep growing continually. There is a name for such a phenomenon. It is called cancer.

Of the one billion people who live on Indian soils today, perhaps over half are directly dependent for more than half their caloric intake on the productivity of natural ecosystems. Fisherfolk need the sea. Forest dwellers get food, fibre, fuel and fodder from trees and grasses. Pastoralists and marginal farmers, using technologies passed down through generations, get by on lands that citizens of industrial countries label "decertified". By plundering these survival assets for short-term economic gains, we demonstrate more than just ecological ignorance. We wear our barbarity on our middle-class sleeves. This penchant for stealing other people's properties has only one possible outcome and that is violence. To avoid reducing India to the state of sub-Saharan Africa, I submit we will need to wean ourselves away from the notion that money can buy ecological stability. Our past can ensure our future survival, but only if we imbibe the most fundamental lesson of history live and let live.

I have served on an Expert Committee of the Ministry of Environment and Forests (MoEF), which deals with CRZ issues, for over six years now. Though not quite as well drafted as I might have liked, the rules did actually serve the purpose of protecting the coastline and its prime beneficiaries, fisherfolk. Unfortunately, "poor communities" do not benefit the ruling elite of India. Therefore, this piece of legislation became a canker in the side of all manner of commercial brigands who wanted to build five star hotels, housing complexes, chemical dump yards and factories in one of India's most fragile ecosystems. Using money as a tool of persuasion, profit-seekers began to attack the CRZ Rules from 1991 onwards, when they became effective. Environmental groups and communities affected by militant economic ambition fought back through the courts and landmark judgements were earned. These judgements not merely upheld the law, but went so far as to rap officials as high up as Secretaries of the Government of India on the knuckles for their irresponsibility.

Power brokers hated the fact that the judiciary was coming down on the side of the poor and the dispossessed, so they began to hatch conspiracies to change the very law that protected the environment and "ecosystem people." Thus, forest dwellers found that industry was being favoured with permissions to exploit lands that once used to feed their families. Fisherfolk discovered that a the money generated by fistful of prawns was more compelling than appeals to allow the sea to look after their children for a lifetime. Marginal farmers, pastoralists and rural poor thus found themselves living in a democracy with none of the rights of self-determination that democracy promises.

Instead of protecting our forests and our water sources, MPs are themselves investing in prawn farms, buying land for commercial development along soon-to-be built highways, and blatantly negotiating maladroit terms for India in exchange for favours from foreign companies. While doing all this, they think little of displacing thousands of poor and marginal communities. Perhaps the trucker on National Highway 17 had it right. His sardonic comment on India, emblazoned on the back of his vehicle: Sau me nabbe baimaan phir bhi mera bharat mahan. (Out of one hundred, ninety are crooked yet my India is great.)

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THE RESPONSE OF SUB-SAHARA AFRICAN COUNTRIES TO COLONIALISM AND GLOBALISATION

Emelia Arthur and Tony Dogbe

Introduction

In this paper, we shall argue that culture is at the core of development and every society has its way of doing things. For many African societies, during their engagement with Europe, their culture was undermined, most often deliberately and consciously during the colonial period. For this reason, at the point of political independence, the strongest area of domination was cultural domination.

We also look at the response of African leaders to this at the time of independence by way of development models embarked on. So much has been written on development struggles in Sub-Sahara Africa, but this paper seeks to look at the same issue with a cultural dimension.

Four countries - Ghana, Tanzania, Guinea and Cote d'Ivoire - are presented as case studies and the generalities, similarities and differences among them are drawn. Also, we attempt to show the link between the colonial process, the local leadership, the pattern of development chosen and the growing inequalities.

In our assessment of the models we argue that no one model can be said to have definitely failed or succeeded, taking into consideration the fact that certain models received Western support since those models did not change the roles defined for those African Countries during the colonial period. Those countries remained producers of raw materials to feed the Western economy, and consumers of Western manufactured goods. Other countries which sought alternative models to development, aside of internal problems, faced severe external resistance, such as the withdrawal of Western aid and support.

With regard to globalisation, we argue that it would lead to the annihilation of the culture of the countries in Sub-Sahara Africa. Africa, over the period, has become more and more powerless and as a result cannot resist the dictates of institutions such as the World Bank and the IMF. Consequently, across the continent, most countries have embarked on IMF Structural Adjustment Programmes (SAP).

Cultural rejuvenation and active role of civil society in building a new breed of leadership who are rightly oriented to meet the demands of the time as the world becomes more a more a global village, is advocated for. This would enable Sub-Sahara Africa to articulate with the rest of the world on the basis of its culture and values and not just accept anything thrown at her.

Colonialism - A Process of Cultural Domination

Every society has a culture - a way of life, a way of doing things - determined by its environment, values and beliefs, and interaction with other cultures. As Ali Mazuri portrayed in his documentary series, "The African: The Triple Heritage", the culture of most post-colonial African countries have two or three distinct but interwoven strands - those of the pre-colonial societies on one hand and those of the colonisers (some countries had more than one coloniser) on the other. Pre-colonial African society, like any society in the world, had fashioned out a way of governing itself and minimising conflicts and social discontent (political institutions); a way of passing on knowledge and skills from one generation to another (educational institutions); a way of making sense of the world around it (religion and science); a way of producing and exchanging goods and services (economic institutions); a way of reproducing or regenerating itself (social institutions).

Before and during the period of colonisation, and even today, the West has successfully manipulated other cultures into believing the western culture is superior. For each era, it comes up with an ideological weapon - subtle but effective - which is moulded from the myth of 'a monolithic scientific knowledge'. The myth that only what fits into the Western methodological framework of gathering information and interpreting the world can be regarded as 'science' and is therefore valid or acceptable knowledge (Dogbe, pp. 40). In the pre-colonial period, this myth was expressed in words like 'Progress', 'reason' and 'enlightenment'. As is argued by Dogbe:

> 'Progress' in that era, like development now, was perceived along the evolutionary concept of growth, which was thought of as being linear.... On the basis of these philosophies and ideas, societies were described in stages with the then emerging industrialised society at the peak of progress and a hunting society at the bottom. This brought with it varied forms of exploitation of nature and those closer to it - women and societies down the league of progress.... It, therefore, provided the ideological justification and rationalisation in the West for the slave trade, colonisation and the imposition of the culture of the coloniser".

Ngugi wa Thiong'o argues that for this colonisation or domination to be effective, it had to extend beyond the economic to cover 'the mental universe of the colonised' (mental colonisation). In his words,

> "Colonialism imposed its control of the social production of wealth through military conquest and subsequent political dictatorship. But its most important area of domination was the mental universe of the colonised, the control, through culture, of how people perceived themselves and their relationship to the world. Economic and political control can never be complete or effective without mental control. To control a people's culture is to control their tools of self-definition in relationship to others.

To succeed, Ngugi contends, the colonisers deliberately destroyed or undervalued the culture of those they colonise and consciously elevated their language, for example, over that of the latter.

For the post-colonial era, Vandana Shiva gives us the clue to the ideological weapon which is being used to perpetuate this control and domination - "development", which she has termed a 'post-colonial project'. This project, she says, provides the necessary conditions for capitalist growth and wealth creation in the West, without which capitalist accumulation would come to a halt. The conditions which need to prevail for "development" or capital accumulation to occur are (i) the exploitation or exclusion of women (of the west and non-west); (ii) the exploitation and degradation of nature; and (iii) the exploitation and erosion of other cultures.

In its typical disrespect for other cultures, the 'ideology of development' disregards self-provisioning economies and seeks to replåce them with market or cash economies. According to Vandana Shiva,

> "Subsistence economies which satisfy basic needs through self-provisioning are not poor in the sense of being deprived. Yet the ideology of development declares them so.... People are perceived as poor if they eat millet (grown by women) rather than commercially produced and processed foods sold by global agri-business. They are seen as poor if they live in self-built housing made from natural material like bamboo and mud rather than in cement houses. They are seen as poor if they wear handmade garments of natural fibre rather than synthetics".

Four Case Studies

Now let us turn our attention to the four countries which we have used as case studies for this paper. Though they have all been and still are victims of this cultural imperialism, the form of the domination in each country and the respective responses of each have been different. The purpose of this section of the paper is to look at the development models adopted by each country in response to its colonial past and its current role in the global economy, and the factors which influenced the choice of a model. Against this background we may be able to judge Africa's chances in resisting globalisation.

What emerges from a study of the different models adopted by the various countries at independence is that on one hand there were those who made no attempt to change their colonial legacy and just carried on in the 'business as usual' manner. These include Kenya and many of the former French colonies, notably Cote d'Ivoire and Senegal. On the other hand there were those who sought to radically change the status quo, often opting for a socialist path, what some called African Socialism. Notable among these is Ghana, Tanzania, Zambia and Guinea. The case studies chosen illustrate these two responses to colonial legacy.

Cote d'Ivoire and Ghana - A Tale of Two Countries

Let us start with that of Cote d'Ivoire and Ghana - two neighbouring countries - similar traditional culture, similar colonial past but different post-colonial responses.

Despite the fact that Cote d'Ivoire was colonised by France and Ghana by Britain, the colonial state formation was no different. Both countries became political entities when in each country, more than fifty ethnic groups, with as many different languages, were brought together as a colony of the French and English Empires in 1893 and 1874 respectively. The northern boundaries of both countries were determined at later dates. In both countries, there was lack of unity among the ethnic groups.

Though the two colonisers adopted different modes of colonial administration, the immediate effect on the populace was not different. France, unlike other imperialists, did not hide its intention of turning the Africans it had colonised into French men and women with its policy of assimilation. This meant extension into the colonies of the French language, institutions, laws and customs. In this regard, "the French trained a native elite in their administrative practices and this corps in turn formed an intermediary group between the French and the Africans". (Tuinder, B. pp 12). Britain on the other hand combined a British administrative system with a policy of indirect rule. A network of civil servants dominated the national and district levels of governance, while at the community level, it governed through the well developed systems of tribal authority of the chief.

With regard to the economy, in both countries, the policy of the colonialists, was for the colonised countries to produce raw materials that were processed mainly in France and Britain while the former was a market for French and British manufactured goods. In both countries, during the colonial period efforts were made to intensify the production of timber, coffee and cocoa, by improving the transport infrastructure in the south of the two countries. At independence, the economy of both countries was booming and prospects for further growth were very good.

In both countries, through the medium of Christianity, the French and British education systems which emphasised the three 'Rs' - reading, writing and arithmetic - were made to supersede the traditional education of vocational skills training in the occupation of the area - farming, fishing, weaving, construction etc. The newly emerging elite (middle class) from the European educational systems were quick to adapt to the European ways, especially their social and religious values and norms which they then helped to propagate.

Ghana gained its independence in 1957 and Cote d'Ivoire shortly after in 1960. Interestingly, the response of the two countries at independence was different. A number of reasons account for this but prominent among them is the leadership style, background and vision of the leaders of the two countries at independence.

Houphouet-Boigny's Response

Felix Houphouet-Boigny, the first President of Cote d'Ivoire was a product of the African Planter class which emerged in between the two world wars. He had spent his education and working years in Cote d'Ivoire. Being a wealthy planter himself and of royal lineage, he organised a movement to express the country's dissatisfaction with the colonial policy which favoured the European planters and the intensification of the recruitment of forced labour. This movement ended up becoming Cote d'Ivoire's only political party.

Being a planter himself, Houphouet-Boigny was a believer in an agricultural based economy. Not being radical or revolutionary, he accepted the colonial status quo he had inherited and sought to build on it.

> "Given the positive results of the economic policies pursued earlier, it is not surprising that the government decided to continue along the same lines after becoming independent." (Tuinder, B. pp 15,)

In 1960, Cote d'Ivoire outlined a ten-year projection of what the economy would be like at the end of the decade. In this ten-year projection was the decision to continue the outward or export-oriented development inherited from the colonial regime. In addition to the crops it inherited, Cote d'Ivoire also introduced, as far back as the 1960's, when the world prices of cocoa and coffee were falling, other crops such as bananas, pineapple, rubber, coconut, and palm oil.

> "The government was fully aware that further economic success was dependent on more foreign capital and labour. Political and economic stability and growth, together with a liberal policy toward foreign investors, were considered essential in creating the confidence abroad needed to acquire these production factors. This was one of the reasons the government decided to stay in the franc area."
> (Tuinder, B. pp 16,)

While Nkrumah was busily engaged in organising the entire continent for the "political kingdom", Houphouet-Boigny was engaged in similar activities within the French West African Community but for Cote d'Ivoire's economic gains. Between 1959 and 1962, Cote d'Ivoire played a prominent role in the establishment of three organisations, namely: the Conseil de l'Entente in 1959, the Union Douaniere des Etats de l'Afrique de l'Ouest (UDEAO) in 1959 and the Union Monetaire Ouest-Africaine (UMOA) in 1962.

> "Because the Ivory Coast was the most prosperous member, it was in a unique position to exert a dominant influence in these groups and lead the movement for unity of Francophone West Africa." (Tuinder, B. pp 16,)

With regard to manufacturing industry, in both Cote d'Ivoire and Ghana, this was neglected in the colonial days. In the case of Cote d'Ivoire, in 1960, manufacturing was limited mainly to the timber, textile and food industries and served only the local market. Again the government at independence did not seek to alter the situation. Instead:

> "In 1960 the government recognised that to create a solid, long-term industrial base, it was necessary first to develop sufficient domestic sources of raw materials, human resources and domestic demand. In the short to medium term, while the bases for industrial development was being laid, growth would have to rest primarily on expansion and diversification in the sectors in which the Ivory Coast had the greatest, immediate comparative advantage, agriculture, particularly export agriculture and forestry." (Tuinder, B. pp 18,)

To a very large extent, to date, Cote d'Ivoire has consistently pursued its agriculture-based, export-oriented and liberal economic policies it inherited at independence.

Kwame Nkrumah's Response

Kwame Nkrumah, the first president of Ghana on the other hand, was from a poor background and had studied in the United States of America through his own sweat and tears. His imagination had been fired by U.S.A industries and large-scale, highly mechanised, agriculture. While in the U.S.A, Nkrumah, had the opportunity to participate in the Pan-African Congresses and Movement which also influenced his vision of post independent Ghana. He had also spent some years in London where he came into contact with Marxist and Leninist ideas. He returned home an ordinary man ready to lead ordinary people. The leaders of the United Gold Coast Convention (UGCC), the only political party at the time, who had invited him to be the secretary to the party, were members of the traditional elite and the new intelligencia. Nkrumah disagreed with them on how they should approach the issue of independence. While the UGCC leadership were in favour of a gradual approach to independence, with as little disruption to the status quo, Nkrumah favoured independence without further delay, and wrestling it from the colonialists if need be.

This is how the two traditions of Ghanaian politics evolved. If the UGCC tradition, and not the Convention Peoples' Party (CPP), had won the battle as to who should lead the nation to independence, their policies would have been no different from that of Houphouet-Boigny. It was Nkrumah's CPP which eventually won the battle in the elections of 1951 and subsequent elections, which saw him and his party lead the country to independence.

Nkrumah with his Pan-Africanist, communist and American influences did not accept the economic, political and social legacy of the colonial state. He sought to change the status quo on several fronts. In the U.S.A. he had experienced the power and strength that exudes from several states coming together to form one nation. This he saw as a model for Africa, as stated in his famous Independence Day speech:

> "The independence of Ghana is meaningless unless it is linked with the total liberation of the African continent".
> (Dumor, E. K. (1991) - pp 3).

It is widely acknowledged that Nkrumah was at the forefront of Africa unity and one of the founding fathers of the Organisation of Africa Unity (OAU). In fact many people argue that he placed African unity before Ghana's development on his list of priorities.

Another front on which he sought to bring change was in how the African perceived of him or herself - the African's sense of identity or culture. This he called the "African personality." Though the concept of African Personality can be traced to W. E. Du Bois and Marcus Garvey, the early founding fathers of the Pan-Africanist Movement, during his time and on the continent, it was Nkrumah who forcefully propagated it. In essence, African Personality is:

> "... an attempt at fashioning a coherent philosophy which would enable the African not only to enhance his material wealth but also to elevate him from centuries of humiliation which has been his lot and thus enable him to re-establish his dignity in a world which had hither to considered him none." (Dumor, E. K. (1991) pp 35)

Nkrumah also refused to accept the multi-party system and the system of ruling through chiefs as imposed at the time of independence. He created a one-party system and relegated the chieftaincy institution to the background. His reason for this being that multi-party system and chieftaincy institutions further heighten the already existing divisions in a newly emerging nation which is made up of numerous ethnic groups. Today, however, the tide has changed. A multi-party democratic system is being practised in Ghana and a great deal of emphasis is being placed decentralisation, though chiefs are still relegated to the background.

On the economic front, he sought to change Ghana's agricultural, mining and outward-oriented economy to an industrial economy by giving emphasis to the provision of the necessary infrastructural base for an industrial take-off. This culminated in the construction of the Volta Dam, which resulted in what for many years regarded as the world's largest man-made lake. The dam was not only to provide the much needed electric energy for fuelling industrial growth, but was also to provide water for irrigation as well as serve as an inland water way. The state, rather than private capital, was to lead the industrial development and for this reason numerous State Enterprises were set up in food processing, pharmaceuticals, oil refinery, steel, etc. In the agricultural sector, large-scale, mechanised, state-managed farms were set up to produce raw materials such as palm oil to feed these industries.

Today, in the era of IMF and World Bank Structural Adjustment Programmes, most of the state-owned enterprises, are being sold off to private enterprise which is now seen as the engine of growth. Ghana is therefore pursuing the same policies Cote d'Ivoire has been pursuing since their independence - liberal economic policies with emphasis on private foreign investment capital.

Recognising that his industrial revolution could not be achieved without trained manpower, Nkrumah embarked on a nation-wide, free, universal primary education programme while also establishing numerous secondary schools, training colleges and two new universities to add to the existing one. The educational system inherited at independence was the British model. There was no attempt by the government to reform it to suit local conditions and culture before going national. As a result, many of the products did not have the skills and knowledge for use in their immediate locality and had to migrate to the cities in search of white-collar jobs. Subsequent governments have also done very little to reform the education system and the result today is the brain drain from rural to urban and from the urban to other countries, notably North America and Europe.

The case of Tanzania

Tanzania's colonial legacy was slightly different from that of Cote d'Ivoire and Ghana. Tanzania is a union between the mainland Tanganyika and the island Zanzibar. The latter was a protectorate of Britain which meant it had its own administration run by the Sultan, while the former was a colony with a British administration. Tanganyika became independent in December, 1961 and Zanzibar two years later. In April, 1964 the two became united to give birth to Tanzania.

In addition to ethnicity, Tanzania also had the issue of race to contend with. Both the mainland and Island had Arab, Asian and African population. At independence, there was pressure on Nyerere to Africanise the civil service and the economy which was dominated by the Asian commercial bourgeoisie. Many African traders and trade unionists became impatient with Nyerere's policy of 'gradualism'. He, however, stood firm.

> "To his eternal credit, President Nyerere stood firm and was unequivocal in his opposition to any racist sentiments masquerading as class conflict in arguing that 'where economic classes are also identical with race', his countrymen 'live on dynamite', that one day might 'explode' unless something was done about it. 'But', as he said, 'positively, not negatively".(O'Neil, N. pp 11)

Due to the racial under-current, Nyerere capitalised on an army mutiny in 1964 to formally institute a one-party state on 5th July, 1964. Though the one party system was not unique to Tanzania - it was in practice in Cote d'Ivoire, Ghana, Zambia, Kenya among others - in contrast to other countries its structures stretched down to the community level:

> "... the ruling political party in Tanzania is organised to the level of the individual household, every ten household having a 'ten-cell-leader' who is a party official with responsibilities and powers of control." (David Bevan et al, 1987 pp 4)

Tanzania is best known for the 'Ujamaa' concept, a development model, introduced by Nyerere as a practise of his brand of African Socialism at the dawn of independence. He defined Ujamaa as:

> 'The basis of African socialism which was to define the political philosophy of the new state based on the principles of human equality.' (Michael Von Freyhold: Ujamaa villages in Tanzania, Analysis of a social experience)

By the 'Ujamaa Concept', Nyerere urged Tanzanians to return to traditional values according to which everybody had a right to be respected, an obligation to work and the duty to assure the welfare of the whole community. Individualistic search for wealth and security at the expense others was denounced. The Ujamaa model sought to draw on what Nyerere perceived as an inherent and existing resource of communalism in the African. This, if redirected into development will benefit the rural folks, who are often the victims of poverty. The following statement from Carole Rakodi sums up, in our view, the aims, implementation and outcome of Ujamaa.

> "The aims of 'ujamaa' were to relocate the dispersed rural population in nucleated settlements and to collectivize farming. Between 1967 and 1970, the programme was implemented on a voluntary basis. However, where communal agriculture and enterprises were introduced, these tended to be poorly administered and gave rise to conflicts (Brebner and Briggs, 1982; Kauzani, 1988). Impatience with the slow progress led to the adoption in 1973 of the villagization programme with its twin aims of rationalising, although not collectivizing, farming and facilitating the delivery of production and social services by concentrating population and providing infrastructure. This programme had a much wider impact. While in 1973, it was estimated that only 2

million rural Tanzanians lived in villages, by 1977 this has increased to 13 million (Legum, 1988). This programme, together with increases in the expenditure on social services, has resulted in increased access, especially to primary education, health care and co-operative retail facilities, on a relatively equitable basis (Maro and Mlay, 1979; Kulaba, 1982; Kauzani, 1988; Legum, 1988)". Carole Rakodi in Simon D.

Of all the brands of African Socialism established on the continent, Ujamaa was the most radical, controversial and unique as expressed by Rukhsana A. Siddiqui:

> "Development strategies in Tanzania have attracted the attention of social scientists, the world over, because of the uniqueness of the country's attempt to establish socialism. This expressed commitment emerged not through class-struggle, a violent revolution, or a coup d'etat, but peacefully, after the struggle for political independence, and largely through an ideology articulated by President Julius Nyerere".(Capitalism, Socialism and the Development Crisis in Tanzania, Norman O'Neil et al)

The uniqueness lay more in the peasant participation in development schemes in relation to planning, implementation and monitoring, a process which eventually empowers the poor of the society and promotes ownership. Though this process is argued as an action 'more in response of the difficulties encountered in the villagisation strategy rather than a direct extension of its principles'.

Under Ujamaa, an attempt was made to break away from the colonial education system. In this regard, there was the policy document on 'Education for Self-Reliance' which emphasised that education should be structured to meet the needs of people in rural areas and that Ujamaa villages would need to stress self-help and villagisation. This is very important, since as a result of colonial legacy African educational system is run with a curriculum that does not necessarily take into consideration the needs of the people and country. Most African countries have agrarian economies and there is the need for younger generations to assist the older ones in the farming profession which serves as their learning period to take over the profession from the older ones. Educational curriculum should therefore be structured taking this into consideration.

The Case of Guinea

While the model chosen by Guinea is very similar to that of Ghana and Tanzania, it is worth looking at as it was a departure from the model chosen by most of the Francophone countries. At independence, Sekou Toure's primary objective was political, ethnic and class integration of the varied and diverse ethnic groupings made of 30% each of Fulani, Malinke and Soussou. In the face of this, development strategies with the objectives of ensuring internal integration and achieving more conventional economic goals were necessary. This task he believed could not be achieved if Guinea continued to participate in international capitalism. For this reason it announced its intention not to participate in the French African community and left the Franc zone. As a punishment for this decision, as was the case for other African countries that embarked on alternative models, France withdrew its capital, business people and bureaucrats and cut off all aid. As a consequence of that, Toure's Guinea had a closed economy and society for a longer period than any other African State

Toure aimed to achieve political integration through cultural change, which played a major role in building the Guinean identity in the midst of internal and external occurrences to derail the development pattern Guinea had embarked on. Sekou Toure is no doubt one of the strongest leaders of Africa in the quest for new lines of development looking into and utilising resources available in the land - the soul of the land, being culture.

It was strongly believed by Sekou Toure that the most important component for achieving political integration was through the rediscovery, development and dissemination of national culture. This is summed up in his words:

> "The African personality cannot serve to mask anything which harms the interest of the African people, including purely economic interest, but it is the cultural development of African man which is the prerequisite for every other kind of development. His moral values, his intellectual capacity, his cultural characteristics are the prime manifestation and affirmation of his personality" (Toure, 1979, quoted in Slowe 1990 pp 42)

A clear and well-planned means of bringing about the cultural change, through channel of communication was set out. This had the primary aim of educating Guineans to be independent of the West, western ideas and way of life which has been carved to suit their culture, which is different from the culture of the African, which defines the African's existence. It was also aimed at educating the government in the ways and thinking of the ordinary Guinean.

In this policy, there was a two-way information flow system, where the government orientated ordinary Guineans in ways of expressing themselves, and cadres trained in listening to these people and send the ideas and information to the centre; and at the centre, government formulates development policies based on the aspirations and priorities of the ordinary people in their communities.

> "The flow of information from the villages to the centre reflected African Cultural values and not the European objective of economic growth. Water was the first priority; education and health were far ahead of industry, commerce and agricultural development." (Slowe, M. P. 1990 pp 42)

It would be difficult for anyone to despise such a policy which eventually involves the ordinary people, especially rural villages which form the bulk of every African population in identifying development priorities beneficial to them.

It is on record that Sekou Toure's Guinea, with this approach achieved three major results.

> "First, villagers came to identify in part with the state, alongside tribe and village. Second, villagers were encouraged to make decisions for themselves in their own physical and cultural environment, often leading to the articulation of alternative economic and social priorities to those proposed by the state's central planners....Third, the methods used ensured an effective flow from villages to the government, so the government knew local aspirations and could ensure its popularity more easily."(Slowe in Simon D.)

Though Sekou Toure's period of leadership in Guinea was associated with the acrimonies and challenges the then new African leaders faced, especially as they ruled one party states, Guinea was able to achieve its aim of political, ethnic and class integration policy to a large extent, as sacrifices for immediate purely economic policies were made. He provided an important model of integrated development with an approach appropriate to Africa. Comparing annual economic growth between 1979 and 1984, of Guinea and neighbouring states and other African countries which took different approaches to development, the sacrifice of economic gains for integration was not great.

> "For example, liberal economic policies have been relatively successful in their own terms in Cote d'Ivoire but not in Sierra Leone. On the other hand, Toure's Guinea and Nyerere's Tanzania provide models of integrated development with very slow economic growth" (Slowe in Simon D.)

Assessment of the Development Models

Of the models presented above, the Cote d'Ivoire model is heralded as successful. Looking at it in purely economic terms, one is tempted to accept this assertion because, Cote d'Ivoire is still pursuing its liberal economic policies of development embarked on after independence and the other countries such as Ghana and Tanzania, which gave consideration to alternative models, have switched, under the influence of the IMF and the World Bank, to the Cote d'Ivoire model. However, as is generally acknowledged, development is not just economic development or wealth. Even with economic development, distribution of the wealth generated goes to determine the future development of that society. As it is with capitalist economies, the bulk of the wealth in Cote d'Ivoire remains in the hands of a minority upper and middle class and multi-national Corporations. As Aryeetey pointed out:

> "La Cote d'Ivoire, which between 1950 and 1965 saw a more intensive modernisation of its economy than many other African countries, has not escaped the skewed development characteristic of Africa".

He quotes Amin (1973 p.66) to buttress this point:

> "The experience of La Cote d'Ivoire, in the last twenty years has many lessons to offer. It can be summed up in the phrase; growth without development... growth generated and maintained from outside, without the establishment of a social structure, capable of bringing about an automatic transition to the further stage, that of internally-centred and self-regulating growth."

For development to be sustainable and far-reaching, it must be one that integrates all other aspects of human life. Ngugi puts this across when he says:

> "Let me briefly isolate the five crucial elements in that integrated whole: physical survival, economic survival, political survival and psychological (identity) survival".(Ngugi, 1993 pp 76)

The other countries which embarked on alternative models sought to go beyond the economic. Countries like Tanzania and Guinea sought political, ethnic (and race, in the case of Tanzania) and class integration of the entire country. They were conscious of the fact that the colonial state they had inherited from the colonialists were fragile and could disintegrate if they did not pay attention to these issues. Nkrumah's Ghana saw the problem as going beyond national boundary. The development of one country was tied to the political, cultural and economic liberation and consequent integration of the entire continent. At the time, Nkrumah was seen as a lunatic. Today the scale of poverty and civil wars on the continent bears him out.

What the post-independence leaders of these countries were aiming at was to break away from international capitalism (globalisation), conscious of the fact that continued participation in it would make the integration of their newly formed nation states almost impossible. If they had achieved this goal, their respective countries would have been in a better position to articulate with the world economy. This obviously was not in the interest of the powers who controlled international capital. It is not surprising that in all the countries which embarked on alternative models, there were covert and overt attempts to see that they failed. The following quotes testify to this:

> "The creation of a one-party state was only one feature of Tanzania that caused concern in the West, and held back the aid and private investment that were so urgently needed to implement the 1960-3 and 1964-9 development plans .... A British loan was frozen because Tanzania honoured an OAU resolution that diplomatic relations be withheld from Britain in protest against its handling of UDI in Rhodesia, and the unequivocal anti-imperialist stance adopted by Tanzania, particularly over Belgium operations in the Congo... ".(O'Neil, N. pp 12-3)

> "This is not to suggest that in the late 1950s Toure understood the full implications of dependency. Rather, the hostilities of the French government when Guinea announced that it did not intend to participate in the French African Community forced Toure's hand and left him no alternative but to try and develop Guinea in relative isolation to achieve his goal of integration. French capital fled, along with the business people and bureaucrats... France cut off all aid and withdrew all its experts, which meant that change simply could not be piecemeal - a structural transformation of Guinea's economy and society would take place anyway, it was just a matter of whether Toure could take charge of the process." (Slowe, M. P. 1990 pp 40-1).

On the other hand, one can argue that if the then Eastern Bloc countries had more economic power than the West and had come to the aid of these countries, today, it could have been their model which would have been proclaimed successful. As this did not happen, the economic fortunes of these countries declined and so did their physical infrastructure. In addition, they were under severe pressure to satisfy the demands of their people 'for the good life' they see on television (CNN and M-NET), read in the newspapers and hear from those who have travelled abroad. They turned to the IMF for help. IMF provides loans to these countries on the condition that they implement Structural Adjustment Programmes (SAPs). As stated in a discussion paper of the Unit III Commission Meeting of the World Council of Churches, held in Nairobi, Kenya from 13-19 January, 1997 (Document No. 7):

> "SAPs have two roles: to restructure the economies of Southern countries so that they can better save foreign exchange to service their debts; and to alter the fundamental macro economic and eventually social policies into a single 'monocultural' laissez-faire economic model that would be compatible with the long-term requirements of integrating these economies in the world economy".

Consequently, most Sub-Sahara African countries are pursuing liberal economic policies under Structural Adjustment Programmes in the hope that they can fill the shops with imported goods paid for by foreign exchange earned through the export of primary products, and with grants and loans given by bi-lateral or multi-lateral corporations. Currently, it seems there are no alternative models to look up to.

Globalisation - A Process of Cultural Annihilation

Presently, the world is at the dawn of a new era. An era in which economic and political power are being concentrated in the hands of a few countries and multinational corporations, and within countries, in the hands of a few people. This is the era of 'globalisation'.

Under colonialism, Europe dominated the cultures of many Sub-Saharan African societies through either trade, military conquest or religion and its brand of education. As has been argued above, through this cultural domination, it had a firm and long-term grip on the development of the nation-states that emerged at independence. Try hard as some did, they could not break free from this domination. Today, under globalisation, the domination is taking a more intense and fierce dimension. The Discussion Paper of the World Council of Churches quoted above, uses the term globalisation to refer to:

> "... the growing integration of 'free markets', investment flows, trade and information....Globalisation is largely the product of liberalisation, deregulation and privatisation. In the South, deregulation and liberalisation policies in many cases grew out of the structural adjustment measures that were adopted, often following arm-twisting by external creditors (especially the IMF and the World Bank), in the aftermath of the debt crisis of the 1980s. Globalisation and liberalisation are the two twin elements of a single phenomenon".

This "single phenomenon", in our view, is the gradual annihilation of the culture and identity left of the countries in Sub-Sahara African which some have fought hard to retain. To quote the Discussion paper once again:

> "Globally marketed consumer products and the media are super-imposing a homogenisation of culture. While the world's more than 1.2 billion TV sets can help spread knowledge and understanding, they can also be a new form of cultural domination through the incentives and values they transmit".

The key value which globalisation espouses and transmits around the globe is 'consumerism'. Its message seems to be, "seek ye first manufactured goods and you don't have to worry about creating anything of your own". This is unfortunate because to create is an expression of who we are; and who we are is embodied in our culture. Our culture therefore becomes our soul. What therefore does it profit a country if it gains the whole world, but looses its culture, its soul? This is the challenge facing Sub-Sahara African states today. Unfortunately, it seems, judging from the rhetoric of the leaders of these countries, the body is willing to carry on the fight against domination but the soul (i.e. the culture) has been so weakened that many have given up and decided to swim with the tide.

How can Sub-Sahara Africa Respond to Globalisation?

Cultural Rejuvenation

We would like to suggest that a starting point for Sub-Sahara African countries is a rejection of the notion that 'West is best' and everything African is bad. This implies a cultural rejuvenation along the lines attempted by the late Captain Thomas Sankara of Burkina Faso. This calls for a close scrutiny of our traditional values and ways of doing things, discarding what is detrimental to human development and improving on what has kept our societies together despite the assaults over the past century. One value Africa can give the rest of the world is "being each other's keeper" - the underlying value of the communalism that Nyerere, Nkrumah and others sought to promote. Instead of holding fast to this and allowing it to continue to determine our social, economic, political, religious and cultural development we seem to be giving it up for the capitalist value of "each for himself".

Because our confidence in ourselves and our culture has been so undermined, we in Sub-Sahara Africa are too quick to relinquish what we do and are for others. We used to live in harmony with nature, but the West made us to feel that was primitive. Today the West is claiming to be the champion of sustainable living. In many African communities, the animals which people rear for meat intermingle with them in a free-range manner. Today, the West, having promoted factory-style animal rearing around the world, is again claiming to be the champion of animal rights. There are many more examples one can give but these should be enough to get the point across. The lesson for us in Sub-Saharan Africa, especially our intellectuals, researchers and policy makers is that we start with what we have, study it critically and improve on it.

This is not going to be easy. Under the current international order, Africa finds itself in a powerless position. Its present leadership, both the political and social elite, see no other alternative to globalisation. What we are suggesting therefore goes against the tide. To achieve this cultural rejuvenation would mean putting in place processes which would generate more Nyereres, Sekou Toures and Nkrumahs, who are in tune with the dynamics of the present time and are prepared to stand up to the challenges of the time.

Globalisation also offers opportunities and avenues which can be used to great advantage in this process of cultural rejuvenation. The driving force behind globalisation is the ideology of "unbiased" information and with it, the information technology or super highway. Through the information super-highway and the liberalisation of the mass media, in particular of the air waves, more people, especially those in rural Africa who, to a large extent, are still holding on to some of the cultural values, can be reached with this message of cultural rejuvenation.

The Role of Civil Society

A lesson from the post-colonial models presented above and the case of the late Captain Thomas Sankara and that of the Sandanista Revolution in Nicaragua is that a political leader or government who attempts to embark on an alternative model of development would face fierce resistance from the powers of international capital. In present times, it is the political and business elite who are benefiting from globalisation and therefore have the least motivation to embark on any action which would curtail their privileges. The segment of society which is in a better position to undertake this cultural rejuvenation, which must be a quiet revolution, is civil society and its organisations.

Across the world, many civil society organisations are showing alternative ways of organising society from the bottom up. This is particularly relevant and necessary in Sub-Sahara Africa where most people have, through the period of colonisation and even in the post-colonial era, been dependent on the state for almost everything - information, jobs, education and other social services. There is low participation of civil society in the development process because often people are involved in actions that have been thought out or designed and controlled by others, notably government. For Ghanaians to be active participants in the development process, they need to cultivate the ability to investigate, analyse and understand the dynamics of the social, economic and political reality in which they live, before they venture to act on it, to change it. To bring about change in their life situations would require ability on the part of people to organise themselves to undertake and manage collective actions.

We will illustrate this point, using Centre for the Development of People (CEDEP), the Ghanaian organisation we work for. CEDEP is, what is referred to in today's parlance as a non-governmental organisation (NGO).

CEDEP sees conscientisation and animation as the starting point in any development process. This is because it is only by analysing their situation, that people can arrive at their own conclusions and decide on a cause of action for which they would have the motivation to carry it out.

To achieve this objective, CEDEP has set up a Development Education Unit, which it sees as being central to the work of the organisation. Two of the unit's activities - a School Outreach Programme and a Community Action Group project - aim at building a new constitution of well informed and action-oriented young people (a new breed of Nyereres and Nkrumahs) who would feel a sense of responsibility for the management of their communities and eventually of the country. These activities provide the platform or forum for the youth to discuss development and topical issues, analyse the internal and external causes and identify necessary action they can take immediately or in the future or recommend changes, where possible. Taking advantage of the liberalisation of the media as a result of globalisation, the unit seeks to make effective use of local (FM) radio stations, while also using drama and video - a blend of the traditional and the modern.

Under the Community Action Group project, for instance, the unit takes identified community youth groups through leadership course, development education (conscientisation and animation) with emphasis on cultural awareness. These activities instil in the youth a greater sense of purpose, interest and motivation in the development of their communities. The youth groups then involve their communities in problem identification, prioritisation and action using participatory methodologies.

Arising from these activities, one can see a growing number of youth who have gained self-confidence in their ability to analyse and draw conclusions and are prepared to act to bring about change. This is a slow but a more lasting process. This is a silent revolution. Just as the Pan-African conferences prepare people like Nkrumah for their role in the liberation of the continent, so in these youth are the seeds of resistance against the annihilation of culture.

They, hopefully, may provide the alternatives to globalisation, when the tide turns against globalisation.

Conclusion

We have argued that during the period of colonisation, the cultures of Sub-Sahara African Societies were undermined and dominated by the colonisers. At independence, some countries accepted the status quo and got the support of the West. Those who refused to accept the status quo and embarked on alternative paths were subverted and today, these countries are back in line.

The world today is at the threshold of a new era which is generally referred to as 'globalisation'. It is an era in which economic and political power is being concentrated in the hands of a few countries, corporations and individuals. With the force of the information super-highway behind them, these new emerging powers are spreading capitalist values and the culture of 'consumerism'. With an already weakened culture and confidence, it seems Sub-Sahara African countries stand very little chance to resist this new assault.

We have argued that rather than giving up, these countries should embark on a cultural rejuvenation and this challenge should be taken up by civil society. In doing so the organisations of civil society should prepare a new cadre corps who will come up with alternatives when globalisation begins to crack.

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INTERNATIONAL CONFERENCE

on

COLONIALISM and GLOBALIZATION

Five Centuries after Vasco da Gama
February 2-6, 1998
New Delhi, India

Various Sub-Saharan African Models

by

Ms. Emelia Arthur
CEDEP, Ghana, Africa

INTERNATIONAL CONFERENCE

On

COLONIALISM and GLOBALIZATION

Five Centuries after Vasco da gama
February 2-6, 1998-01-12
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GLOBALIZATION IN EAST AND SOUTH AFRICA

Mulima Kufekisa Akapelwa, CCJP - Zambia

GLOBALIZATION IN EAST AND SOUTH AFRICA

MULIMA KUFEKISA AKAPELWA, CCJP - ZAMBIA

I have been asked to discuss globalisation in Eastern and Southern African countries. To do so I will begin by giving a brief background of the region's historical experiences. This will not be a detailed account, however it is intended to highlight some similarities. In it will be shown that participation in world trade dates back into colonial period and indeed before. As I proceed with the discussion you will notice a tendency to emphasise human development concerns. This is because the discussion is made from a social development perspective.

THE COLONIAL PERIOD

Before talking about the colonial era, it needs to be stated that during the pre-colonial era this part of Africa suffered a great deal at the hands of slave traders. Slaves were taken from the continent to the America and the Caribbean to work on plantations. This had a detrimental effect on the continent.

In this paper countries referred to are Kenya, Uganda, Tanzania in East Africa and Angola, Botswana, Lesotho, Malawi, Mozambique, Namibia, Swaziland, South Africa, Zimbabwe and Zambia in Southern Africa. These countries have until quite recently, been colonised by West European countries. For most of the above stated Britain was their colonial master until the 1960s when they gained independence. Angola and Mozambique were ruled by the Portuguese, gaining independence only in 1975. South Africa and Namibia were not in the same category. The former occupied the latter up to the year 1990. South Africa, as you all know, was a case of racial exclusion.

These countries can be categorised as regions of white settler colonialism. They served as labour reserves. Consequently during colonialism there was significant migration in the region. Locals left their countries to work in the gold mines of Zimbabwe and South Africa or the Copper mines of Zambia. Indeed some migrated to work in the coffee and tea plantations of East Africa and on commercial farms. Due the introduction of cash economy men had to work in order to gain money to pay tax.

During the colonial period, the colonised territories had their economies distorted to serve the interests of the colonial master countries. The former became economically dependent on the latter and on the international market. Distortions resulted in dependence on single raw material export such as copper and coffee. Each geographic and cultural entity was incorporated differently into the world capitalist system, hence shaping specific function that entity played in the process of capitalist accumulation on a world scale.

THE POST COLONIAL PERIOD

The process of gaining independence was for some countries bloody, Kenya and Zimbabwe, the Portuguese colonies and Namibia being such cases. For other countries independence was attained mainly through mass organisation as in the case of Zambia, Malawi and Tanzania. It appears that the more investment there was the harder it was for the colonialists to let go their power. This was so, even in countries the British had partially given up to be run by "responsible governments" as in Zimbabwe and South Africa.

On gaining independence most east and southern African countries embarked on what is now termed nationalist projects. This era spanned the 1960s to the early 1970s. During this period massive construction programmes were embarked, schools, roads hospitals and bridges were built. These were indeed ambitious times. Programmes were designed to provide services and infrastructure to the hitherto much deprived citizens and to fulfil expectations of independence. Such expansionist programmes were carried out at a time that economies were doing well, with local currencies equalling or even better than some hard currencies However, little did the inexperienced governments know nor foresee the changes in the world economy that were to be to their disadvantage.

Lacking adequately trained manpower most countries took on whatever administrative structure that had been set up by the colonial power. This also included taking the political set-up of the colonial countries. In the case of the former British colonies they became "parliamentary democracies". During this period newly independent countries were under pressure from the Cold War. Were they to be aligned to the West or to the East? For some countries such as Mozambique and Angola this resulted in loss of life as the cold war was played out in their territories. After a few years of capitalist orientation a number of them turned to socialism these included Zambia. For others though, they proceeded on a capitalist mode as in the case of Kenya, Malawi. They encouraged foreign investment in their economies. Notwithstanding, new governments were to learn that their single export based economies were at a disadvantage. They did not have any control over commodity prices on the world market

For countries that decided to go the socialist way, nationalisation of multinational and other private businesses seemed to be the only way to maximise the returns of independence for their peoples. Nationalisation programmes began in the late 1960s. These were necessitated by the realisation that operations of multinational companies were not to the advantage of locals. The process of nationalisation meant that governments gained large shares of multinationals and some cases completely took over the running of business. In Zambia by the close of the 1980s 80% of the economy was in the hands of the state.

During the 1970s significant gains were made in human development indicators. In a number of countries enrolment ratios increased, adult literacy also went up and under five malnutrition reduced. As most of you will know, in the mid-seventies a number of East and Southern African countries got into debt [see later for figures]. In the late eighties the debt burden worsened due to increased interest rates. In order to borrow money countries then were forced to take up adjustment programmes recommended by the IMF and World Bank.

WHAT IS GLOBALIZATION

The term globalization has now become a buzzword. It is used in many contexts, often not defined but used to promote arguments favouring business interests. In this way it has acquired both a legitimacy and an aura of "sacred, goodness and desirability" (R. Diwan). In order to move away from this weakness I begin by giving the definition of the term and hence lay out a framework for discussion. This will be followed by discussion of the elements of globalization in E & S Africa and some of the counter-effects.

Anthony Egan a Jesuit priest in South Africa writes that globalization is not just a matter of being able to communicate with every corner of the world by telephone, computer internet or satellite television. It is not just the globalization of information but rather globalization of trade and economics. It means turning the world in to one market economy. In the same vein A. Ouattara of the International Monetary Fund emphasises the economic aspect saying in basic terms globalization of the economy is the integration of economies throughout the world through trade, financial flows, the exchange of technology and information and the movement of people. Ouattara further states that globalization is first and foremost a result of the expansion, diversification and deepening of trade and financial links between countries especially in the last decade.

Tilburg in his address distinguishes three aspects of the phenomena; first the speeding up of world-wide economic integration caused by the choice for a market economy and free trade coupled with the sharply increasing freedom of capital movements. All this, he observes provides ample room for the rapid growth not only of trade but also of transnational enterprises. Secondly, the globalization of communication and information. Lastly he identified the globalization of politics. In the past people thought in terms of the First, Second and Third Worlds. Now that communism has collapsed there is little left of this traditional division.

One can also speak of the globalization of issues, such as human rights, environmental concerns and gender. In this respect one refers to the aspect of universalisation of concerns.

In this paper I will focus on economic, political and cultural elements of globalization. An underlying theme of the paper is that globalization as it stands has not had significant positive impacts on the lives of people. In fact this is not an ideal that is the primary objective of theses economic changes.

Recognition also needs to be made here of the differences in the literature. Economists from the North in their discourse mainly discuss the benefits that are in store for those that put in place the necessary policies in order to fit into the global picture. They only fleetingly refer to issues of marginalisation for countries that do not embrace the challenge. Writers from the South on the other hand, are quick to point to the shortcomings of the drive to globalization. They point not only to the losses for developing countries but also to the inherent inequalities of structures. One is drawn to identify with South discourse not simply because of a kinship spirit but because one primarily questions: who is benefiting from these changes? From what one observes in the part of Africa that I come from, globalization does not necessarily translate to positive improvements in the livelihoods of people. Raghavan C. cautions that the talk about globalization is really about the expansion of TNC activities to the developing world and on TNC terms.

ELEMENTS OF GLOBALIZATION IN EAST AND SOUTHERN AFRICA

STRUCTURAL ADJUSTMENT PROGRAMMES

I see no better entry point than to begin with Structural Adjustment Programmes as modalities for globalization. This programme plays a central role in the present day phenomena. This was done through the role played by the World Bank and IMF in controlling the economies of most African countries. Most countries of East and Southern Africa in the 1970s went through a crisis period and are now in debt. This was due to government's mismanagement, poor policies and external factors including poor terms of trade such as decline in copper prices and high oil prices on the world market and increased debt service. Consequently most countries had to borrow heavily in order to keep their economies afloat. Having done so they had to take on the package that came along with the loans. As of 1994 the debt situation of countries stood at in billion US dollars:

DEBT SITUATION

Botswana	US $ 0.7	Kenya	US $ 7.3 billion
Lesotho	US $ 0.6	Malawi	US $ 2
Mozambique	US $ 5.5	Tanzania	US $ 7.4
Uganda	US $ 3.5	Zambia	US $ 6.7
Zimbabwe	US $ 4.4		

I am sure most of you are aware of what the Adjustment Programmes entail. Their primary aim is to bring back an economy to growth and to stabilise macro economic indicators. The core of the package involves trade liberalisation, devaluation of a currency, reducing public spending by cutting on free medical and education services, agricultural and food subsidies, considered as "wasteful" outlays. Privatisation of state owned enterprises, wage freeze, credit control and encouraging exports and foreign investment complete the picture.

The main thrust of Adjustment is liberalisation, freeing the economy from controls and restrictions. In so doing unleashing market forces. The vision offered is market driven growth. Everything is left to market forces. Consequently this neo liberal view is seen as the only way forward. However, UNCTAD - IX Conference in South Africa last June concluded that experience of SAPs to date, in low income countries has not borne out the expectations and have failed to unleash forces of growth. The state of play currently is that governments lose control of what they can do in their economies. Their role is reduced to creating and ensuring an enabling environment for the private sector, which often means foreign companies. The primary fiscal goals of controlling expenditure and inflation often times come into conflict with the expectations that people have of their governments; to invest in the social sectors. In Mozambique for example, Nova Vida a Catholic magazine writes that the Finance Minister was forced to promise the IMF further cuts in health and education spending. The country also had to cut back on a donor funded programme of rebuilding war damaged infrastructure because the spending was considered by the IMF as inflationary. Neither could that government raise the minimum wage from $14 a month by 37.5 percent or half the rate of inflation because that was going to be "excessive".

In Zambia, public service workers are among the least paid. Their take home pay ($110 for, the highly paid and $75 for the least paid) falls far short of the cost of a basket of food. A basket of food for a family of six costs $132. This does not include electricity, shelter, health, education, transport and clothing. In the coming year government has announced a wage freeze. This is intended to keep salaries low so that government will be able to meet payments for thousands of workers who are to be retrenched. This is a continuing process of cutting down on the public service.

During adjustment years, in Malawi, Zimbabwe, Tanzania, Zambia human development indicators plummeted. In Zambia the situation was so dire that the country was seen by the UN as having reached crisis proportions. During the same period though, there were claims that macro economic indicators had improved tremendously with inflation reaching all time low. This led the Zambian Bishops to ask the question "who in Zambia is doing well"

The design of SAP programmes and their subsequent implementation lack the participation of recipient countries. Countries are forced to take up priorities of the package without due recognition of a common vision, historical, political, economic and social differences. The choice of a free market is not made freely. Indeed, alternatives to the package are not explored. The Economic Commission for Africa drew up an alternative framework in regard to. handling foreign exchange and privatisation. The framework has not been implemented in any country at all and is least likely to receive support.

In the Eastern and Southern region globalization has entailed opening up of markets to foreign goods. In the southern African countries this has often meant cheap imports from South Africa, which is proving to be quite a force to reckon with. At an UNCTAD Conference in May/June in South Africa several leaders from developing countries decried how globalization and liberalisation had run their local companies out of business and marginalised their economies. Tanzania's president Benjamin Mkapa said that "countries undergoing liberalisation and privatisation under World bank and IMF policies had suffered immense social costs, including job losses, cuts in health care and education and the immense possibility of instability" He further added that opening up of economies is also a problem. The prospects of integrating these countries into the global economy are extremely dim.

Despite the above the IMF states that it needs to maintain emphasis on macroeconomic stabilization, trade liberalization, price reform and other reforms that allow stabilization to take hold. "But we have learnt that this `first generation' of reform is not by itself, enough either to accelerate social progress sufficiently or to allow countries to compete more successfully in global markets. Consequently the IMF set out eleven commandments for broadening and strengthening the strategy of the 181 member. These covered areas such as: quality of fiscal adjustment, bolder structural reforms, better government and strengthened financial institutions.

In the above I have dwelt much on some counter effects of globalization introduced through the SAPs. These are the diminishing role of government, the lack of equity and choice in the process. Discussion of SAPs in Africa is a topic that one can write a separate paper on. In this paper I restricted myself to a brief overview in order not to lose sight of the wider issue. In the next part of the discussion I look at promotion of foreign investment and liberalisation.

LIBERALISATION AND FOREIGN INVESTMENT

With the exception of Botswana, Malawi and Kenya, economies of most countries of the region were state controlled prior to SAPs. Here we bear in mind the different situation of South Africa and Namibia.

Liberalisation in the predominantly state controlled economies meant; removal of price controls and subsidies, removal of tariffs and other protectionists policies, easing legal procedures associated with investment and licensing, deregulation of profit retention. These have indeed widened the number of participants in the private sector. Liberalisation has increased competitiveness and guaranteed the consumer a wider array of possible choices than was the case before. In Zambia and Tanzania there are now more choices of beer brands! This has been made possible by the investment of South African breweries in these countries. The ability to avail of the various consumer products is limited to only those that can afford. As has been said earlier real incomes have dropped significantly in the past decade. Most ordinary people cannot afford to buy the "fruits of liberalisation"

Another consequence of liberalisation is the flooding of local markets with cheap imported stuff. I mentioned earlier how this has rendered the closure of companies due to the unfair competition. Since restrictions on imports have been removed all kinds of products come in. In Zambia the textile industry was the first to go. Cheap imported second hand clothing from Europe and North America, was being brought into the country. Closure of companies has also meant loss of jobs. In Zambia textile industries that were making the traditional Chitenge material closed down because they could not compete with the imported materials from China.

Malawi was the region's rice producer, now the region is flooded with rice from Asia. In Malawi, 90% of the population lives in the rural area and is dependent on agriculture. The reduced income due to inability to sell their rice has a significant impact on their lives. In addition, imported rice is more likely to be highly polished thus not as nutritious as locally produced less polished rice. Liberalisation of agricultural markets has resulted in a raw deal for the poor producers particularly in rural areas. Rural producers are at a disadvantage due to middlemen that buy from them at low prices. The middlemen then transport agricultural produce to the towns where it fetches more money. Rural livelihoods are negatively affected by the removal of a government role in ensuring that their produced is purchased. In addition, removal of credit and other agricultural subsidies once provided to rural producers by the state has jeopardised the region's food security. The region has in the past years faced food deficits.

In the drive to attract foreign investors governments have in some ways lost their role of acting for the public good. For instance, the drive towards making tourism a major income earner, licenses are given to operators along riverbanks and lake shores for resorts. Consequently local villagers may lose their communal right to that water source for their animals. This is only one of the ways. In Namibia big fishing companies have fishing rights on the coast. Local people are not allowed to catch more than a certain number of fish considered adequate for home consumption. They are denied fishing as a livelihood. Another way that the drive to foreign investments strips local people of their traditional property is through land reform. Title deeds replace traditional land tenure systems. Ordinary rural people lack the money to secure their land in this manner. In Zambia the Justice and Peace Commission of the Catholic Secretariat is working with some other concerned NGOs to fight for the rights of the poor. The interest of governments is only on how many dollars will be earned, poor people suffer.

Introduction of Export Processing Zones is one of current consideration in Zambia and other countries. Kenya was of the first countries to implement EPZs. The primary goal of such zones is to attract production and employment. The downside to EPZ is that more often than not, workers lose their right to organise, thus end up on very poor wages. Government also loses a source of income since companies would operate on a tax-free basis. Our Latin American and Asian friends am sure have more experience of this.

The inequity of globalization in Eastern and Southern Africa manifests in the share of investment being taken up. In Southern African countries liberalisation has resulted in South African companies taking a large share. Anglo-American [mining], De beers [diamond mining], Shoprite [supermarkets], Pep Stores [low priced clothing], Multi Choice [satellite television], to name only a few, are big companies that have outlets in several countries of the region. For companies in other countries the inability to borrow for capitalization during implementation of SAP, has meant that they are not able to expand. Intra-country inequalities have also meant that only the rich have benefited from the process of liberalisation and privatisation. In Zambia for instance, only politicians are declaring their wealth in millions and billions of Kwacha. In Zimbabwe again we hear of politicians getting the better of the "indigenisation programme" as it applies to land reforms.

It seems to me that the overriding concern to free markets does not benefit or improve ordinary people's livelihoods. Even when governments earn the much needed dollars people question how such monies are spent for the good of the nation. Does the money go to more social services, credit schemes, or does it go to presidential and ministerial travel and huge perks for politicians? This is a question that was raised by the CCJP in its contribution to the 1998 budget debate in Zambia.

What is the picture in relation to Direct Foreign Investments (FDI)? Globalization is intended to improve FDI to countries. The truth is that in East and Southern Africa most of this goes to countries that are already well place such as South Africa. Chang notes that the bulk of FDI is only among developed countries. Only a handful of developing countries are taking part in the transnational investment story. Excluding China FDI during 1990 -1994 to developing countries was only 17.8% going up to 21%. The percentage of FDI coming to only East and Southern Africa is very small.

REGIONAL TRADING BLOCK - COMESA

All these countries belong to a regional trading block called COMESA. The Common Market for East and Southern Africa. COMESA was formed as a way of enhancing trade within the region. It operates along the lines of other regional trade blocks. Trade within the region is increasing. However the European Union is still the major trading partner to most countries in the region.

COMESA's operational budget is about US $4.5, this comes from member states. One of the shortcomings of the block is that it is dependent on donor funding for specific projects Examples of these are; computerisation of customs departments in member states, installing computerised information systems on the movement of trucks and railway wagons. Western donors are major actors in globalization. COMESA would do well to be self-sustaining to effectively fight for fair agreements with other world bodies.

The overall share of world trade in Africa is only 1.1%. Trade in COMESA is still hindered by some countries that have high tariffs. This is in countries such as South Africa, Botswana, Namibia and Zimbabwe. Consequently, countries that quickly liberalised their tariff are now at a disadvantage. Another snag to complete removal of tariffs is that some countries depend quite heavily on revenues generated through customs and excise duties. It is however envisaged that the lowering of tariffs will attract more businesses to be involved in trade.

What does this regional block mean to ordinary people who have to work extra hard to get money in their pockets? Trading has now become an integral function in most households. The harsh effects of SAP necessitate this. Individuals who once were in the middle class have to engage in cross border trade and smuggling in order to make a living. In border towns this is indeed a livelihood. The easing of trade among countries in the region has been beneficial to these small-scale traders.

Financial Markets are also an upcoming aspect of globalization in the region. With the help of the World Bank, Stock Exchanges have been set up, in the case of Zambia. The South African Exchange is one of the oldest in the region. Newer ones include the Uganda and Zambian and Namibian. Some of these resulted from the need to respond to the privatisation programmes. The region has not yet experienced stock crashes as has been the case in Asia. However the Asian developments are a pointer to possible dangers with being caught up speculation and money exchanges. With a majority of the population living below the poverty line and without savings, investing in shares is certainly not one of their priorities. The evolution of stock markets is not necessarily a good sign.

DEMOCRATISATION AND HUMAN RIGHTS

Since the breakdown of a bipolar world, the move to democratisation has spread to more countries on the continent. The end of the cold war has meant that the West reigns supreme. This has also resulted in the West pushing for certain political reforms that they see as compatible with the new economic order.

East and Southern Africa have not been left out of this influence. A number of countries have been caught in the net. Those that resisted moves to democratise were caught up in a donor squeeze, such as Malawi. Donors began to tie aid to good governance issues. In Zambia for instance donor countries suspended balance of payment support in July 1996 because of differences over governance issues. These included the constitution and the electoral process. This action had significant impact on the country's budget. At the same time there was a proliferation of new NGOs calling for participatory politics and good governance. These were also funded western donors.

One of the consequences of opening up politics in the region is the relatively greater freedom of speech than before. In recent years there has been a proliferation of independent press. Many countries were served by government press only. However, adoption of multi party politics does not necessarily mean better economic standards for people. The experience in most of the countries in the region shows that multi party politics, taking part in voting does not translate into the needs of the most needy being attended to. In fact poor people begin to question the whether it is worthwhile to participate in elections. In Zambia there was a notable decrease in participation of the 1996 elections. Often the rich are the ones that get into parliament and they use their monies to buy votes. Do we still need donor ultimatums before we can make our political systems work fairly?

This past era, there has been a globalization of certain concerns such as human rights. The region has also had to act in ways seen as upholding human rights as defined by various international articles. Again here, there is great donor influence in this matter. Kenya, Malawi (during late Kamuzu's rule) was often accused of violating human rights. For countries whose budgets are dependent on donor money as Zambia is, this accusation could cost a lot. In upholding human rights I wish to point out that these refer to political rights, such as freedom of assembly, freedom of expression not to basic rights such as the right to daily food, the right to receive education, the right to decent shelter. Consequently, there has been much pressure to uphold these without equal attention given by the same advocates to the concern of ensuring the people's economic and social rights are met. Should we be more concerned with political and legal rights than with economic and social rights?

TECHNOLOGICAL INNOVATIONS

Globalization has now brought to reality things one only dreamt of. Information technology and flow have reached such unprecedented levels. I can communicate with various people around the world through e-mail. One can also get information on the Internet by just sitting and punching keys on the computer. A number of countries are now on Internet in the region. These include South Africa, Kenya, Zambia, Zimbabwe, Botswana and

Namibia. It is now possible to send out and receive information for lobbying among different partner organisation in a short time. The internet has been very useful to the CCJP project in exchanging information with our partner CAFOD.

However this novel technological development has not touched the majority of our peoples. Most professionals access the web through their places of work. In fact only a minuscule part of the population own computers. On the other hand due tc lack of access to such technology the result is that one hardly finds information put on the web by African writers. The web is filled with writers of all shades from the north. I was struck by this dearth during the time I was working on this paper.

However, computerisation is taking shape in the region, as prices of computers fall. This may lead to the reduction in the numbers of people employed. In the long term is hoped that this will result in an increase in business and improved employment rates.

Apart from the spread of computers, advancement in production technology is another aspect of globalization. With the exception of South Africa, Kenya and Zimbabwe other countries lag behind in robotisation and high-speed assembly lines. This is partly due to a lack of capital to invest because of SAPs and because these technologies have not been deliberately brought. In fact the region needs more of such technologies in order to improve livelihoods.

CULTURE

Globalization has had a big impact on culture in the region. Culture is a broad term, its many attributes have been touched by the main tenets of globalization. These include; profit motivations of business, primacy of free market and private enterprise in to all processes of human development,

Globalization in Africa has meant among other things, the promotion of exports that countries are supposed to be good at. This emphasis on high returns has affected food production. Small-scale farmers, most of whom are women grow less of their staple food, for example maize. They are drawn to grow non-food crops that will give them more money, such as cotton, sunflower or coffee. In rural areas where agricultural inputs are expensive farmers are drawn into "contract farming" deals. Commercial farming companies such as LONRHO, provide all the inputs on condition that the entire crop is sold to that company at a fixed price. This poses a threat to country's food security.

On the other hand removal of subsidies on agriculture has had a negative impact on food production. In the past small scale farmers could produce by obtaining loans. In the 1990s small scale farmers have become one of the region's category of the poor due to lack of credit and government subsidy. Women are most affected by the inability to obtain credit.

Under attack too from globalization is the extended family system so common to Africa. Devaluation of currencies, wage freezes and high unemployment due to SAPS, has

resulted in difficulties for families. Families are more unlikely to take up responsibilities of the extended family due to the high cost of living. With the HIV/AIDS problem leaving in its wake orphaned children, people are beginning to see western kind of institutional care such orphanages as alternatives.
I referred earlier to an increase in cross border trade and smuggling as income generating ventures. These activities have been necessitated by unemployment. However, the absence of parents from home means that children are left to care for themselves. Their socialisation process is affected.

In addition traditional roles of men and women are challenged by globalization. In the past men were seen as breadwinners. Now women are taking more active roles in ensuring basic needs for their households. Consequently women are more burdened as engage in various activities in order to meet economic and social needs.

Notably one of the effects of globalization is the growth of a global culture. This culture is transmitted through the television. The emergence of satellite television has meant the spreading of uniform cultural values and products "largely made in the USA" across the region eroding traditional values. Youth aspire for values they obtain through the media. Music and dance have been greatly impacted by western style, as seen in the media. This is particularly so for music produced by young people. It appears that music is considered good if it sounds like the so called "R and B". The majority of African artists no longer use traditional instruments to produce commercial music.

Because of the high cost of living, the free market systems and lack of employment family patterns are changing. Children both boys and girls spend more time on the streets trying to sell foodstuffs in order to earn money to feed their families. The phenomenon of street kids and street persons is increasing. This is particularly so in Kenya, Zambia, Tanzania and South Africa.

ENVIRONMENT

As the world becomes closely knit economically other challenges arise. The awareness of a global economy raises awareness too of ecological concerns Today the environment is under threat of global warming. The causes of global warming lie mainly in the western world, through emissions from industries and motor vehicles. Yet the repercussions are felt not only in America and Europe but all across Africa and Asia. With the lifting of restrictions by governments and easing of operations for TNC they are likely to move production plants with toxic emissions to areas with weak environmental controls. These would be countries trying to woo investors into their economies. Poor countries in the region may be lured to accept toxic waste by big multinationals in exchange for dollars.

In Zambia charcoal burning is one of the contributory factors towards deforestation. With the decline in incomes and unemployment people in rural areas have opted to selling charcoal as a livelihood. However such a livelihood is not sustainable. Because globalization is driven by market dynamics it is not respectful of the environment.

With the pressure on governments to spend less on public services, it means that less money will be available in national budgets for the protection of the environment.

ARMS TRADE

The trade in arms is another globalization dynamic. In Southern and East Africa South Africa is a major producer of arms. These are weapons produced in one country but sold to outside for others to kill themselves. With improved communication and liberalisation some companies have engaged in this trade. We heard recently Amnesty International stating that South Africa was providing arms to rebels in Burundi, a country torn by ethnic strife. In Angola, UNITA is still able to buy arms to fight the government even when they lost in elections. Zambia, Zimbabwe and Mozambique are countries that are quite heavily mined during liberation struggles. Should economies thrive by endangering African lives? Rural farming communities are unable to till their land even when the war is over because of the mines. How will they survive?

CRIME AND DRUG TRAFFICKING

Drug trafficking in the region has become a significant part of the underground economy. Drugs can be transported fast from sources to consumers. Not only has have South Africa, Zambia and Kenya become conduits, there is also increasing consumption.

Smuggling of cars is big business in the region. Prostitution in coastal areas increases with tourism. Corruption is a big problem in several countries. This involves big contract, government and private sector deals and multi-nationals. The world bank withheld project assistance to Kenya unless that country did something to fight corruption.

CONCLUSION

In my discussion I have highlighted the counter-effects of globalization on the region's under-privileged. In so doing I wish to emphasise the issue of gender. Women bear disproportionately the burden brought about by market-led economics. Those that benefit are just a minuscule proportion of the population, usually male.

Some suggest that investing in small and medium enterprises will help solve some problems. How can this work if these have to compete with big companies selling the same product cheaply? This is further compounded by the fact, that people see imported items as being better that locally produced ones.

In what ways can the public be educated when most of them do not even know what has hit them?

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INTERNATIONAL CONFERENCE

on

COLONIALISM and GLOBALIZATION

Five Centuries after Vasco da Gama
February 2-6, 1998
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COLONIALISM AND THE TERMS OF DISCOURSE IN INDIA AND CHINA

by

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China Can Say No (Zhongquo Keyishuo bu) is the title of a book published in 1995 which challenges the West and records Chinese determination to withstand Western pressures. Even in the height of economic reforms in China and spread of Western technology as well as cultural forms in recent years the Chinese elite has emphasised "Chinese characteristics" on every front. On the other hand, the Indian elite has smoothly assimilated itself with the various waves Westernization in the spheres of culture, economy and politics. The way the latest phase of liberalisation and globalisation has been accepted in India confirms the trend of the last two centuries. A look at the cultural and intellectual responses to colonialism in Asia, especially in India and China shows this contrast to be conspicuous. Colonialism successfully determined the terms of discourse in India but failed to conclusively shape the discourse in China.

In this paper an attempt is made to explore the reasons behind this divergence in the struggle over terms of discourse in India and China. Why is it that the struggle was so easily won by the colonial forces in India who succeeded in institutionalising their values about civilization and human conditions which got consolidated after independence through the policies of the post colonial state. British rule in India claimed the role of a 'civilizing mission.' It established institutions of the state, which included civil service, judicial magistrates, police and clerks for managing the organisation of society. It introduced European educational system to promote European ideas of arts and sciences. Imposition of English language through the educational institutions and operation of governmental machinery and especially in the realm of culture and media finally shaped the terms of discourse in favour of the interest of the colonial power. Indigenous institutions of politics, economy and culture were by no means ideal. They were also arenas of struggle as evident in course of many uprisings and cultural and religious reform movements. But colonial regime subdued these struggles and declared its view of the world as modern. Scientific and rational, therefore bearer of advanced civilisation. That it had a certain class, race and ethnic basis and was subject to struggle in Europe itself was not conveyed to the colonial society. The struggle against the colonial imposition continued to erupt from time to time in India but it lost the battle each time.

In China however the story was different. The early contacts between the European missionaries and traders on the one hand and the Chinese emperors and the officials on the other clearly recognised the high status of the Chinese. Even after China was defeated in the Opium war in 1840, the Chinese rulers as well as masses consistently nurtured the idea of regaining China's honour. Each war, even when the Chinese were defeated produced greater nationalist consciousness of the Chinese. Even when they were influenced by Japan's modernization after Meiji Restoration of 1868, they made a distinction between techniques for use and basic values. 'Taking Chinese tradition as the basis and applying western techniques for application' (Zhongti Xiyong) was a perspective advanced by some Chinese thinkers in the late nineteenth century. In many ways the ti-yong perspective was modified during the May Fourth movement. The developments after 1919 during the Chinese Revolution proved that all foreign influences were discriminatingly integrated into the internal struggles producing unique Chinese strategies and experiments. the fifty years of the Communist Party rule in the People's Republic of China during the leadership of Mao Zedong and Deng Xiaoping have continued this trend of terms of discourse being mainly set by Chinese people themselves. Whether it was the Yan'an model of people's democratic revolution, the Chinese socialist experiments under Mao or socialism with Chinese characteristics under Deng they had emerged through domestic struggles rather than as a result of colonial imposition. Even when the Chinese chose to adopt Western theories and techniques, ideas about society and nature they did it from a position of autonomy and self-confidence, in course of fair negotiations and objective evaluation rather than as a derivative from colonial knowledge which embody a relationship of political domination.

This contrast needs to be nuanced in several ways. But for our purposes in this exercise we can take the difference in the experience of the two countries as an assumption. Our main purpose is to seek explanations for this divergent pattern of intellectural responses and their consequences. That in turn will give some evidence to measure this contrast.

It is argued here that the nature of the political movements in twentieth century in the two countries made the critical difference in the evolution of the terms of discourse in India and China. This is also significantly related to the distinct features of state formation in China since its unification in 221 B.C. as against India's dispersed political existence, the scholar bureaucrat class of the gentry as against India's caste based social order, the unifying role of the Chinese language as against the plurality of developed languages in the subcontinent and the fact that China was not a colony like India but a semi colony under multiple domination by European powers and the Japanese.

Moving the centre in terms of discourse:

Let us identify the political question that we are dealing with. Attention is drawn here to the fact that frameworks of knowledge embody a political relationship; ideas, concepts and theories carry meanings which have a political history. Even when they seek to explain reality or truth about the world they do it from some vantage points. Thus "terms of discourse like terms of trade are favourable to some and unfavourable to others."1 Meaning systems are constructed in the context of power relationships.

Terms of discourse are used in two senses. Firstly, in the sense of terms as words which may be concepts and ideas. A great deal of literature exists on terms of discourse arising in different periods of history. "Social justice," "sustainable development", for example are terms of recent political discourse in India. In the second sense, and that is the sense in which it is used here, it means governing conditions of knowledge. To take an example, the discourse on freedom for a long time was limited to defending the rights of entrepreneurs and the upper classes. Terms of discourse on freedom changed with the emergence of worker's movement and later with the dalit movement in India and more recently with the women's movement. Thus the word may be the same but the concept evolved with the changes in the terms of discourse.

Ngugi wa Thingo has contributed a powerful concept which clarifies terms of discourse. He talks about the need for moving the centre. First "from its assumed location in the West and ... from its assumed location in the minority social stratum in all societies to its creative base among the people."2 Ngugi has analysed in the African context how colonialism robbed the people of the colonies not only of natural resources and enslaved the human beings but "one of the worst robberies is that of the means of perceiving all that." It colonised the values of the local people by a variety of means including the most effective means of colonising the imagination by imposing the colonial language. Thus Africa was made speechless. A new class of elites with foreign tongues was nurtured as interpreters between Europe and Africa. The educational institutions produced this class to manage the new institutions of economy and the state. In the new markets and the courts the native turned into a foreigner in his/her own country. Even when the movements for change appeared on the scene often the peasantry did not know how they were being represented. Thus according to Ngugi the agenda of liberation has to contain the basic human right- "the right to name the world."

Thus it is important to be conscious of the way the meanings of various notions came to be constructed. Colonialism snatched away the colonised people's right to imagination, rights to understand history in their own way, right to interpret nature from their vantage point. Upper class, upper caste, patriarchal, racial standpoints too denied similar rights. The struggle for liberation, therefore, entails 'moving the centre' from Eurocentric colonial vantage points to the Third world's own and in the Third world itself from the dominant elite's to the vantage points of the oppressed people themselves. thus the terms of discourse could change in favour of the oppressed only through the process of struggle.

In China the political movements evolved in such a way that colonial worldview did not get internalised by the Chinese people and the struggle to move the centre from the elite to the masses made serious advances. In India the Eurocentric worldview was adopted by the Indian elite in course of a century of colonial policies and though there are some gains in the democratic movement in favour of the oppressed classes, castes, tribes and women the struggle continues in a zig zag course. This is because of some significant differences in the environment of struggle, historical processes and ideological trends involving the elites and political groups in the two countries.

State Formation and National Consciousness:

The fact that China was a unified political entity whereas India was not had significant consequences for the struggles taking place in India and China during the nineteenth century. Emperor Quin Shih Huang had defeated the feudal kingdoms and set up Zhongguo or Chinese State or the middle country in 221 B.C. Even though there were uprisings within inner China or invasions by Mongols, Manchu and others the unified entity by and large continued. The emperor as the head of a bureaucratic state apparatus and an imperial army governed China for over two thousand years. It also performed certain welfare functions such as maintaining the Grand Canal for irrigation. When this imperial state was defeated in the Opium War and was forced to accept unequal treaty Chines nationalism acquired a perspective to fight Western imperialism. A feeling of humiliation or hurting of national honour and the fast fighting points which was built into Chinese nationalism. The Han elite also blamed the non-Han Manchu emperor's regime for this humiliation so the anti-imperialist consciousness was connected with a political campaign to overthrow the Manchu dynasty and establish a republic. Thus the concept of politics in the second half of the nineteenth century China centered on altering the power structure by defeating Western imperialism and Manchu monarchy.3

In India the picture was one of dispersed political power in Eighteenth century when the East India Company expanded its influence. the Mughal Empire had declined, some regions were under Maratha rule and there are numerous small and big kingdoms. the situation was very different from the political character of the subcontinent during Ashoka's rule in 4th C.B.C. or during Akbar's rule in the late 16th century. In the nineteenth century when the British evolved an integrated administration for maintaining their control and collecting revenue it was seen by the Indian elite as the first attempt at state formation. The British very cleverly maintained the princely states as separate entities with indirect control under the rule of paramountcy. After crushing the first war of independence in 1857 they set up direct administration making India part of the British Empire in 1858. Thereafter started the step by step building of the state apparatus, the Indian civil service leading this process.

The two institutional interventions that had long-term effects were introduction of the British education system and the legal system. The missionaries played a major role in setting up schools and colleges , which were channels for introducing modern European knowledge system to India. Graduates from these schools and colleges were recruited as personnel in the offices of the government and companies. This was the beginning of the mass production of clerks at various levels. Since the economy had been plundered resulting in famines and destitution these were regarded as opportunities for making good in life. The introduction of the zamindari system and ryotwari system required an army of surveyors and record-keepers to demarcate agricultural land and legitimatise property rights so that the extent of revenue could be determined. This in turn required courts of law to settle property disputes hence the import of the British legal system. The new legal and judicial system gradually limited the operation of the prevailing systems of law in the Indian society. They were based on convention, customs as well as codes. Like the bourgeois system of law they too had discriminatory class, caste, and gender basis. But they also were based on centuries of experience and struggle.

The state formation in British India-military conquest, economic expropriation, educational and legal institution building delegitimatised the local systems of knowledge. It shaped new terms of discourse about society and nature, what is good and what is bad. It moved the centre of discourse to Europe. Therefore, when reformers arrived on the scene, to begin with they saw these developments as positive for Indian people. They thought Indian people owed political unity to the British. They did not realise then that basis of state formation and its forms can vary and the fact of dispersed political power may actually be a positive heritage for building a decentralised, co-operative participatory and federal polity. Indian nationalist discourse continues to debate these two perspectives on the legacy of state formation in India. The terms of discourse on nationalism shaped by colonial policies in the nineteenth century later on had the dominant section of the Indian National Congress subscribing to the centralistic view. Nehru's Discovery of India traced the roots of unity to Indeus valley civilisation and Ashoka and unfurled a unitarian, centralistic perspective on state formation. This view was in its peak during Indira Gandhi's regime when India saw the glimpses of an authoritarian centralised state. Mahatma Gandhi represented the alternative view of decentralised federal or even confederal relationship among political regions in the subcontinent--a view that has echoed again and again in the politics of autonomy groups throughout the subcontinent since the 1970s.

Elite Power and Political Movements:

China's gentry was a unique social stratum combing wealth, knowledge, status and power in one class. These were landowning families who trained their children with years of tutoring to taker the imperial examination. So the officials of the imperial government, the provincial government as well as the country government came from the gentry class. No other class--the peasants, artisans and traders had the resources or the perspective, which could afford decades of preparation for the public examination. The examination system was such that only the gentry's children had the family culture and environment to study and qualify. Therefore, they are called the scholar bureaucrats who mastered the literary techniques. They were based in the rural economy dominating over the peasantry and other classes. They were the official class, which ran the state apparatus. The dominant ideology of confucianism was internalised by this class which practiced the "three guiding principles and five virtuous relationships." Thus the economic, political and cultural dimensions of power reinforced one another. No doubt Confucianism had to contend with Tacism and Buddhism producing new elements of the value system and value movement went on in Chinese history involving diverse trends often conflicting with one another. But on the whole the gentry determined the terms of discourse in imperial China.

When contacts with the West increased and ideas about Western science and democracy spread in China the gentry reacted sharply to their challenge. The first set of reactions belonged to the Ti-Yong framework. The idea was to learn the enemy's techniques to fight the enemy. This developed into a new stage when attempts were made to reform the manchu monarchical government since that was blamed for China's humiliations and weaknesses. After China's defeat in the Sino-Japanese war of 1894-95, there was serious attempt for constitutional reforms in 1898. It was an internal response of the gentry to adjust with the new situation. Meantime Japan had emerged as an inspiration to China and the rest of Asia because of her modernising experience. Many Chinese students studying in Tokyo got together under the leadership of Sun Yat Sen's Tong Meng

Hui. Gradually Tong Meng Hui became the rallying point for many revolutionary groups who sought to overthrow the Manchu monarchy, set up a republic and expel foreign powers who had by then controlled vast sectors of Chinese economy. Kuomintang under Sun Yat Sen's leadership represented a radical democratic element which grow out of the gentry framework. The 1911 Revolution was led by a section of the Han gentry therefore it had its limitations. Only under the impact of the Bolshevik Revolution when a stream of new youth emerged in China the domination by the gentry class was challenged. The new youth saw the relationship between the gentry class, old political institutions and colonialism through which it could enter and build up its presence with the help of the gentry. The May 4th movement in 1919 was the first major challenge to gentry domination as well as imperialism. The political struggle against gentry feudalism and Western colonialism thus got intensified. Meantime warlords had emerged in various parts of China presenting an unprecedented disintegration of the Chinese State. This too was attributed to manoeuvres of the gentry forces and colonial powers. Thus the agenda of reunification got built into the emerging democratic agenda. The Kuomintang under Chiang-Kai Shek sought to defend Confucian ideology and assimilate Western science into it in collusion with the West. The Chinese Communist Party especially under Mao Zedong leadership used Marxism-Leninism to fight feudalism as well as colonialism. It built upon Sun Yat Sen's Three People's Principles, namely, People's Nationalism, People's Rights and People's Livelihood to evolve its ideological perspective in course of a number of struggles with trials and errors. The CPC acquired mass support of the Chinese peasantry who was suffering the oppression of the gentry for centuries. Thus the people's democratic revolution significantly altered the terms of discourse. Mao Zedong's on New democracy with its politics, economics and culture and the talks at the Yen's forum of the art and culture effectively initiated currents of new knowledge. The new discourse strongly repudiated feudal elements of Chinese culture but inherited the popular, democratic and humanist currents. It denounced exploitative, bourgeois and colonial elements of the Western culture but opened gates to democratic ideas and modern science. The power of evaluation was acquired.

In a sense, China had only a brief period when a section of the gentry had moved the centre of knowledge to the West during the first two decades of this century. Before that the gentry had stoutly guarded its centre of discourse and after the May 4th movement and especially through the writings of Lu Xun and others and through the political struggle during the anti Japanese war, the centre of discourse was moved in the direction of the common people of China. Chinese nationalist discourse thus took a people's democratic turn with the help of Marxism. In other words, Marxism did not push Chinese discourse closer to dominant western discourse as was the case in India when Nehru and Indira Gandhi supported then by the CPI adopted Western industrialisation model and the knowledge system underlying it.

Indian elite had a disjunction between land, knowledge and political governance. They had no doubt complementary roles shudras cultivating land, Brahmins specialising in knowledge, Kshatriyas by and large ruling the kingdom and organising the army and Vaishyas doing trade. Together they exploited the majority of the people namely the service castes which included many lower castes and the so-called untouchables and the tribals were kept separate from the caste order. Much churning in the varna and later jati system took place through centuries. During the Mughal rule there was a certain standardization in upper caste elite formation. The British used them in the respective feudatory states and their administrative zones thus maintaining the caste system. In course of building the political and economic institutions they recruited from these upper castes. They added a legal economic basis through the zamindari and ryotwari systems so that these elites now came from land-owning families. Modern India's first wage of elite formation thus owed a great deal to the British initiative. It was now rooted in feudal agriculture and it was nurtured though modern schools and colleges. In the process the section of the elite which got trained in the traditional Sanskrit education systems, the gurukuls, ashrams, tols and Islamic institutions such as Madarsas and other centres slowly became the second class academics not needed by the modern state. This never took place in China. There was no great divide among the educated. Those who got education in Japan in the early part of the twentieth century, those who want to school in France and Germany in the 1920's did have some advantage in skills. But their privileges and their role in the national political and economic process were not comparable to the English speaking elite in India. The fact that India was colonised by one European power and China had several European countries and Japan indirectly controlling various sectors of economy, culture and society made a great deal of difference.

In the field of technical education this divide became more conspicuous in India. Western medical education entered India under colonial auspices, Western engineering knowledge replaced local knowledge very fast. The learning of English distinguished this section of the Indian elite from the rest. Whereas in China the Chinese language got simplified after the May forth movement and was made accessible to the ordinary Chinese. In India the local languages were pushed behind since the elite made English an instrument of power. In other words, the Indian elite now became the interpreters for the people of India who were rendered speechless, to use the words of Ngugi. But they interpreted it using Western theories and concepts. Because they had lost the moorings of local culture. They knew very little about their own history. They know more about the history of Western political thought than about Indian political thought. Whereas a Chinese child can recite the dynasties and their dates and the principles of Confucianism, Taoism and Buddhism with ease Indian child's awareness of India's history and philosophy is almost non existent. The Indian elite grew up with a colonised mind suitably permeated by the local class caste race patriarchal outlook.' It is this elite which was put in charge of running independent India under Nehru and his successors. It is an elite , which perpetuates the colonial terms of discourse.

The Struggle Continues:

The experiences of struggle in China and India no doubt present a contrast. The Chinese revolution created people's democratic terms of discourse. Whether the terms have been retained and further democratised or new sources of hegemonic terms have emerged in the context of the reforms of the past two decades has to be further examined.4 Whether a new Chinese bourgeoisie has emerged which has opted for Western capitalist 'values in course of recent economic developments in China has to be investigated. the

liberation (Jiefang) discourse of the people's democratic revolution in China which sought to seek liberation from alien rule as well as from class, ethnic, racial patriarchal and other forms of oppression continues to be on the agenda of the Chinese people. Similarly the swaraj (self rule) agenda that Gandhi had laid down for Indian people continues to acquire new meaning and in course of the many social struggles of peasants, workers, women, dalits and adivasis in recent decades continues to challenge the dominant terms of discourse which colonialism together with local power structures
had laid down. Thus struggle of the Vasco da Gama epoch is not over.

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COLONIALISM and GLOBALIZATION

Five Centuries after Vasco da Gama
February 2-6, 1998
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THE NATURE OF THE FREEDOM STRUGGLE IN SOUTHERN AFRICA

by

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THE NATURE OF THE FREEDOM STRUGGLE IN SOUTHERN AFRICA

International Conference "Colonialism to Globalisation"

Fatima Meer

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2-6 February 1998

1. STAKING CLAIMS IN SOUTHERN AFRICA - PORTUGUESE AND BRITISH

Vasco Da Gama touched the coast of Zululand 500 years ago on Christmas Day and named it Natal, "The Birth". His reference was to the birth of Christ, but it was also the birth of a new era in human relations, one in which Europe took the centre stage of the world, "discovered the rest of it and staked its claim to dominate and possess it. Thus the phenomenon of colonisation.

British Colonies

South Africa

Britain's interest in Southern Africa began in the early nineteenth century, as a direct expression of her bid for hegemony over the Dutch. The Dutch East India Company had established a refreshment station on their trade route to the East in 1652.

The Cape became a British colony in 1806 following wars in Europe. Conflict arose between the Boer/Afrikaner settlers and the British government over policies of race. The Boers left the Cape, trekked into the interior and founded independent states in Natal, the Transvaal and the Orange Free State. The British annexed Natal in 1842 and incorporated the Boer Republics of the Orange Free State and Transvaal in 1909 after the Anglo-Boer War. The four British colonies united as the Union of South Africa in 1910, and the racist white state came into existence with the full concurrence of the British, despite several deputations by the disenfranchised black peoples, to the heart of the Empire in London, one of which was led by MK Gandhi on behalf of South African Indians.

Lesotho, Botswana and Swaziland

Lesotho, Botswana and Swaziland became British protectorates because their kings feared the more rampant marauding of other colonial predators, particularly the Boers. Lesotho was incorporated in 1884 to be saved from the Boer Republic of the Orange Free State, and Swaziland already incorporated into Paul Kruger's South African Republic, fell to the British as a spoil of war in 1903. Botswana was incorporated in 1885 to secure a road into the interior and to forestall German intrusion.

Britain does not appear to havé reaped much in the way of material benefits from these "protectorates", but then she did not incur any significant expenses on their behalf either. They were ruled by the High Commissioner in South Africa and by and large remained underdeveloped and impoverished. During 1966-67, Botswana and Lesotho had the dubious distinction of being on the United Nations list of the world's poorest 25 countries. [1]

Zambia, Zimbabwe and Malawi

The founding of the Rhodesias and Nyasaland, (Zambia, Zimbabwe, and Malawi) as British colonies was primarily due to the imperialist and capitalist zeal of Cecil John Rhodes. Convinced of mineral wealth in the regions, he made treaties and gained concessions to mineral rights from the local kings and became the virtual coloniser of the territories north of the Limpopo by obtaining a Royal Charter from the British government on behalf of his British South African Company (BSA). The Company administered the Rhodesias from 1890 to 1921 when they were taken over by Britain and administered directly. The Company assisted significantly in meeting the financial costs of running Nyasaland (Malawi) which became a British colony in 1890.

The indigenous peoples of all the British colonies were subdued, both through diplomacy-cum-intrigue and sheer brute force.

Portuguese Colonies

Mozambique and Angola

While Portugal's right to Mozambique and Angola was formalised by the Europeans in 1884, and her real control of these territories was entrenched only during the late nineteenth and early twentieth centuries, her involvement in the region goes as far back as the fifteenth century when Portuguese maritime pioneers, set up refreshment stations on the East Coast of Africa for the purpose of accessing India. Missionary work, trade in ivory and gold and later, in the eighteenth century, the most lucrative commodity of all, slaves encouraged small Portuguese settlements.

Colonial Exploitation

Colonisation left all the southern African colonies severely depleted in terms of material and cultural resources. All of them were both culturally and economically solvent before colonisation. They were governed by their kings and chiefs whose powers were limited by their dependance on their peoples for their material resources and comforts. Land was owned communally and was held in trust for the people by the king.

Colonisation destroyed the traditional economic and social structures and replaced them with European institutions. The colonised were dispossessed of most of their land, and what remained was segregated into African reserves where the colonial governments replaced the paramount chiefs and held the land in trust for the "Natives". Local chiefs were used to allocate plots on communal tenure. Thus, Africans had no individual land rights and by dint of that, no capital to invest in the European economy. Commercial farming became a European preserve.

With the alienation of land, went the alienation of labour. In the nineteenth century, all enterprise was labour intensive. The colonialists, whether mining capitalists, or farm families, could not survive without the labour of the indigenous people who were consequently domesticated and their labour harnessed to the white economy, to plunder their own, the colonised's natural resources for the benefit of the colonisers. Systems of labour were developed where labour was extracted at rates often cheaper than slave labour: contract labour on the mines; or labour was forced with no payment at all: labour tenants, who paid with their labour for the privilege of remaining on their own land usurped by the whites.

Through the imposition of taxes and the need to earn money in order to pay them, through Christian missionaries who induced accommodation to subservience by enshrining new 'moral values', in their minds and souls - the gospel of work, obedience to their masters, submission to their divinely decreed position in life - through overt force and subtle intrusion into their psyche, the "Native" was made receptive to his new designation as second class citizen and labourer.

2. RACIAL SEGREGATION

Three policies developed with regard to relations between black and white in Southern Africa: the Portuguese policy of assimilation into Portuguese culture and thereby escape from the exploitative conditions of the indigena (Native); the comparable British policy of according equality to the "civilised Native" sloganised by Cecil John Rhodes as: "Equal rights for all civilised men from the Cape to the Zambezi" and the policy of permanent and irrevocable segregation enshrined in the constitutions of the late nineteenth century Boer Republics of the Transvaal and the Orange Free State and expressed in the words: "The people are not prepared to allow any equality of the non-white with the white inhabitants, either in church or state." [2] Africans were excluded from both the Republics, except as labourers.

Civilisation, ofcourse, meant Europeanisation and the missionaries played the crucial role in this regard by converting the Natives into Christians, putting them into European clothes, European churches and European schools. Both the Portuguese and British integrationist policies however, were so applied that minuscules of Africans qualified for co-option. By 1961, less than one percent of the African populations in the Portuguese colonies had become assimilados. [3] However, while the assimilados became Portuguese citizens on the same basis as white settlers, civilised men were never integrated into civilised society in the British and the franchise was so structured that few "Natives" made it on the voter's roll. Even this right, as limited as it was, was expunged in the course of time.

The coloniser expected the "civilised" Native, rescued from the state of barbarism, to stand on his side as a bulwark against the barbaric hoards who threatened the march of civilisation, and for decades the "civilised Native" played this game. Even Gandhi, in his very early years in the colony of Natal, deemed the "civilised" Indian as worthy of the franchise and made out no case for the vast majority of Indians who were indentured labourers.

Most "civilised" Natives in South Africa were, at the beginning of the century, concentrated in the Cape, primarily due to the fact that the Cape was the only South African colony that extended the franchise to Africans. This gave rise to a number of associations, or more specifically, electoral clubs of the small community of enfranchised Africans - the Imbumba Yama Afrika in 1882 and the Native Electoral and Native Educational Associations in 1884. There were similar elitist organisations in some of the other colonies, such as the Rhodesian Bantu Voter's Association (1923) and the early exclusivist associations of teachers and clerks in Malawi.

The "civilised" African trusted the white coloniser and accepted in good faith, his patriarchal promise of "equal rights to all civilised men". In the early years, African organisations pleading for human rights restricted those rights for the civilised and Christianised.

Giving evidence to the 1903-1905 Native Commission, leaders of the Native Vigilance Association of the Orange Free State, emphasised the difference between heathen and Christian when they clarified they were not asking for the extension of rights to "that class of people who are still far in heathenism and in darkness", but for those "we call the enlightened people ...". [4]

3. FACTORS IN DECOLONISATION

The key factors in the decolonisation process in Southern Africa may be identified as: the extent of the involvement of the mother country in the colony; the size and nature of the European settlers and the value of the natural resources to the colonisers.

Britain was far more laid back in her administration of the colonies, devolving significant power to the white settler communities who jealously restricted the volume of capital moving to the coffers of the mother country. Except in the Rhodesias, there was not much wealth to be plundered anyway: more important, the British economy was not dependent on her Southern African colonies. By the mid-twentieth century, she volunteered decolonisation, the restraining factor was not Britain, but the white settlers.

Portugal, by contrast, resisted decolonisation stringently. A small country with a population of nine million, [5] Portugal was economically dependant on her Southern African colonies and yielded only after a long and bitter military struggle.

The size of the settler population was not an issue in the Portuguese colonies since no political power devolved on the white settlers who had the same rights as the assimilados to elect deputies to the parliament in Portugal. Angola's white settlers constituted a larger percentage of the total population, 5.4% than Zimbabwe's 4.4%, but whereas the Rhodesias stood up against both the British and the Africans and delayed the process of independence by seventeen years, Angola's whites fled the country en masse at independence. Even the smaller Mozambiquan white settlers (2.8%) put up some resistance. The size of the white population influenced the volume of power Britain devolved on the white settlers: she had devolved considerable power to the white settlers in Southern Rhodesia (Zimbabwe) and they used that power to prolong their dictatorship over the blacks.

Ultimately, it was the combination of three factors: number, political control and the value of the vested interests of the colonisers that accounted for the staying power of the whites. All three existed in Zimbabwe.

South Africa's whites, (13% - total population 42 million -1996), retained their power for as long as they did because, in addition to three conditions identified, there was the additional one, the indiginisation of the majority of the settler population. By the end of the nineteenth century, the Afrikaners had become alienated from Europe and claimed no other fatherland beyond South Africa. They saw themselves as victims of British colonialism fighting for their own land, not land they had usurped. When the Nationalist president, PW Botha met his prisoner, Nelson Mandela in 1989, they talked about their mutual oppression at the hands of the British!

The other British colonies had minute white settlements and though politically empowered and highly privileged, could not muster sufficient muscle to take on the overwhelming black majorities. [6]

4. THE STRUGGLE FOR INDEPENDENCE

Mobilisation against colonial oppression depended on the consciousness of the colonised of the extent and nature of their exploitation; their understanding of the value and meaning of their plundered resources to the coloniser; and on leadership. So long as the colonised remained locked in his traditional prism, his wants restricted by his choiceless self-subsistence, illiterate and ignorant of the world of commodities and achievable status so long he remained trapped in colonial exploitation.

The coloniser knew this and attempted to isolate him from the forces of enlightenment, but the forces of capitalism, the need for rationalised labour and the impact of urbanisation thwarted these attempts. Even the Portuguese dictator, Salazar, who had for decades restricted the inflow of foreign capital into his colonies because of fear of the undermining influences it would bring in its wake, eventually capitulated to the new economic forces.[7]

The emergence of an educated elite within the ranks of the colonised was a crucial element in the rise of African nationalism and the freedom struggle. The post-colonial first generation leadership was cautious and grateful to their Christian "liberators". Many of them were mission trained and the most prominent of them had studied abroad, usually in the States. Their great concern was to be like their colonisers and to be "accepted" by them, not to be repudiated and segregated like the heathens. They did not pursue independence and reassured the whites that they did not seek ascendancy over them. Thus the South African Native Congress (later ANC) wrote to His Majesty's Secretary of State for the Colonies in 1903:

> "The black races are too conscious of their dependance upon the white missionaries, and of their obligations towards the British race and the benefits to be derived by their presence in the general control and guidance of the civil and religious affairs of the country to harbour foolish notions of political ascendancy." [8]

Even the representative of the Independent Catholic Church of Zion, considered rebellious because they had broken away from the mother church and set up their ecclesiastical hierarchy denied to the Native Commission (1903-1905) that blacks wanted to govern whites:

> "No it is not so. While we live together, it would not be for us to govern the white people, but to be with them. We are under the whites and I do not think we would ever come up to a standard like them to govern the white people." [9]

The second generation leaders of the forties and fifties were a different breed altogether. Young men, many still students, emergent doctors, lawyers, teachers and trade unionists, were fired with ideas of freedom, equality and democracy. They were suspicious of the motives of sympathetic whites and preferred to work on their own. Africanist in their first flush of awakening, they espoused socialism and Gandhianism, but were above all, influenced by Marxist-Leninism. Their preferred strategy of action was passive resistance; but they were not averse to using force when necessary. They entered the political arena with a militancy aimed to rouse mass action and to topple white domination. The role of the "mass", the people aware of their exploitation and ready to deal with it, was the essential factor in their leadership. Unlike the first generation leaders who interacted with the colonisers, these leaders interacted with the people, at the forefront of whom were the workers. They linked into the volatile mood of the post-World War Two black workers, struggling to survive in the post-war depression, angry in their awareness of the wealth they created and deeply resentful of the poverty they suffered. People and leaders interacted and produced the mass movements that prophets of passive resistance saw as the motor force of change, sans weapons, sans violence.

The Workers

Rapid urbanisation and deepening economic problems that followed in the wake of both world wars, discharged a ferment of discontent among black workers in all the Southern African colonies. In South Africa in 1920, forty thousand African workers went on an unprecedented strike in Johannesburg: in 1919, Clement Kadali formed the Industrial and Commercial Worker's Union (ICU). The Union grew into a mass movement, sustaining its momentum into the thirties. While it concentrated on labour and welfare, its thrust was pointedly political.

In Zambia and Zimbabwe contact between black and white workers on the copper mines roused the consciousness of the latter to their highly exploitative wages: a rash of strikes broke out in Zambia in the thirties and when these were suppressed, the African workers formed welfare societies which were constituted into a national federation and subsequently into Zambia's African National Congress.

In Angola and Mozambique after the 1975 coup in Portugal, the workers downed tools in the colonies, organised themselves into labour movements and quickened the pace of decolonisation.

It was in this kind of political environment that the Southern African struggles for liberation matured in the mid-forties and fifties. The institution of apartheid in South Africa in 1948 and the constitution of the Central African Republic in the three British High Commission territories, by the European settlers in 1953, as a bulwark against black political aspirations, were crucial challenges to African resistance.

5. TRANSITION TO INDEPENDENCE

Relatively Peaceful Transition

Zambia, Malawi, Botswana, Lesotho and Swaziland

The resistance struggle was not very protracted in Zimbabwe, Malawi, Botswana, Lesotho and Swaziland, primarily due to the fact that the small settler populations did not exercise sufficient power and it was left to Britain to grant independence. All these colonies became independent at about the same time, towards the mid-sixties.

The Nyasaland African Congress, formed in 1944, became increasingly militant in the early fifties. Lacking a charismatic leader, Dr Hastings Banda who had been abroad for forty years, was recalled to lead the party in 1958. He proved to be a gifted leader and so stepped up the campaign that a state of emergency was declared in 1959, 1346 agitators, including Dr Banda were detained, and Congress banned. Resistance then continued under the banner of the Malawi Congress Party. Talks for constitutional change began in London in 1960, elections followed and Dr Banda was sworn in as the first prime minister of the independent state of Malawi in 1964.

In Northern Rhodesia, the African National Congress headed by Harry Nkumbula and supported by the mineworkers agitated for universal franchise and secession from the Federation. Conflict erupted within Congress over the proposed British constitution; Kenneth Kaunda broke away and formed the Zambian Congress which was banned and the leaders banished to remote areas. In 1960, their restrictions lifted, they formed the United National Independence Party (UNIP), and mounted a vigorous campaign of civil mass disobedience, mass arrests and convictions followed. Britain finally proposed a new constitution and in 1964 Kenneth Kaunda became the first Prime Minister of Zambia.

The Protectorates

Botswana, Swaziland and Lesotho transited into independent states without national struggles and without shedding their monarchical families. In Botswana, Seretse Khama, forced to renounce his position as paramount chief by the British, (because he married a white woman), formed his own political party, won the first elections after independence in 1966 and became president of the country, a position he maintained until his death. The Swazi king, Shobuza II, contested the elections through his Imbokodva Party, and was returned to power by an avalanche victory, his opponents losing their deposits. Firmly entrenched, Shobuza went on to revive the Swazi monarchy and centralised power in himself. Swaziland today remains the only Southern African country which is not organised on the basis of a modern democracy and continues as a one party state.

Lesotho, a small mountain kingdom, assumed its mantle of independence in relative peace, but has continued in a state of political instability because of internal conflict. The first election in 1965 was won by two seats by Chief Lebowa Jonathan; he lost the second in 1970, but abrogated the constitution and usurped power. He was displaced following a coup in 1986 and the Basuto King played an important part in government. However, in 1990, the

Military Council assumed power and in the elections that followed, Ntsu Mokhehele of the BCP, which had won the 1970 elections, formed a government. Political peace, however, continues to evade the little country.

6. ON THE THRESHOLD OF VIOLENCE

Portuguese Colonies

Angola, Mozambique and Zimbabwe

In the Portuguese colonies, internal organisation was made virtually impossible by Dr Salazar's dictatorial regime which ran a police state in Portugal and extended the "policing" even more viciously to the colonies. Dispersed black resistance groups emerged but these remained disconnected in the face of the vast network of police and informers and the close surveillance of all signs of dissent. The emergent radical groups in Angola and Mozambique were thus forced out of the country and from 1960 onwards set up bases in exile.

Zimbabwe

The Zimbabwean resistance movement was bitter and long. Joshua Nkomo, formerly a trade union leader, revived the Southern Rhodesian African National Congress, adopted a non-racial policy and launched a campaign of mass civil disobedience to bring down the government. Suffering the usual spate of bannings and detentions, the Congress re-emerged as the Zimbabwe

African People's Union (ZAPU), but the white settlers, posed with a British proposal that would eventually lead to majority rule, formed their Rhodesian Front (RF) in 1963, declared UDI in 1965 and unleashed repressions, matched only in their excesses by the Afrikaner Nationalists further south.

While the whites remained united, a division erupted within the Party, on issues of tactics and ZANU emerged as a rival force. It was eventually led by Robert Mugabe. The situation within the country, however, became intolerable and both groups were forced to go into exile and plan military attacks.

7. PASSIVE RESISTANCE IN SOUTH AFRICA

In South Africa, passive resistance, the deliberate defiance of targeted racial laws, and the preparedness to suffer the consequence, was the only militant form of action right up to 1960. In 1913 Gandhi had led 2 000 Indian miners on a march, deliberately breaching the provincial barrier that confined them to the province of Natal, in protest against the poll tax: in the same year African women began a sustained passive resistance campaign in the Orange Free State against passes that were for the first time inflicted on them. Six years later, in 1919, African men, organised by the Native National Congress, (founded in 1912 and renamed the African National Congress in 1923), waged passive resistance against passes in Johannesburg, sloganising, "Down with Passes! No violence!" [10] The form was similar to that adopted by Indians in *their* Anti-Pass Campaign, in the same city in 1907.

The dream of passive resistance pursued black political organisations into the thirties and forties. Members frustrated by inaction, urged action, but they were warned that they did not have the capacity to launch such a campaign. "You must have a leader who is prepared to make sacrifices such as Gandhi in India", warned Dr Abdurrahman, the popular coloured leader at the 1930 Non-European Conference. Passive resistance was proposed and actually adopted at an earlier ANC conference, but not implemented.

ANC Ideas, Ideology and Action

The African National Congress jogged along its conservative path until its Youth League, formed in 1943, took over its leadership in 1949, and mooted a plan of action to boycott segregated institutions and mount a campaign of civil disobedience. The Youth League was based on an Africanist ideology. Its key theorist was the young Anton Lembede, who vigorously propounded the thesis of a distinct African spirit, "unique and peculiar to Africans", and claimed Africa for Africans. He influenced his colleagues, three of whom, Nelson Mandela, Oliver Tambo and Robert Sobukwe, were to play key roles later, the first two as heads of the African National Congress, the third of the Pan Africanist Congress.

Initially, maintaining a purist Africanist stance and resisting foreign ideologies and non-African overtures of co-operation, the "Africanists" changed their approach as leaders of the ANC. They co-operated with other resistance groups and accommodated other ideas into their Africanist framework. Thus the ANC, in co-operation with the Indian Congress, launched the Defiance of Unjust Laws Campaign in 1952, and admitted Gandhianism into their political thinking. The ANC had been inspired by the 1946 Indian passive resistance campaign against their racial segregation.

The campaign had drawn world attention to colour discrimination when India had raised the issue at United Nations.

Marxism, however, became the sustaining guide in ANC thinking, and sights were set on a socialist democracy. As early as 1927, the then president, James Gumede, after returning from a visit to Moscow, had advocated an alliance with the South African Communist Party. The ANC, he observed, had historically depended on Christians and liberals, but this had not helped the African cause. While his proposal was rejected at the time, the ANC collaborated effectively with the South African Communist Party from the 1950s onwards and in 1990, two-thirds of its executive members were also members of the SACP. [11]

The Communist Party had contributed significantly to the ICU and crucially to the organisation of black workers in the forties. The chief organiser of the 1946 mine strike, when 70 000 workers had downed tools, was Moses Kotane, both a Party and an ANC member. Although white in leadership, the SACP was overwhelmingly African in membership, and the Africans without exception, were also members of the ANC. In 1929, the SACP had 1750 members of whom 1 600 were African. At the time of its dissolution in 1950, (in the face of impending banning), only 400 of its 2 000 members were non-Africans - 150 being white and 250 Indian. [12]

The Afrikaner Nationalists, assuming power in 1948, began implementing apartheid laws with disastrous speed. By the nineteen fifties, the population was racially classified, couples having sex across the colour line even when married, were spied upon and prosecuted, the urban areas were reclassified mainly as white and hundreds of thousands of Indians and coloureds had their properties virtually confiscated if these fell in "white" areas, and were moved into newly created Indian and coloured areas. Similar forcible removals occurred of African settlements deemed to be "black spots". Eventually almost four million people were forcibly moved and relocated: 13% of the land reserved for Natives were converted into nine homelands, each with its own legislature and the option to become independent.

The disenfranchised reacted as militantly as they could. Following the Defiance Campaign, the ANC, together with its allied white, Indian and coloured organisations, mounted the massive Congress of the People at which the Freedom Charter, outlining the form of liberated South Africa, was adopted. This provoked the government into arresting 156 leaders of the participating organisations on charges of treason.

The Freedom Charter, however, also provoked a split within the ANC and the formation of the Pan-Africanist Congress under Robert Sobukwe. The PAC called a mass civil disobedience campaign against passes in 1960. At Sharpeville, the military opened fire on peaceful demonstrations, killing 67 and injuring 186. Memories of Bullhoek (1921) and Bondelswarts (1922) resounded in the memories of leaders when similarly defenceless peoples had been killed, 63 in the first instance simply for staking their claim to worship on their comonage, and a hundred in the second because they had refused to pay taxes for their dogs. As far as the ANC was concerned, passive resistance was over.

8. THE MOVE TO VIOLENCE

Violence and non-violence are not mutually exclusive, it is the predominance of the one or the other that labels the struggle. There was never a consciousness, not even in India, about the exclusive use of the one or the other mode in struggling for independence: it depended very much on exigence. Thus while the Indian struggle is popularly seen as non-violent, based on the Gandhian philosophy of Satyagraha, it included prophets of violence, and violence also played its role in India's freedom, and its transition to independence was unspeakably violent.

Non-Violence

Non-violent resistance against colonialism was initiated in South Africa by Gandhi during a period straddling the end of the nineteenth century and beginning of the twentieth. Regardless of the measure of its success, it was seen right up to the sixties, as the most feasible, if not the only response to colonial oppression in Africa.

Kwame Nkrumah acknowledged his indebtness to Gandhi in developing his strategy of "positive action", wrote, *"After months of studying Gandhi's policy and watching the effect it had, I began to see that, when backed by a strong political organisation, it could be the solution to the colonial problem."* (1959)[13]

Patrice Lumumba categorically condemned violence. *"Our weapon is non-violence because we believe that one can achieve anything through peaceful means."* [14]

Julius Nyerere maintained a cautious note when he emphasised that, *"the preference of every true African patriot has always been for peaceful methods of struggle. We abhor the suffering and the terror, and the sheer waste, which is involved in violent upheavals, and believe that peaceful progress is worth some sacrifice in terms of time."* However, he added, *"But when the door of peaceful progress is slammed shut and bolted, then the struggle must take other forms; we cannot surrender"*. (1967) [15]

One of the five aims of the original constitution (1958) of the Pan African Freedom Movement of East and Central Africa (PAFMECA), was, *"To champion non-violence in the African national struggle for freedom and prosperity."* Non-violence was also the official stance of the All African People's Conference, which, when confronted with the Algerian request for support for their military action against the French, reaffirmed its commitment to non-violence and reluctantly conceded support *"to all those who are compelled to retaliate against violence to attain national independence and freedom for the people."* [16] Its attitude continued to be cautious at its 1961 Conference when it endorsed *"the necessity in some respects to resort to force in order to liquidate colonialism."*

Gandhi himself never ruled out violence absolutely and unreservedly. He was quoted in African circles of having said, *"Where choice is set between cowardice and violence, I would advise violence. This is because he who runs away commits mental violence; he has not the courage of facing death by killing. I would, a thousand times, prefer violence than the emasculation of a whole race. I prefer to use arms in defence of honour rather than remain the vile witness of dishonour."* [17]

PAFMECA abandoned its commitment to non-violence and gave unequivocal support for the use of violence following on the address of Nelson Mandela in 1962, in Addis Ababa. Supporting him, the Malawian delegate declared to enthusiastic applause, *"Force is the only language that imperialists can hear. No country ever became free without some sort of violence."* [18]

Mandela told the Conference:

> "During the last ten years, the African people in South Africa have fought many freedom battles, involving civil disobedience, strikes, protest marches, boycotts and demonstrations of all kinds. In all these campaigns, we repeatedly stressed the importance of discipline, peaceful and non-violent struggle ... because we felt that there were still opportunities for peaceful struggle and we sincerely asked for peaceful changes."
>
> "South Africa is now a land ruled by the gun. The government is increasing the size of its army, of the navy, of its airforce, and the police ... Peace in our country must be considered already broken when a minority government maintains its authority over the majority by force and violence."
>
> "In a country where freedom-fighters frequently pay with their very lives, at a time when the most elaborate military preparations are being made to crush the people's struggle, planned acts of sabotage against government installations introduce a new phase in the political situation and are a demonstration of the peoples unshakable determination to win their freedom whatever the cost may be." [19]

In 1963, the OAU undertook to finance liberation activities. By then freedom movements in South Africa, Angola and Mozambique had already embarked on violence. As Ali Mazuri commented, "African Gandhianism was now nearly dead." [20]

It had taken the ANC all of sixty years to reach that position. It had up to that point remained implacably opposed to the use of violence. Unlike the pre-colonial kings and chiefs who had engaged the British militarily; unlike Chief Bambatha who, in 1906 had led an armed rebellion against unjust taxation, the old school of civilised Christian leadership had continued to emphasise its loyalty to the British, and later to the South African government.

Despite this abandonment of non-violence, the ANC remained squeamish about violence and chose sabotage, as Mandela said because *"it did not involve the loss of lives and it offered the best hope for future race relations."*[21]

The ANC signed a protocol of the Geneva Convention committing itself not to attack non-combatants and continued its focus on sabotage and instructed its cadres to avoid civilian targets right up to the Kabwe Conference of 1985, when it relaxed these constraints. [22] Nonetheless, the overall respect for life remained and cadres were instructed to avoid places where civilians congregated, like supermarkets, schools and sports stadiums.

9. GUERILLA WARFARE

The beginning of the sixties heralded the guerilla struggle in South Africa which threw the whole region in a state of unrest for a decade and more and depleted the resources of the newly liberated states, seriously arresting their attempts at development and social reconstruction. Southern African could not be free without the freedom of its southern-most component. It would take thirty years after most of the other Southern African states became independent before that most important part of the region would be free.

Organised violence by the colonised against colonial aggression opened in Southern Africa in 1961, with an explosion in South Africa on a government installation and a guerilla attack in Angola by Holden Roberta's FNLA. In 1964, two hundred Frelimo insurgents attacked outposts in Mozambique; ZANU, led by Joshua Nkomo made its first attack in Zimbabwe in 1967.

In Mozambique, the insurgents were organised into one force, Frelimo; in South Africa the ANC-organised Umkhonto we Sizwe was the dominant force, with the Pan-Africanist APLA an attendant one. In Angola there were three competing forces each with their distinctive African and overseas supporters and tribal and regional loyalties. The region became a platform for Soviet-American rivalries, and this was most evident in Angola so that when Cuban troops moved in to assist the MPLA, the USA backed other competing guerilla forces, and when the MPLA eventually formed a government, she was the only major state which refused to recognise it.

Cuba, Algeria and China provided training and resources: the Soviet Union was the main supplier of arms to the insurgents. It was then hardly surprising that a significant part of the Southern African region was influenced by Marxist-Leninist thought.

Guerilla Insurgents in Angola and Zimbabwe

The war accelerated fairly rapidly in the Portuguese colonies; in Zimbabwe it became quite fierce from 1972; it remained low level in South Africa. State reprisals were brutal in all the colonies. In their bids to separate the insurgents from the people, whole villages were razed, hundreds of thousands of people were forcibly cordoned off into "protected" encampments, and hundreds of thousands fled into the bordering countries: Tanzania and Zambia found themselves burdened with huge refugee problems and in addition, obliged to provide bases for the nationalist militants, which in turn subjected them to vicious reprisal attacks from the Portuguese, Rhodesians and South Africans.

By the mid-seventies, the war was costing the Rhodesian government one million dollars a day, apart from the loss of production due to the conscription of civilians; Portugal was spending 41% of her budget on the war in 1969, her expenditure on socio-economic development had fallen to 14% in 1968 and the country saw a flight of its labour resource. One and a half million of her labour force had found jobs abroad, leaving 3.1 million in the country. [23] While the government remained determined to stamp out the insurgents, because of the crucial importance of the colonies to her economy, the people were drained by the war and conditions became so desperate that it resulted in a coup in 1975. That paved the way to democracy and opened the way for mass demonstrations in the colonies. There were labour strikes and peasant uprisings and these combined with the guerilla attacks, forced the pace of decolonisation.

The guerilla insurgents numbered between 8 to 10 000: state forces on the other hand were 100 000 or more in Zimbabwe, 150 000 in Angola and Mozambique and the South African Defence Force was estimated at 103 500 plus 7 900 conscripts.

In Zimbabwe, "negotiations" continued alongside the war as Britain, the United States, the Front Line African states, and even South Africa attempted to broker a settlement from the nineteen sixties onwards.

Sabotage in South Africa

While the guerilla movements were crucial to the liberation of Zimbabwe, Angola and Mozambique, the South African movement never reached the capacity to cause a serious threat to the apartheid State.

The goal of any guerilla movement would be to set up attack bases within the targeted country. The ANC had little success in this regard. When its numbers were reported to be as high as 10 000, no more than 500 [24] were operating within the country. The first two years (1961-63) were disastrous, with little to show in terms of injury to the system and almost the entire high command and cadres in prison. The Soweto uprising in 1975 provided the army a new lease, as the world reacted with horror against South African brutality and youth fleeing police, became ready recruits for Umkhonto. Even then, the total attacks between 1977 to 1984 were recorded at 279, annual averages ranging from 13 to 56. [25] They were mostly small scale sabotage attacks in the black townships, carried out by a few insurgents, using limpet mines, grenades and guns. The exceptions were the 1980 rocket attack on the Sasolberg synthetic refinery and the 1982 bombing of the Koeberg nuclear power station. Recorded casualties during that period were 70 MK cadres, 15 policemen and 16 civilians, four of them suspected collaborators.

The situation changed in 1985, the attacks were taken into the white areas and the number of explosions accelerated. The total recorded incidents from 1985-1989 were 1137, the annual number varying from 136 to 281 per annum; MK casualties, through deaths and capture also rose, 160 in the eighteen months following 1985. [26] The attacks still remained small-scale sabotage attacks.

While MK did not gain militarily, it gained politically. The black people identified with it and saw it as a force the whites had to reckon with; it was a palpable sign that the ANC was alive and kicking. It helped the internal revolution against the government in the eighties; and the internal unrest in turn, helped the ANC to make significant gains internationally. President Oliver Tambo was meeting important executives, if not heads of states by the mid-1980s. Congress was being recognised widely as the legitimate government in waiting and setting up "consulates" in all the major countries. Simultaneously, it was building a cadre of administrators to help run the country when the time came.

The silence of the black people after the shock of Sharpeville and the banning of their organisations broke in 1976, when the police fired on and killed peacefully demonstrating school children in Soweto against the imposition of Afrikaans as the medium of instruction. A powerfully led Black

Consciousness Movement swept through the country: in Natal, Chief Buthelezi established the Inkatha Freedom Movement which unfortunately came into conflict with the anti-apartheid formations. Detentions without trial, tortures and the killings of detainees, explained away as accidents, the most notorious being that of Steve Biko, became the order of the day.

It was, however, the youth, brutalised by the police, who mounted the most potent resistance, making the townships literally ungovernable. Their modus operandi was consumer, transport and school boycotts and the calling of national stayaways. The offensives were largely unco-ordinated, sporadic, undisciplined and poorly planned, due mainly to the need for secrecy and the consequent lack of consultation with those whose co-operation was sought.

Soviet analysts under-estimated the revolutionary content of these township boycotts; they saw the "young comrades" as lacking in understanding of socialism, and doubted that the ANC and CP could control them.

> "The process of shaping a revolutionary situation which we now witness in South Africa is far from being completed. Protest demonstrations are largely confined to African townships. The broad masses often stay aloof. The main participants are students and the unemployed. The working class has not yet thrown the full measure of its enormous revolutionary potential into the struggle." [27]

The very uncontrollability of the youth, unleashed a terror the State could not contain and strengthened sanctions against the economy. Whatever the shortcomings of the youth, their boycott campaign had a global effect. South Africa's trading partners lost their confidence in the nationalist state, major banks called in their loans and refused to make further loans, and the very forces that had resisted the calls for sanctions, began applying them because their pockets were threatened.

The South African government had held the disenfranchised black people of the country hostage and the West had supported it through arms and capital. It was precisely because of the link between western capital and apartheid oppression that the colonised had called for sanctions. While capital creates jobs, it also creates profit and oppression is linked with the appropriation of profits. If the profits dried up, racial oppression would also dry up and this was the hard reality that ultimately forced the western powers to use the weapon they always possessed to destroy apartheid, economic sanctions. The Nationalist government was forced to negotiate; the ANC was the key party with which it had to negotiate.

Adding to the revolt of the youth was the mass civil disobedience campaign organised by the newly-formed United Democratic Front in the mid-eighties. The apartheid State, in a bid to arrest the revolutionary tide, introduced a new constitution which offered Indians and coloureds separate legislatures, the Africans being deemed to have their own legislatures in their homelands. The election that followed created space for mass meetings which had been banned through recurring emergencies: the "space" was used to propagate a massive boycott campaign.

State reaction to the boycott campaigns were excessive. There were 45 000 detentions during 1984-88 and 4 012 people were killed in political violence. Ninety percent of the casualties were black, 83.3% of township residents, and while many were of black-by-black, the majority of the killings were attributed to the police.

Negotiations

The South African situation was unique in that whereas liberation struggles throughout Africa and Asia had been against foreign colonisers whose authority had remained over the country even when the governments were effectively in the hands of white electorates, in South Africa, the resolution had to come from within. So in 1990, President De Klerk, momentously and unexpectedly announced the unbanning of the ANC and of the other banned organisations and set the stage for negotiation and change.

The negotiation process was long and marked by violence, as the main contenders tried to strengthen their positions outside the talk table, and desperate, extremist whites tried to sabotage the process. Eventually an interim constitution was hammered out and the Government of National Unity was formed, with President Mandela at the head. The government is working well and the credit goes to the people, who, for all the rancor of the past, are prepared to reconcile and get on with their lives. Their attitude is that the injustices happened because of the unjust racist system, that system has now been destroyed and it is upto the people to manifest inter-race harmony.

The problem today is not of race, but of class. Political freedom has not brought freedom from want for the poor. The new struggle to be mounted is the struggle to eliminate poverty.

10. POST INDEPENDENCE

The Economic Positions of the Southern African States

Independence has meant the recovery of some lost ground so that material conditions in each of the decolonised countries have shown improvement. Health, welfare and educational services, where practically non-existent or peripheral, have been established or improved, per capita incomes have risen in real terms, though negligibly, and while vast differences remain in urban and rural standards of living, legislations restricting interflow between these sectors have been expunged.

Apart from South Africa and Zimbabwe, the latter ironically due to sanctions in the wake of the Ian Smith's government's UDI, the new states have peripheral industrial sectors and rely on the export of primary mineral and agricultural products for their revenue. Botswana and Angola with relatively recent discoveries in mineral wealth, have moved away from their former one export position.

The SADC countries (Angola, Botswana, Lesotho, Malawi, Mozambique, Namibia, Mauritius, South Africa, Swaziland, Tanzania and Zimbabwe) are estimated to account for 40% of Africa's population, 81% of its GNP, 81% of the continents total imports and 80% of its total exports. [28]

The Southern African region is thus the vitals sector of the continent and if problems of want are not solved here, the entire continent can be expected to continue in its present state of poverty.

A common problem with all these countries is economic growth without development. New wealth continues to be siphoned off by the multi-nationals and their local domestic partners, with the people seeing few benefits.

While all the countries have had infusions of foreign capital, none have been able to create sufficient jobs to absorb the vast numbers of job seekers who enter the market each day. Mozambique and Lesotho would collapse into crisis if South Africa did not absorb their "surplus" labour. Most crucial is the migrant labour sector with all its attendant evils of the breakdown of family life, traditional sexual morality and the deterioration of the agricultural economy, for lack of labour.

Mozambique exports an average of 100 000 workers per annum to the South African mines. In terms of a 1928 agreement, the larger part of the wages are deferred and are paid in gold bullion, fixed at $ 42.2 per ounce. Previously transferred directly to the vaults of Portugal, they are now sold on behalf of the Frelimo government by the South African Reserve Bank.

The greater part of the wages earned are in the nature of deferred payments deposited in the accounts of the respective governments. In 1988, Lesotho earned R 347.8 million in deferred payment from South Africa, 40-45% of her GNP is dependant on exporting her labour: Mozambiquan's earned R 102.7 million, Malawi R 54.8 million and Swaziland R 15.2 million. [29]

Apart from these contract workers, there were 1.5 million illegal workers employed mainly in agriculture in South Africa in 1990. But the job situation in South Africa, for its own citizens is in bad shape. The new economic policy, Growth, Employment and Reconstruction (Gear), planned 270 000 jobs per annum over five years. In 1997, the government was 197 000 jobs off target. Instead of job creation, the country is suffering job losses. It is estimated that 195 jobs are lost daily in the country due to retrenchments and the unemployment rate stands at anything upward of thirty or more percent. [30] It is the unskilled and semi-skilled who are reflected in this figure. Bantu education introduced in 1953 explicitly to keep Africans out of the mainstream of the economy, is taking its toll. 98% of the unemployed are Africans.

While there are buoyant predictions for the Southern African economy, through the 12 member Southern African Development Community (SADC), the recipe is for growth without development, capitalisation without significant distribution of that capital to the poor. There is great enthusiasm about the African Stock Exchanges Association (ASEA) and about the membership of eight of the SADC countries all of whom are making apprehensible profits - but one may ask again, where do these profits go? Who are the beneficiaries?

Mozambique and Angola had proclaimed implementation of Marxist-Leninist scientific socialist societies and established authoritarian governments, concentrated in the central committees of the respective parties, and nationalisation was pursued where it didn't affect State coffers. Thus in Angola, funeral parlors and private medical and legal practices were nationalised, but not the oil industry involving fifteen foreign companies. Oil accounts for 90% of Angola's exports and 80% of government revenue. The government dared not rock the boat.

Zimbabwe's commitment to Marxist-Leninist scientific socialism was bridled by the Lancaster House Agreement, in terms of which the position of the land was pegged, to comply with the principle of a willing buyer and willing seller, even though half the land was owned by 4.5% of the population. The same principle was adopted in South African where only 13% of the land was allocated to Africans by the former racist government. Angola instituted a protective clause, recognising, protecting and guarding private property, including that of foreigners. It is clear that in this very essential respect, global interests have taken precedence over local.

In South Africa, dramatic changes have taken place, and the official face in government and even in top executive posts in commerce and industry is now observedly black, but the face of poverty has not changed. Poverty is vast, and poverty continues to be the monopoly of blacks. There is an emergent black bourgeoisie, former revolutionaries now in government and business, and the indications are that they are being absorbed like the neo-colonial compradors into the privileged class. They have apparently slipped into the white strata of super-salaries, super-profits and super-perks with no care about the need for a more equitable balance between "management" and workers. The new democracy is based on the old capitalist class system, the difference being the racial integration of a few at the top.

Reconstruction and Development were the common buzz words in all the new Southern African independent states. The rhetoric focussed on getting rid of the colonial baggage that burdened the psyche of the people and inhibited a just and equitable distribution of the wealth. The ANC, in terms of its Freedom Charter, adopted in 1955, was committed to certain socialist ideals, like restoring the "*national wealth to the people*"; transferring "*the mineral* *wealth beneath the soil, the banks and monopoly industry to the ownership of the people as a whole"* and *"dividing the land amongst those who work it."*

Far from nationalising any sectors of the economy, the ANC dominated government has begun a process of unbundling and privatising some of its parastatils.

The concentration of all resources in the State is certainly not the answer to eliminate poverty. The State, in the final analysis, is the bureaucracy, invisible and heartless. Nationalisation of all assets does not ensure an equitable distribution of those assets. The prevailing tyranny of globalisation, a globalised ideology, globalised media, globalised capital, has blinkered the vision of alternatives. The reference model of the globalised is the rich and powerful; to eliminate poverty, the reference model should be the poor, so that the baggage of colonialism, replete with capitalism, may be truly off-loaded and the national wealth truly transferred to the people through equitable distribution.

Footnotes

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2. Wilson, Monica and Thompson Leonard, *The Oxford History of South Africa,* Clarendon Press, 1969, p.430
3. Grundy Kenneth W., *Guerilla Struggle in Southern Africa: An Analysis and Preview,* Grossman Publishers, 44 West, 56th Street, New York, NY, 1971, p.92
4. Karis, Thomas and Carter, Gwendolen, *From Protest to Challenge - 1882-1969,* Volume 1, Hoover University Press, California, 1972, p.35
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6. Percentages of European population in relation to total population:

   Angola - 5.5% - total population 5.5 million - 1968

   Zimbabwe - 4.4% - total population 5.3 million - 1970

   Malawi - 0.2% - total population 4 million - 1966

   Zambia - 1.3% - total population 58 351 - 1969

   Lesotho - 0.2% - total population 96 9634 - 1966

   Botswana - 0.8% - total population 514 378 - 1964

   Swaziland - 2% - total population 395 138 - 1966

   [Africa South of the Sahara, Europa Publications, London, 1971]

   South Africa - 13.8% - total population 36 million - 1988

   [Race Relations Survey 1988-1989, South African Institute for Race Relations, Johannesburg, 1989]
7. Karis, p.181
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27. Colin Legum and Stanley Uys reporting on the Soviet-African Conference of peace and Co-operation and Social Progress, in the *Sunday Tribune*, June 18, 1987

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INTERNATIONAL CONFERENCE

On

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ABORIGINES AND THE POLITICS OF AUTHENTICITY IN AUSTRALIA

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Aborigines and the Politics of Authenticity in Australia

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Two issues currently dominate official interchanges between Aborigines and the Australian state: Land Rights (or Native Title) and the so-called 'stolen generations' of Aboriginal children who were officially abducted in pursuance of a policy of assimilation that obtained for most of the twentieth century[1]. In the media and in most scholarly commentaries, these two issues have been treated separately. Indeed, it often seems that commentators view them as affecting separate communities, with Native Title being represented as a question concerning traditionally-oriented Aboriginal communities in remote outback locations whilst the stolen children are assumed to have come from 'detribalised', 'urban' or displaced Aboriginal populations subsisting in the margins of White Australian society. Yet such distinctions are profoundly misleading, serving as they do to obscure a basic continuity that has united official policies towards Aborigines from the initial invasions into the present. This continuity stems from the fundamental fact that all Aboriginal people confront, which is that Australia is a settler-colonial state.

In contrast to many of the colonial formations represented at this conference, Aboriginal people have not constituted an oppressed majority on the supply of whose labour a colonising minority has been vulnerably dependant. The difference is crucial. For Amil Cabral[2], for instance, genocide of the natives could only be counterproductive, creating 'a void which empties foreign domination of its content and its object: the dominated people'. Analogously (in this regard at least), when Frantz Fanon asserted[3] that 'colonization and decolonization are simply a question of relative strength', he was referring to relative capacities for violence, on which basis the coloniser was ultimately superfluous. Given certain African contexts, especially in the 1960s, the material grounds for such optimism can reasonably be credited. But what if the colonisers are not dependent on native labour? -- indeed, what if the natives themselves have been reduced to a small minority whose survival can hardly be seen to furnish the colonising society with more than a remission from ideological embarrassment?

In contrast to franchise or dependent colonies (the British Raj, the Netherlands East Indies, etc.), settler or creole ones (Australia, Israel, etc.) were not primarily established to extract surplus value from indigenous labour. Rather, they are premised on displacing indigenes from (or *re*placing them on) the land — as Deborah Bird Rose

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1 This issue has recently been covered in some depth in the report of a national commission of enquiry established by the previous (Labor) government. See *Bringing Them Home* (Report of the National Inquiry into the Separation of Aboriginal and Torres Strait Islander Children from their Families), Canberra, Commonwealth of Australia, 1997.

2 1973: 40.

3 1967: 47.

points out[4], to get in the way, all that the native has to do is stay at home. The relationship between Native and African Americans illustrates the distinction particularly well. In the main, Native (North) Americans were cleared from their land rather than exploited for their labour, their place being taken by displaced Africans who provided the labour to be mixed with the expropriated land, their own homelands having yet to become objects of colonial desire. The ramifications of this distinction flow through, particularly in so far as they affect the different constructions of 'miscegenation' that have been applied to the two communities. Briefly, whilst the one-drop rule has meant that the category 'black' can withstand unlimited admixture, the category 'red' has been highly vulnerable to dilution. This is consistent with a situation in which, whilst black labor was commodified (so that white plantation owners fathered black children), red labor was not even acknowledged (so that white fathers generated so-called 'half-breeds' whose indigeneity was compromised). In Australia, the structural counterparts to African slaves were white convicts, which has meant that racial coding and questions of emancipation have operated quite differently between the two countries. Where the respective indigenous populations have been concerned, however, there are substantial similarities between the racial calculations on which official policies have been premised. In the Indigenous case, it is difficult to speak of an articulation between coloniser and native, since the determinate articulation is not to a society but directly to the land, a precondition of social organisation. Since it is incoherent to talk of an articulation between humans and things, this social relationship can be conceived of as a negative articulation. Settler colonies were (are) premised on the elimination of native societies. The split tensing reflects a determinate feature of settler-colonisation. The colonisers come to stay. There is no 1947 — invasion is a structure rather than an event. In contrast, for all the hollow formalism of decolonisation, at least the legislators change colour.

The cultural logic which is organic to a negative articulation is one of elimination. Once Australian history is reconstructed on the basis of the primacy of the logic of elimination, seemingly disparate elements of Aboriginal people's present struggle emerge as integrally linked. In what follows, therefore, I shall sketch the historical development of Australian settler-colonialism in order to make sense of the present.

In its purest form, as in the case of the Guanches (indigenous Canary Islanders), Tainos, Caribs, etc., the logic of elimination strives to replace indigenous society with that imported by the colonisers. In local Australian practice, this cultural logic was actualised by virtue of the fact that the economic use to which the colonised land was principally turned was that of pastoral settlement, whose requirement for territory was inherently exclusive. This is because the introduced cattle or sheep competed with indigenous fauna for subsistence, consuming the tubers, shoots and seeds whereby the indigenous fauna reproduced itself and rapidly reducing waterholes to mud. In a relatively short time, the only subsistence remaining available to Indigenous humans was the introduced livestock whose protection was basic to the

4 1991: 46.

pastoral project[5]. Hence pastoral settlement became a zero-sum conflict whose violence was neither gratuitous nor random but systemic to settler-colonisation.

None of this should be taken to suggest that Europeans failed to exploit Aboriginal labour where it suited them to do so. On the contrary, settler colonisation relied upon Aborigines at every stage and in every site of its development. For instance, in early Tasmania (Van Diemen's Land), Aboriginal women were extensively used for sealing and oyster-diving, while Torres Strait Islands men were employed as divers on pearl-luggers. Almost everywhere, Aborigines guided, interpreted for and protected explorers. They cut bark, built fences, dug, planted, maintained, shepherded, stock-rode, mined and performed every conceivable settler-colonial task except governance[6]. Above all, they kept house and provided sexual services, whereby pastoralists 'bred their own labour'[7]. The north Australian cattle industry was until recently much more dependent on Aboriginal labour than major enterprises in other parts of Australia. Most of the north was invaded after the shipment of convicts had been terminated, so cheap white labour was unavailable. In remote and (to Europeans) forbiddingly hostile regions, Aborigines were not only available but, once conquered, were generally willing to accommodate to the new system so long as it meant that they could remain in their ancestral country. Though admittedly exceptional, however, the northern cattle industry does not invalidate the general rule. It merely slowed down its operation somewhat — for instance, no sooner had equal wages for Aborigines been introduced in the 1960s and 1970s than Aboriginal labour was dispensed with and relegated to container-settlements at a revealingly rapid rate (Berndt and Berndt 1987, Drakakis-Smith 1984: 100, Rowse 1993). Thus it is not the case that, in practice, settler-colonisation *only* eliminated the natives. It is rather the case that the exploitation of native labour was subordinate to the primary project of territorial acquisition.

Another important distinction concerns the question of gender. Aboriginal men and Aboriginal women have in many respects been differently colonised — not only in terms of sexuality but in terms of their positioning in relation to the European economy (within or without the domestic sphere, etc.), whilst white men and white women have invaded in different ways. Such factors can produce practical contradictions. I will argue below that the single most important contradiction to have obstructed the logic of elimination was quintessentially gender. This was the sexual abuse that male colonisers imposed on Aboriginal women everywhere. The systematic nature of this abuse has prompted some to set up a competition between territoriality and sexuality so as to champion the priority of their own preferred determinant, as in Ann McGrath's partisan claim[8] that 'The women would be first, the land next'. Quite apart from its dubious empirical basis (it was certainly not the case, for instance, when the First Fleet established their fledgling settlement), such a claim

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5 McGrath 1987:1-23, Reynolds 1981:128-130

6. See, e.g., Beckett 1977, Christie 1979, Curthoys 1982, Evans 1984, Goodall 1996, Haebich 1989, May 1983; 1986, McGrath 1978; 1987, Pope 1988, Reynolds 1990, Ryan 1981, M. Tonkinson 1988.

7 Bleakley 1961: 317, McGrath 1987: 68-94, Huggins 1988.

8 1990: 206.

misses the foundational genderedness of settler colonialism as a world-historical project, on which basis it is only to be expected that its contradictions should also operate in gendered ways[9]. As a direct articulation to land, which it claims to render productive, settler-colonialism is gendered in a particularly thoroughgoing way. Hence the ubiquitous rhetoric of interiors waiting to be opened up, a process in which the expansion of the frontier figures as a fertilising penetration[10]. In Judeo-Christian culture, the theme could hardly run deeper — Eve, after all, means both woman and land. So far as Australia is concerned, there has been no shortage of gendered expressions of settler colonialism, as Marcus[11], McGrath[12], Schaffer[13] and others have shown. In this broadest of senses, the gender of individual Aborigines and individual colonists becomes irrelevant — Europe is male, the conquered land is female, and ever the twain shall meet. For historical purposes, however, such metaphors do not get us very far. They are too general and too archetypal to evince any contingent development. We need to go beyond the metaphors to discern the social processes that shape them and give them life in particular contexts. As will become clear, at a particular stage of its development, colonial strategy in Australia became concentrated on the colour-coding of bodies that testified to sexual relations between male colonisers and Aboriginal women. In this most material of contexts, it would be perverse to try to separate territoriality from gender, since we do not encounter one without the other.

Since frontiers moved across Australia from coastal beachheads variously established over the century following the landing of the First Fleet in 1788, it is not possible to date the development of Australian settler-colonisation as a whole. Nonetheless, the primacy of the logic of elimination means that certain key patterns have consistently dominated the evolution of Aboriginal/European relationships. Thus it is convenient to organise the establishment and consolidation of Australian settler-colonisation into a threefold typology of strategic phases that succeeded each other with a high degree of regularity, though at different times in different parts of the continent[14]. For heuristic purposes, I shall term these phases, seizure, carceration and assimilation respectively. Of these, the first and the last represent opposite ends of a historical transformation during which Aborigines' relationship to European society shifted from one of exteriority to one of interiority.

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9 Gender is not, of course, restricted to women. Rather, as Joan Scott so influentially stated (1988: 28-52), it is a way of encoding power relations (a major precedent for this style of analysis was Ortner 1974). Accordingly — and as we shall see below — we should not conceptualise gender as being restricted to a realm of signification that can be separated from that of power. Rather, gender happens as power.

10 "Guiana...", as Raleigh remarked, "hath yet her maydenhead" (Montrose 1991: 12). As gender provides a female model and precedent for the dominated, so, by the same logic, does it construct the dominator as male — or, in Catherine Hall's more complete (1992) formulation, as white, male and middle class.

11 1988.

12 1990.

13 1988.

14. For alternative typologies for this process, see Beckett 1989; Broome 1982; Drakakis-Smith 1984; Read 1988.

Seizure

In this phase, during which invading Europeans first confronted Aborigines defending their territory (or 'country'), Aboriginal resistance was subverted as a result of the combined effects of four related agencies: homicide, introduced disease, starvation and sexual abuse[15].

(i) Homicide

Though its duration was conditioned by local ecological factors, this phase was very short. Europeans hunted down and killed Aborigines to pre-empt attacks on sheep and cattle. Whilst massacres in the conventional sense — the indiscriminate killings of numerous people on single occasions — were standard practice, they were not daily events. Nonetheless, they were continuous with the routine process of casual homicide whereby Aborigines were killed on sight in the vicinity of sheep or cattle runs, so the definition of massacre needs to be extended to include a serial or cumulative dimension.

A particular feature of the killing of Aboriginal people in this first phase is that it was quite often carried out by other Aboriginal people, either acting at the behest of European authorities or defending their own country from invasion by neighbouring groups who were fleeing from the European front line. It should be borne in mind that Aborigines were not a single continental society before European colonisation. Rather, they belonged to a large number of different societies, with different languages and traditions, whose relations with each other could be cordial, hostile or indifferent. Indeed, since the very category 'aboriginal' only became unitary or homogeneous in contradistinction to the Europeans, it should be viewed as an artefact of colonialism. Since the bush skills of Aboriginal people were immeasurably superior to those of Europeans, Europeans recruited Aboriginal policemen, whom they provided with horses and firearms for the purpose of tracking down and killing other groups of Aborigines. Alternatively (or, perhaps, correspondingly), it could be said that the Aboriginal men involved recruited Europeans to provide them with the wherewithal to suppress their opponents. The issue has provided a pretext for conservative historians[16] to justify the invasion. Yet their accounts betray a depressing paucity of historical reflection. It should surely be unnecessary to point out that the invasion could not but have produced refugee crises in regions where resources were already subject to unprecedented strain as a result of the encroachments of sheep and cattle. There are no prima facie grounds for imagining that the consequences should have differed greatly from ones which have characterised comparable situations in Europe. The causal chain required to trace

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[15]. See, e.g., Butlin 1983; Christie 1979; Critchett 1990; Elder 1988; Green 1984; Jenkin 1979; Loos 1982; Markus 1974; Millis 1992; Pepper and Araugo 1985; Plomley 1991; Reece 1974; Reid 1982, 1990; Reynolds 1981; Rowley 1970; Turnbull 1948 *et al.*

[16] See, e.g., Blainey 1975: 108-109, Nance 1981.

such consequences to European agency is hardly too long to tax a normal historical intelligence.

(ii) Starvation

Aborigines were generally driven to spear cattle or sheep by desperation. It is hard to improve on the manner in which the settler, anthropologist and Victorian government official Edward Curr summarised his own first-hand observations:

> In the first place the meeting of the Aboriginal tribes of Australia and the White pioneer, results as a rule in war, which lasts from six months to ten years, according to the nature of the country, the amount of settlement which takes place in a neighbourhood, and the proclivities of the individuals concerned. When several squatters settle in proximity, and the country they occupy is easy of access and without fastnesses to which the Blacks can retreat, the period of warfare is usually short and the bloodshed not excessive. On the other hand, in districts which are not easily traversed on horseback, in which the Whites are few in number and food is procurable by the Blacks in fastnesses, the term is usually prolonged and the slaughter more considerable .... The tribe, being threatened with war by the White stranger, if it attempts to get food in its own country, and with the same consequences if it intrudes on the lands of a neighbouring tribe, finds itself reduced to make choice of certain death from starvation and probable death from the rifle, and naturally chooses the latter (Curr 1886: 100-101, 103-4).

(iii) Introduced diseases

The invaders brought with them a whole range of diseases with which, over the millennia, they had attained a viable accommodation. Having lived in a highly insulated continent, Aborigines had not encountered these diseases and had minimal resistance to them. Smallpox, syphilis, diphtheria, typhoid, measles, dysentery, influenza, whooping cough, tuberculosis and a range of other exotic diseases ravaged Aboriginal communities, often simultaneously. Disease travels faster than explorers. By the time of their first encounter with Europeans, most Aboriginal groups were already thoroughly weakened by the impact of disease, especially since it was compounded by starvation. As the First Fleeter David Collins reported of an expedition to an area that colonists had not previously visited, conducted barely a year after their initial landing:

> On visiting Broken Bay, we found that it [smallpox] had not confined its effects to Port Jackson [Sydney], for in many places our path was covered with skeletons, and the same

> spectacles were to be met with in the hollows of most of the rocks of that harbour.

(iv) Sexual Abuse

Wherever they went, European men visited their sexual attentions on Aboriginal women. This provided further grounds for hostilities between Aboriginal and European men, and contributed significantly to the spread of disease. In a more general sense, however, as already noted, sexual relations between European men and Aboriginal women were to become central to Aboriginal/European relations in the twentieth century, when Australian policies on Aborigines came to be dominated by a perceived threat that was generally termed `the half-caste menace'. We shall return to this issue in relation to the stolen children.

Clearly, these four salient features of the seizure phase were mutually compounding and, in their combined effects, cataclysmic on a genocidal scale. In the absence of any credible treaty or resolution, the Australian state continues to be premised on these foundations.

Carceration

The decimated but largely pacified groups of Aborigines who survived the disaster of the first phase found themselves reduced to improvising whatever livelihoods they could in the pores of the alien new society, which generally regarded them with contempt. As Cherokee leader John Ross observed of the national mourning that followed the death of the Indian-killer President Andrew Jackson, the perpetrators of a wrong never forgive their victims. In turn, each of the Australian colonies introduced measures to confine the surviving Aboriginal `remnant' to fixed locations, either by the lure of rations or by coercive measures[17], a procedure which, whilst no longer directly homicidal, continued the effect, consistent with the logic of elimination, of vacating Aboriginal country and rendering it available for pastoral settlement. In keeping with both social-darwinist doctrine and the tangible evidence of their decimation, these people's sojourn on the missions and reservations where they had been gathered was seen as a temporary expedient, since they were held to be a dying race (the evolutionist rationale for this being that, unstiffened by selection, they would be unfit to survive in the presence of their immeasurably distant future). Though couched in philanthropic rhetoric which contrasted strongly with the homicidal sentiments of the first phase (the missionary role was held out as 'smoothing the dying pillow') the premise of the dying race was no less consistent with the logic of elimination. Missionaries' avowed aim of uplifting and civilising the natives was also conducive to the legitimization of settler society. On the basis of missionary rhetoric, colonisation could be held out as bringing salvation to the Aborigines rather than expropriating them.

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17. See, e.g., Attwood 1989, Brock and Kartinyeri 1989, Brook and Kohen 1991, Christie 1979, Critchett 1980, Gunson 1974, Haebich 1989, Rosser 1978; 1985.

Invariably, missionaries paid particular attention to Aboriginal children, believing that they had more chance of converting them than older Aborigines who were already set in their ways. Accordingly, the majority of missionaries sought to separate Aboriginal children from the influence of their parents and families, placing them in separate dormitories or even removing them to distant missions in different peoples' countries (in this respect, as will be seen, the missionaries anticipated the single most destructive feature of twentieth-century Australia's policy of assimilation). Since Christianity and European civilisation were seen as closely linked (there was considerable evangelical debate as to which should come first), missionaries sought to socialise Aboriginal people into European ways of life as well as imparting a religious message to them. It was not only cleanliness that was next to godliness, but industry, sobriety, punctuality, monogamy and a whole range of other bourgeois-protestant cultural values as well. In Foucauldian fashion, Aborigines were disciplined to labour by the European clock, their housing arrangements divided them up into nuclear families, and their marriage partners were often chosen for them by the missionary. To secure rations, they had to attend frequent church services and submit to constant surveillance, not only of their personal hygiene but also of their avoidance of Aboriginal language and ceremony (dancing was particularly proscribed). Aborigines from a wide range of different localities, language groups and cultural traditions were shuffled together on missions, so it would in any event have been difficult for them to maintain their traditions. English was widely used, not only because it was enforced by the missionaries, but also because it acted as a lingua franca between different groups. In a thousand different ways, through every detail of public and private life, missionaries sought comprehensively to remodel Aborigines as 'civilised' Christian individuals. Though Aborigines generally succeeded in frustrating their attempts, they could hardly remain unaffected by such a total institutional experience, maintained from generation to generation. New solidarities and collective traditions were built up. Most contemporary Aboriginal people trace their historical identities back through particular mission communities, which have now been transformed from places of involuntary confinement to centres of community life and identity, places where the old people are buried.

The boundaries of the mission were not enough, however, to withstand the sexual bombardment that white men visited on Aboriginal women everywhere (indeed, in the case of some missionaries, this emanated from within the mission). White men's sexual exploitation of Aboriginal women produced offspring who, growing up as they invariably did with their maternal kin, were accounted native rather than European. Moreover, far from dying out, this section of the native population threatened to expand exponentially. Crucially, in other words, the sexual element of the invasion contradicted the logic of elimination (to put it another way, the behaviour of individual colonisers was bound to negate the interest of colonisation). In other colonial situations, where native (as opposed to imported) labour is at a premium, people with combined ancestry can be accounted settler-become-native (as in the case of Latin American *mestizaje* [18]) or something separate

18 Bartra 1992, Canny and Pagden 1987, Mörner 1967; 1970.

from either native or settler (as in Collette Guillaumin's sharp specification[19] of South African 'Coloureds' as a 'class formed by people belonging in fact to one *and* the other group [which] is declared to belong to neither one nor the other but to itself'). In Australia, by contrast, as the logic of elimination would indicate, the only category whose expansion was tolerable was the settler one. In other words — and in stark distinction to situations in which a metropolitan society depicts itself as being contaminated from within, as in the case of Nazi Germany — the answer to the problem of 'miscegenation' could only be absorption into the settler category.

As the nineteenth century progressed, the romance of the dying race steadily gave way to the spectre of 'the half-caste menace'. Towards the end of the century, a movement for the federation of the separate Australian colonies gathered momentum. As envisaged by its predominantly entrepreneurial promoters, federation would dismantle barriers hindering free trade between the separate Australian colonies, a development that would prepare the ground for separate nationhood (with dominion status). At the turn of the twentieth century, this goal was achieved, with the Commonwealth of Australia being constituted by an act of the British parliament that took effect from the 1st of January 1901. At this moment, 'Australia' became a national as well as a geographic entity. This was not a natural convergence. Despite Australia's insular geography, New Zealand was at one stage to be included in the federation, whilst, at another, Western Australia was not. Nationalist rhetoric aside, therefore, before 1901, 'Australia' was a natural rather than a cultural category. Hence Edward Curr's above-cited book, *The Australian Race*, published in 1886, was about Aborigines, who were categorised among the natural features of the landmass on which the several colonial polities were constituted. Accordingly, at a single stroke (the last one of 1900) Europeans became, and Aborigines ceased to be, Australians — an inversion which was formalised by Aboriginal natives' exclusion from the terms of the new constitution. As if in anticipation of structuralism, therefore, the 'half-caste menace' straddled the boundary between nature and culture, threatening the basis on which the citizenship and geography of the new imperialist nation-state were predicated.

The official response to 'the half-caste menace' was the assimilation policy, whereby people of mixed descent were not to be accounted Aboriginal — which is to say, they were to be accounted settler. As administratively implemented, this meant the separation of people of 'mixed race' from their natal kin. This strategy constitutes the third phase of Australian settler-colonisation. The first instance of such legislation occurred in 1886 in the colony of Victoria (the year of Curr's book), when an act was passed which provided for the expulsion of 'half-castes' from Aboriginal reserves[20]. As federation approached, other Australian colonies began to follow suit. This process was effectively completed by the outbreak of World War One, the conflict which, in nationalist mythology, constitutes the national baptism.

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19 1988: 27.

20 Attwood 1989: 81-103, Christie 1979: 178-204, Critchett 1980, Wilkinson 1987.

For Aborigines, however, the baptism of blood depended on whether or not their particular portion of it was 'full'. As the new nation and the twentieth century unfolded, official policy progressively turned from a negative strategy of expelling 'half-castes' from reserves (which, so far as it worked at all, only produced 'fringe-camps' and a rural landscape punctuated by destitute Aborigines shuffling between the margins of more or less hostile country towns) to a positive strategy whereby the products of 'miscegenation' were taken from their kin and incorporated into the settler domain[21]. This strategy was applied to children, whose natal links could more readily be obliterated. Assuming continued 'miscegenation', the policy of leaving behind a 'full-blood' population as the only officially recognised Aboriginal category would ensure that this category became an ever-dwindling one. In other words, the legislation sought to reinstate the dying of the dying race — or, as it was put by J. A. Carrodus, secretary of the Australian government Department of the Interior, at the national conference which formulated a version of assimilationism for uniform implementation across all states:

> It would be desirable for us to deal first with the people of mixed blood. Ultimately, if history is repeated, the full bloods will become half-castes (Commonwealth of Australia 1937: 21).

We have now moved into the third phase, that of assimilation. Before analysing its logic, however, it is important to recall that the purpose of this historical sketch is to establish the connection between Land Rights and the stolen children, the two issues that are currently most prominent in official relations between Aborigines and the Australian government. As indicated, both derive from the determinate fact that Australia is a settler-colonial state whose dealings with Aborigines are governed by a logic of elimination. Having proceeded thus far with the argument, it is now possible to establish this connection in a preliminary way. The logic of elimination, most crudely manifest in the first phase of territorial seizure, continued into the second phase, which I have termed carceration. As observed, though associated with markedly different rhetoric, carceration had the effect, continuous with the homicidal activities of the first phase, of vacating Aboriginal territory. To establish a link between carceration and assimilation is, therefore, to establish a continuity between the seizure stage and assimilation. In so far as the assimilation policy sought to restore the dying of the dying race by minimising the number of people who might be accounted Aboriginal, it was no less eliminatory — albeit less crude — than the more directly physical methods of the first phase. This is not to suggest that assimilation was less than physical, some mere sleight of bureaucratic tabulation. On the contrary, children were snatched from schoolyards, torn from their mothers' arms and ambushed at play, usually never to be seen again. The point is rather that assimilation was premised on a classificatory scheme, a definition of authentic Aboriginality, that would have been altogether superfluous in the first phase. Thus it is important not to underestimate what is at stake in 'identity politics'. In aspiring to identify Aborigines out of existence (or, which is the same thing, to displace them into the past), the

21. See, e.g., Beckett 1988, Edwards and Read 1989, Hasluck 1988, Jacobs 1990, Mulvaney 1989: 199-205, Neville 1947, Read 1983a; 1983b; 1984, Wilkinson 1987.

Australian state stood to eliminate an alternative claim to its territorial foundations. On this preliminary basis, therefore, it is plain that Land Rights and the issue of the stolen children are integrally linked as co-products of the expropriation on which the Commonwealth of Australia continues to be founded.

Assimilation

Though the assimilation policy was framed in terms of genetics (blood quanta), genetic and cultural criteria were interchangeable and mutually supportive — 'real' Aborigines had to be both genetically and culturally pure. Those who failed on either count were disqualified from being officially classified as Aboriginal, a condition that set in train the machinery of assimilation. In other words, authentic Aboriginality was everything that white Australians were not and vice versa; the two categories mutually constructed each other. Thus hybridity was repulsive because, in threatening the black category, it thereby threatened the white one as well. Though readily obfuscated by 'race', the essential feature of European society was not, however, its colour but the fact that it was the expropriating party. Thus ambiguity as to whether people were whites or Aborigines should be understood as an ambiguity as to whether or not they were being expropriated, with corresponding implications for the legitimization of the Australian state. Ideologically, therefore, representations based on race or colour obscure the primary historical relationship of invasion. Given a dichotomy of white and black, Chinese, Indians and others can be anomalous. But Chinese and Indian children were not officially abducted on racial grounds, so their anomalousness was of a secondary order, one peripheral to the primary terms of the underlying invader/invaded opposition. Where Asians were neither white nor black but neither, 'half-castes' were neither white nor black *nor* neither. This does not mean that white Australia was not racist — it simply means that racism which was not predicated on the invasion (which is to say, racism which was not directed against Aborigines) was secondary. In other words, Aboriginality is a matter of history; Aborigines can be defined as that group which settler-colonial society has attempted to eliminate *in situ* (other groups have alternative social bases[22]). In a non-circular sense, therefore, Aborigines can be designated in terms of the logic of elimination. Thus the primary object of white-Australian hostility should not be defined in terms of race or colour but in terms of prior entitlement, of being there from the beginning (*ab origine*), a condition that takes us back to the issue of alternative sources of sovereignty and the legitimization of the settler-colonial state.

For some purposes, as the contemporary tourist trade illustrates, 'real' Aborigines have been valuable to Australia, so long as they have been safely 'tribalised' and tucked away in the outback. But being 'tribal' is a cultural rather than a genetic criterion. This takes us back to the interplay between culture and genetics.

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22. By the same token, nor could Aborigines be deported or repatriated in the manner of those Pacific Islanders who were expelled after December 1906 under the terms of the White Australia Policy (Willard 1974: 182-186). A corollary of the same general point is that, whereas migration constantly swells the settler population, migration or adoption into Aboriginal societies is precluded.

Whether culturally or genetically framed, assimilationism set up a dichotomy between pure black and pure white, and stigmatised everything that lay in between. The two categories constituted each other: in the period of the White Australia Policy, assimilationism not only strove to ensure that 'real' Aborigines stayed black – it also strove to ensure that 'real' Australians stayed white.

In this respect, assimilationism is by no means confined to genetics or to official legislation. Nor is it a thing of the past. It remains alive and ideologically potent in both popular and official culture, in the guise of a set of precontact Aboriginal stereotypes that repetitively circulate in media discourse as well as on the money, postage stamps and related signatures of the settler-colonial state, even though that state is predicated on the elimination of those stereotypes' empirical counterparts. This is because, as Andrew Lattas[23] and others have pointed out, in order to produce a legitimate narrative that can bind it transcendentally to its territorial base — to make it, as it were, spring organically from the local soil — the settler state is obliged to appropriate the symbolism of the very Aboriginality that it has historically effaced. The Australian dilemma of state-formation is the problem of the fragment: how to be European — i.e., 'civilised' — for the purpose of expropriating Aborigines, but Australian — i.e., not British — for the purpose of national independence? Solutions to this conundrum included symbolic juxtapositions whose absurdity pre-empted surrealism — regal insignia in which emus and kangaroos stood in for lions and unicorns, for example. The serious underside to this symbolism is, however, that it suppresses the historical process of replacement. A human analogue to the heraldic kangaroo and emu is provided by the conspicuous inclusion in the architecture of Canberra's national parliament-house of a Warlpiri totemic design, drawn up by a Western Desert artist, sanctioned by the ritual owners of the design and turned into a mosaic by Italian ceramists[24]. Reportedly, the design's representation of serpents converging on a waterhole denotes a meeting place at the centre of things. Yet the remote Western Desert locale from which the design originates is some three thousand kilometres from Canberra, whilst those to whom such events really are central — the dispossessed Ngunawal (so-called 'urban' Aborigines) on whose country the national capital has been planted — go symbolically unregistered and can only manage a physical presence about the national capital. Thus the continuing dispossession (cum welfare-dependency) of historical Aboriginal subjects is effaced by the valorisation of a safely remote Aboriginality which, for its part, seals an eternal bond between the settler-colonial state and the land of the Ngunawal. Hence the romanticised indigenous stereotype simultaneously performs two vital ideological services — positively, it grounds the national narrative in the local soil; negatively, it effaces the disruptive counter-narrative embodied by the dispossessed.

To begin to close the circle: the same ideological structure also characterises Australian Land Rights and Native Title legislation. Nationally, there are two legislative bases for Aboriginal Land Rights in Australia. An act passed in 1976 provided for Land Rights to be granted to certain Aboriginal communities in the

23 1990.

24 For details and critiques, see, e.g., Lattas 1990, Weirick 1989.

Northern Territory, though without negating the doctrine of *terra nullius* ('land belonging to no-one'), which provided the legal rationale for the expropriation of Aborigines. In the wake of the Mabo judgement of the full bench of the Australian High Court, a more significant act (the Native Title Act) was passed in 1993. Momentously, the Mabo judgement had invalidated terra nullius and recognised the unextinguished Native Title to ancestral land of at least some Indigenous Australians. In the case of both acts, only unalienated Crown land – public land that has not become private property (or, under some circumstances, been leased) – can be subject to a claim. In addition to this majór restriction of the areas of land that can be reclaimed, a key feature of both acts is the definitional qualifications that Aboriginal claimants have to fulfil. In either case (i.e., both in regard to the 1976 Act's concept of 'traditional ownership' and the 1993 Act's 'continuing association'), the requisite criteria are overwhelmingly ritual/spiritual – as opposed to historical or pragmatic/economic. Since the majority of Aboriginal people have been driven off their traditional country and have not been initiated or been able to maintain their site-specific 'dreamings', both Acts specify the most restrictive of qualifications, ones that exclude the bulk of Aboriginal people[25]. The fundamental political consequence of these qualifications is that they shift the burden of responsibility from the fact of expropriation to the character of the expropriated. Indeed, the more that Aboriginal people have lost through colonisation, the less they stand to gain from this legislation. The narrative structure should be familiar. Just as the assimilation policy provided for a dwindling rump of authentic Aborigines in the idiom of genetics ('full bloodedness'), so, in a culturalist idiom, Native Title legislation seeks to ensure that authentic Aboriginality ('traditional ownership', 'continuing association') is only acknowledged in the most restricted number of cases. Indeed, in a world where the white suprematism informing the doctrine of terra nullius is becoming increasingly untenable (especially for an enclaved European outpost in the Pacific), the narrowness of the Native Title Act's qualifications suggest that, rather than removing terra nullius, the legislation could come to be seen as its fulfilment, as marking the point where terra nullius had completed its historical task.

In providing a minimal concession to Aboriginal rights, Native Title legislation de-authenticates the principal victims of settler colonialism, the majority of Aboriginal people whose more thoroughgoing history of dispossession prevents them from meeting the qualifications. For these people, whose appalling fourth-world deprivation constantly threatens Australia with the spectre of international scandal, measures to improve delivery of health, education, housing and employment opportunities are projected. In other words, a return on the Native Title concession is that it depoliticises the dispossession of the majority of Aboriginal people, in particular the stolen generations and their families, converting their invadedness into a welfare problem. To return to the question with which we started, therefore, it should be clear that Native Title and the question of the stolen children are not separate issues but related aspects of a historical programme which has consistently sought to eliminate empirical Aboriginal people (as opposed to symbolic stereotypes) from the settler-colonial polity.

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25 For a more detailed early formulation of this argument, see Wolfe 1994: 120-130.

In 1996, the full bench of the Australian High Court handed down another significant decision in the Wik case. The question had arisen as to whether pastoral leases extinguished Native Title in the same way as freehold title did (the land available for claim, it should be remembered, is restricted to unalienated Crown land, which excludes land that has been alienated into private hands). The court held that, in this as in other regards, leaseholds were not the same as freehold; Native Title and pastoral leases can coexist, with the proviso that, where the two conflict, the pastoral lease will prevail. The reaction of the current conservative government has been frenetic. Exploiting an increasingly racist cultural climate, they have introduced legislation which, if passed, would be tantamount to converting pastoral leases on Aboriginal land into freehold property. Since some 45% of the Australian mainland is held as pastoral leases, successful implementation of this legislation would constitute an overnight land-grab of nearly half the continent, one whose audacity would have flabbergasted the most rapacious of nineteenth century squatters. In comparison to this, the scramble for Africa pales to a crawl.

At the time of writing (November 1997), the fate of the Wik legislation is not clear. In any case, much more will have eventuated by the time of the conference, so we will be in a better position to assess the issue in Delhi. For the present, however, I would like to move on to some strategic implications that seem to me to flow from the foregoing.

Practical Implications

Thus far, I have deliberately refrained from characterising Aboriginal resistance in favour of analysing the colonial formation that they confront. This is because none of us at the conference are Aborigines, so it is better for us to concentrate on what others can do to support them. In any event, after surviving against apparently impossible odds for over two centuries, Aboriginal people hardly need tactical advice from outsiders, let alone from a white Australian like myself. If they feel the need for such advice, they will ask for it.

This notwithstanding, Aboriginal people remain a small demographic minority. As noted at the outset, the anticolonial resources at their disposal are exclusively ideological, since, even if they wished to adopt them, neither violence nor the wholesale withdrawal of their labour would be promising options. The most potent ideological force available to Aborigines is international opinion, to which Australian governments have consistently shown themselves to be acutely sensitive — as well they might, given their geographical location as a European colonial enclave deep in the postcolonial Pacific.

Taken together, these considerations demonstrate the potential for conferences like this to provide powerful support for Aboriginal people at a significant juncture in their long historical struggle against the ravages of Australian colonialism. The current Australian government, and especially its leader John Howard, have been astonishingly inept at disguising the racism of their policies. They are particularly vulnerable to international scrutiny. Fortunately, this vulnerability arises at a particularly enabling moment, since the next Olympic Games are to be held in Sydney. The effect of sporting boycotts on the morale of the apartheid regime (another white-settler enclave that found itself beleagured in a postcolonial context) is well known. Complementary to sporting boycotts are trade sanctions, a prospect that no Australian government would dare to risk.

An international campaign against the racist policies of the Australian government would start with the dissemination of information which that government strives to keep within Australia. Between us, participants in this conference are well positioned to spread this information widely in Africa and Asia and to encourage governments, sporting associations and trade delegations to inform the Australian government that they persist with racist policies at their peril. I hope that, at the conference, we can establish an international network to liaise with Aboriginal organisations in Australia. The outcome could well be rapid and emancipatory.

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INTERNATIONAL CONFERENCE

on

COLONIALISM and GLOBALIZATION

Five Centuries after Vasco da Gama
February 2-6, 1998
New Delhi, India

Changing Economic Development Model of China

Fang Cai
Chinese Academy of Social Sciences

Changing Economic Development Model of China[1]

Fang Cai
Chinese Academy of Social Sciences

I. Introduction

The progress which has come about as a result of China's economic reform and development since the late 1970s has received worldwide attention. In late 1970s, China started to reform its highly centralized and inefficient economic system. The first step toward reform was to introduce the household responsibility system in rural areas, to initiate various reforms that decentralized the decision making authorities to state enterprises and permitted them to share profits, and to legally allow the existence of non-state enterprises. Accompanying the reform of highly centralized planned allocation mechanism was the gradual adjustment or partial liberalization of the control over product and factor prices. The government also adopted an open-door policy to attract foreign capital, expand trade volume, allow foreign direct investment, and encourage investing enterprises of sole proprietorship or joint venture in China.

The reform in the past decade have increased economic efficiency and adjusted the economic structure. The Chinese economy has been transformed from a typical centrally planned one into one in which the market plays a major role in resource allocation. The reform has enabled China to become one of the fastest-growing and most robust economies in the world. During the period 1978-1995, GNP and per capita GNP in real term grew, respectively, 9.8 percent and 8.3 percent annually (SSB, 1997), the incidence of severe poverty in China has fallen from 26 percent in 1978 to 4.7 percent.

In the past several hundred years, China's development fell behind that of other nations. Why was it able to catch up so fast and achieve tremendous economic progress in just a decade or so? Will China be able to maintain the momentum of rapid growth so as to stand at the head of world development in the next century and realize the dream of becoming a strong nation once again? These are questions to which not only Chinese politicians and people would like clear answers, but which others are curious about as well. China is both a developing and a transitional country. The nature of China's successful experiences with development and reform, and the question of whether the experiences have any general implications, are of great importance to other economies undergoing similar types of development and transition.

One major task of this paper is to answer the question of why China's economic development was so slow before reform was implemented, and so rapid afterwards. After the founding of PRC in 1949, the government explicitly set out to catch up with and

[1] A great part of this paper is joint work by Justin Yifu Lin, Fang Cai, & Zhou Li (Lin et al., 1996a, 1996b).

overtake advanced economies in the West, and to establish a series of necessary policies and institutions to maximize resource mobilization for this purpose. However, in the 30 years just prior to the late 1970s, the goal of economic construction was not achieved, and the Chinese people's living standard remained at subsistence level, with little improvement throughout the period. Since the reform started, the economy has enjoyed a historically unprecedented growth rate. An important purpose in this paper is to summarize the experience of the reform and to explore, through historical comparisons, the reasons it has accelerated economic growth.

Another question this paper tries to address is to answer why China's reform has been so successful, while reform in many other transitional economies has not. When reform started in China, a market economy was not the goal. However, during the reform process, China has moved closer and closer to such an economy. It has continuously controlled the pressure of inflation, relaxed growth-constraining bottlenecks, eliminated political disturbances and realized sustained and rapid economic growth. However, countries which from the beginning of their reform announced as their goal the establishment of a true market economy have up to now not established new institutions of higher efficiency. Instead, the rate of economic growth in many countries has declined, and they have faced serious inflation and political instability.

If the traditional economic system was unique in China, its experiences of reform would be irrelevant to other transitional economies. However, this paper will reveal that although the results of China's reform, and reforms in the former Soviet Union and Eastern European economies have been very different, the countries were not fundamentally different at the outset of their reform periods, or in the final objective of reform. The most likely explanation of the dramatic dissimilarity in the results of reform is the differences in approach. Therefore, this paper describes the approach of China's economic reform and explore its implications for other economies undergoing reform or adjustment.

II. Leap Forward Strategy and the Traditional Economic System

At the founding of the PRC in 1949, the Chinese government inherited a war-torn agrarian economy in which 89.4 percent of the population resided in rural areas and industry consisted of only 12.6 percent of the national income. At that time, a developed heavy-industry sector was the symbol of the nation's power and economic achievement. Like government leaders in India and in many other newly independent developing countries, Chinese leaders had the motivation of accelerating the development of heavy industries. After China's involvement in the Korean War in 1950, with its resulting embargo and isolation from Western nations, catching up to the industrialized powers also became a necessity of national security. In addition, the Soviet Union's outstanding record of nation building in the 1930s, in contrast to that of the Great Depression in Western market economies, provided the Chinese leadership with both inspiration and experience for adopting a heavy- industry-oriented development strategy. Therefore, after recovering from wartime destruction in 1952, the Chinese government set heavy industry as the priority sector of economic development. The goal was to build, as rapidly as possible, the country's capacity to produce capital goods and military materials. This development strategy was implemented through a series of Five-Year Plans.

Heavy industry is a capital-intensive sector. The construction of a heavy industry project has three characteristics: (1) it requires long gestation; (2) most equipment for a project, at least in the initial stage, needs to be imported from more advanced economies; and (3) each project requires a large lump-sum investment. When the Chinese government initiated that strategy in the early 1950s, the Chinese economy had three characteristics: (1) capital was limited and the market interest rate was high; (2) foreign exchange was scarce and expensive because exportable goods were limited and primarily consisted of low-priced agricultural products; and (3) the economic surplus was small and scattered due to the nature of a poor agrarian economy. Because these characteristics of the Chinese economy were mismatched with the three characteristics of heavy industry projects, spontaneous development of capital-intensive industry in the economy was impossible. Therefore, a set of distorted macro-policies was required for the implementation of the strategy.

At the beginning of the First Five-Year Plan, the government instituted a policies that depressed interest rate and overvalued exchange rate and distorted input prices--including nominal wage rate for workers and prices for raw materials, energy, and transportation--to reduce the cost for development of heavy industry sector. The low interest rates, overvalued exchange rates, and low prices for investment products and living necessities constituted the basic macro-policy environment under which the heavy-industry-oriented development strategy was implemented.

This macro-policy induced a total imbalance in the supply of and demand for credit, foreign exchange, raw materials, and living necessities. Because non-priority sectors would compete with the priority sector for low-priced resources, a highly centralized resource allocation system was then formed, ensuring that limited resources would be used for the targeted projects. As a result, the state monopolized banks, foreign trade, and material distribution systems.

The development strategy and resulting policy environment and allocation system also shaped the evolution of enterprise and farming institutions. The basic purpose of the macro-policies was to maximize mobilization of scarce resources. To secure cheap supplies of farm products, and to control over the surplus of agriculture, a People's Commune system was established. Meanwhile, private enterprises were nationalized and newly formed key enterprises were owned by the state to secure the state's control over profits for heavy industry projects.

From the formation process of China's traditional economic system, one can clearly see that the historical and logical sequence of events runs from the choice of the heavy industry-oriented development strategy to the formation of the product-and-factor-price-distorted macro-policy environment, the highly centralized planned resource allocation mechanism, and finally to the puppet-like micro-management institution. The institutional choices reflected a fundamental economic rationality arising from the attempt to accelerate the development of capital-intensive industry in a capital-scarce agrarian economy.

China was not alone in choosing such an economic system. Similar institutional arrangements can be found in other countries when they adopted similar development strategies. After World War II, many socialist countries and newly independent developing countries, which are currently undergoing economic reform or adjustment, adopted a development strategy similar to China's, and their economic systems have features similar to China's. Apart from the several reasons discussed previously for China's selection of the strategy, there is a number of common theoretical and practical reasons that contributed to its widespread selection.

First to play a part in the selection of such a development strategy was the strong desire of governments in those counties to catch up with and overtake advanced economies. After World War II, a large number of colonial or semi-colonial countries became politically independent. The question of how to independently develop their economies so as to achieve rapid economic growth and eliminate poverty and backwardness was as urgent one for every national government. At that time, however, developing countries lagged far behind advanced ones in the areas of economic and social development. Compared with advanced countries, these developing countries had an extremely low economic growth rate and per capita GNP, high birth and death rates, a low educational level, an insufficient number of capable managers, and a rigid political system. For the purpose of changing these conditions quickly, a large number of developing countries had a strong desire to pursue a path of rapid industrialization.

The radical view of economic development in developing countries also affected their development strategies. Most developing countries were used to being colonies or semi-colonies. Their leaders were influenced by the views held by radical economists at that time. They believed that the market system would lead to serious polarization of their economies and to economic backwardness, and that foreign trade would result in the loss of cheap valuable resources. Based on these assumptions, they expected that the terms of trade for the primary products which constituted their major exports would deteriorate continuously. Therefore, national leaders and economists in developing countries tended to think that under the very unbalanced economic conditions of the world, development and non-development were two sides of the same coin. If developing countries did not establish their own independent industrial systems, but merely depended on the export of primary products, they would be on the long-term peripheries of advanced economies and would remain in a state of backwardness (Frank et al., 1984).

The idea prevalent in development economics at the time advocated government intervention for developing economies. This view, which was born in countries with advanced economies, also had an important impact on developing countries' choice of a development strategy. Under the influence of Keynesian economics, mainstream development economics at that time held that the market contained insurmountable defects and that the government was a powerful means which could be used to supplement it and accelerate the pace of economic development (Lal, 1985). Looking at developing countries' realities from the viewpoint of development economics, many economists opposed conventional economics; emphasized market imperfection in developing countries, despite the role of the market and price mechanism; and advocated the implementation of centralized and detailed planned management so that the national economy could operate smoothly and reasonably. Because of academic exchanges, the hiring of economists from developed counties as economic advisers to developing countries, and the participation of international organizations such as the World Bank in the formation of development policies in developing countries, this tendency greatly affected the choice of development strategies in the developing countries, which had only begun to construct their own economies independently.

Because of the influence of the above-mentioned common ideas on the choice of development strategy, and the impact of the development strategy on the formation of the macro-policy environment, resource-allocation mechanism, and micro-management institution, many developing countries -- whether they were socialist countries such as China, countries of former Soviet Union and Eastern European countries, or non-socialist developing countries in Asia, and Central and South America -- had a roughly similar trinity within their traditional economic systems.

First of all, the logical starting point for such an economic system was the choice of the leap forward development strategy. China, India, and former Soviet Union were typical nations which chose the heavy industry-oriented development strategy. Some developing countries, notably those in Central and South America, called their economic strategy the import substitution strategy. The heavy industry-oriented strategy and the import substitution strategy are in essence the same. Here, we call both leap forward strategy.

Second, the core of this economic system was the price-distorted macro-policy environment, which usually included suppression of the interest rate, exchange rate, raw material's prices, agricultural prices and so on.

Lastly, the economic system required the use of various regulations, as well as different types of discrimination and protection, to replace the function of market and price mechanism. Those measures carried out the distortion policies included: (1) the nationalization or pursuance of an exceedingly high proportion of state-owned enterprises to control the lifeline of the economy; (2) the government's involvement in the allocation of scarce resources, monopolization of trade, and support of infant industries by establishing an industrial protection system and erecting entry barriers; (3) the adoption of financial suppression, including setting up credit ceilings and restricting financial activities, so as to give the strategically important priority industries preferential credit conditions, and (4) the adoption of an urban-biased social welfare policy to encourage industrial development.

The above discussion shows that the traditional economic system as a result of the leap forward type of development strategy was not unique to China. It is due to this fact that the analysis of the formation, consequences and reform process of China's traditional economic system has useful implications for other nations which adopted development strategies similar to China's and are undergoing their transitional processes.

III. Process and Logic of China's Economic Reform

Judging from China's sector composition, the trinity of the traditional economic system reached its intended goal of accelerating the development of heavy industry. In the entire pre-reform period, heavy industry received a lion's share of the state's investments. As a result, the value of heavy industry in the combined total value of agriculture and industry grew from 15 percent in 1952 to about 40 percent in the 1970s (SSB, 1989). However, China paid a high price for such an achievement. The economy is very inefficient because of (1) low allocative efficiency, due to the deviation of the industrial structure from the pattern dictated by the comparative advantages of the economy, and (2) low technical efficiency, resulting from manager's and worker's low incentives to work (Lin et al., 1996b). This taught China's leaders that the prevailing economic theories and practices in China would not lead to its development. In order to develop the economy, it was imperative to carry out a reform that would change some fundamental aspects of the traditional economic system.

There are political reasons behind China's attempt to implement a reform to build its economy. First, pursuing the heavy industry-oriented development strategy did not achieved the hoped for results. Under this strategy, the gap between China and developed countries widened. The income level of the population remained low. Daily necessities were in serious shortage, and several hundred million peasants still lived under the threat of starvation. After the Cultural Revolution, the national economy was on the verge of collapse. Second, while China struggled, neighboring economies, especially the astonishing four Little Dragons, which originally had the same prospects for development as China, developed rapidly. The difference in the level of development between China and these economies increased. Third, when the new leadership resumed power after purging the Gang of Four, who were the hand-picked successors of Chairman Mao, they hoped to offer people a better life so they could strengthen the legitimacy of their leadership position. Lastly, the problems with the distorted macro-policy environment, planned-resource allocation mechanism, and puppet-like micro-management mechanism became increasingly apparent as time went by. The opportunity costs of giving up the traditional economic system became lower and lower.

It is unlikely that China's leaders had worked out a blueprint when they set out to reform the economic system (Perkins, 1988). However, retrospectively, China's transition followed a logical process that is predictable from the logic which formation of traditional economic system followed. The trinity of the traditional economic system is endogenous to the adoption of a heavy industry-oriented strategy in a capital-scarce economy. The main fault in the economic system was low economic efficiency arising from structural imbalance and incentive problems. Before the late 1970s, the government had made several attempts to address these problems by decentralizing the resource-allocative mechanism. However, the administrative nature of the allocative mechanism was not changed and the policy environment and managerial system were not altered; thus, the attempts to rectify the structural imbalance and improve economic incentives failed. What set the reform started in 1978 apart from previous attempts were the micro-management system reforms that made farmers and managers and workers in state enterprises partial residual claimants. That small crack in the trinity of the traditional economic system was eventually pried open, leading to the gradual dismantlement of the traditional system.

The most important change in the micro-management institution was the replacement of collective farming with a household-based system, now known as the household responsibility system. In the beginning, the government had not intended to change the farming institutions. Although it had been recognized in 1978 that solving managerial problems within the collective system was the key to improving farmers' incentive, the official position at that time was still that the collective was to remain the basic unit of agricultural production. Nevertheless, a small number of collectives, first secretly and later with the blessing of local authorities, began to try out a system of leasing a collective's land and dividing the obligatory procurement quotas to individual households in the collective. A year later those collectives brought out yields far larger than those of other teams. The central authority later conceded the existence of the new form of farming, but required that it be restricted to poor agricultural regions, mainly to hilly or mountainous areas, and to poor collectives in which people had lost confidence in the collective system. However, this restriction was ignored in most regions. Production improved after a collective adopted the new system, regardless of its relative wealth or poverty.

Full official recognition of the household responsibility system as a nationally acceptable farming institution was eventually given in late 1981. By that time, 45 percent of the collectives had already been dismantled and had instituted the household responsibility system. By the end of 1983, 98 percent of agricultural collectives in China had adopted the new system. When the household responsibility system first appeared, the land lease was only one to three years. The short lease reduced farmers' incentives for land-improvement investment. The lease contract was allowed to be extended up to 15 years in 1984. In 1993, the government allowed the lease contract to be extended for another 30 years after the expiration of the first contract.

Unlike the spontaneous nature of farming institution reform, the reform in the micro-management institution of the state enterprises was initiated by the government. Those reforms have undergone four stages. The first stage (1979-83) emphasized several important experimental initiatives that were intended to enlarge enterprise autonomy and expand the role of financial incentives within the traditional system. The measures included the introduction of profit retention and performance-related bonuses and permitted the enterprises to produce outside the mandatory state plan. The enterprises involved in exports also wee allowed to retain part of their foreign exchange earnings for use at their own discretion. In the second stage (1984-86), the emphasis shifted to a formalization of the financial obligations of the state enterprises to the government and exposed enterprises to market influences. From 1983, profit remittances to the government were replaced by a profit tax. In 1984, the government allowed enterprises to sell output in excess of quotas at negotiated prices and to plan their output accordingly, thus establishing the dual-track price system. During the third stage (1987-92), the contract responsibility system, which attempted to clarify the authority and responsibilities of enterprise managers, was formalized and widely adopted. The last stage (1993- present) attempted to introduce the modern corporate system to the state enterprises. In each stage of the reform, the government's intervention was reduced further and the enterprises gained more autonomy.

The increase in enterprise autonomy put pressure on the planned distribution system. Because the state enterprises were allowed to produce outside the mandatory plans, the enterprises needed to obtain additional inputs and to sell the extra output outside the planned distribution system. Under pressure from the enterprises, material supplies were progressively delinked from the plan, and retail commerce was gradually deregulated. At the beginning, certain key inputs remained controlled. However, the controlled items were increasingly reduced. Centralized credit rationing was also delegated to local banks at the end of 1984.

An unexpected effect of the relaxation of the resource allocation system was the rapid growth of the nonstate sector, especially the township and village enterprises. It has been recognized that the reforms in the system of micro-management in both agriculture and industry have created a flow of new resources which turned out another condition causing development of nonstate sector. The share of industrial output from nonstate enterprises increased from 22.4 percent in 1978 to 71.2 percent in 1996 (SSB, 1997).

Consequently, the rapid entry of nonstate enterprises produced two effects on the reforms. First, nonstate enterprises were the product of markets. Being outsiders to the traditional economic system, nonstate enterprises had to obtain energy and raw materials from competitive markets, and their products could be sold only to markets. They had budget constraints and would not survive if their management was poor. Their employees did not have an "iron rice bowl" and could be fired. As a result, the nonstate enterprises were more productive than the state enterprises, as the comparisons of output growth and total factor productivity growth between the state and collective sectors show (World Bank, 1992). Second, the development of nonstate sector significantly rectified the misallocation of resources. In most cases, nonstate enterprises had to pay market prices for their inputs, and their products were sold at market prices. The use of market prices induced most nonstate enterprises to adopt labor-intensive technology to concentrate on labor intensive small industries. Therefore, the technological structure of nonstate sector was consistent with the comparative advantages of China's endowments. The entry of the new sector mitigated the structural imbalance caused by the heavy industry-oriented strategy.

Changes in the macro-policy environment started in the commodity price system. After the introduction of profit retention, the enterprises were allowed to produce outside the mandatory plan. The enterprises first used an informal barter system to obtain the outside-plan inputs and to sell the outside-plan products at premium prices. In the mid 1980s,, the government introduced the dual-track price system, which allowed the state enterprises to sell their output in excess of quotas at market prices and to plan their production accordingly. The aim of the dual-track price system was to reduce the marginal price distortion in the state enterprises' production decisions while leaving the state a measure of control over material allocation. By 1994 only 7.2 percent of retail sales were made at plan prices (Guo, 1995). Which shows that a market mechanism in determining commodity prices plays a dominant role.

The second major change in the macro-policy environment occurred in the foreign exchange rate policy. A dual rate system was adopted at the beginning of 1981. After 1985, Chinese currency was gradually devalued. Meanwhile, "foreign exchanges adjustment centers" were established in most provinces in China and more than 80 percent of foreign exchange earnings was swapped in such centers. While the difference between swapped and official determined rates were becoming smaller and smaller, the climax of foreign exchange rate policy reform was made on January 1, 1994, establishing a managed floating system and unifying the dual rate system.

Among the trinity of the traditional economic system, the distorted macro-policy environment, especially the interest rate policy, was linked most closely to the development strategy. Therefore, the reform in this area appeared most difficult one. Interest-rate policy is the least affected area of the traditional macro-policy environment. Although the government have been forced to raise both the loan rates and the savings rates several times, the rates are now maintained at levels far bellow the market rates. Nowadays, the state banks are being commercialized, and there have appeared several newly formed banks. However, the mentality of the leap forward strategy is deeply rooted in the mind of China's policy makers. It is likely that administrative interventions in the financial market will linger for an extended period.

This is how China's incremental reform has proceeded. The reform is irreversible because it started with a change in the micro-management institution. Power and benefits given to enterprises, workers, and farmers cannot be taken away again. Therefore, when the inconsistency within the trinity of economic system began to cause serious economic problems, the reform was eventually carried out in such a way that the resource allocation mechanism and the macro-policy environment were made to adapt to the liberalized micro-management institutions in spite of government reluctance. Reform has proceeded in a logically consistent manner, despite ups and downs. This fundamentally due to the fact that the root of every economic problem the reform attempted to solve possessed an economic logic of its own. After thoroughly analyzing and summarizing China's reform process, one shall be surprised to discover a splendid blueprint underneath the incremental transition to a market economy.

IV. What Can We Learn from China's Experiences?

In contrast to the kind of radical all-encompassing economic reform opted for by many former central-planning economies and developing countries (the most common type being the shock therapy approach adopted by Poland and Russia), China has taken an incremental reform approach. It has been proved that China's reforms have been more successful than the reforms in other countries in transition. If China's success was mainly the result of her unique initial conditions, such as a large agricultural sector or relatively decentralized regional economic structure (for instance, see Sachs and Woo, 1993; Qian and Xu, 1993), then that success does not have any implications for other economies, where the initial conditions may be different. However, as discussed previously, most countries that have implemented reform measures have adopted a leap forward strategy and put into place price-distorting macro-policy environment, a highly centralized planned resource-allocation mechanism and a micro-management institution devoid of autonomy, just as China did. All these countries have felt pressures to improve the micro-incentive and managerial efficiency, and have experienced an urgent need to correct the distorted industrial structure or to develop suppressed industrial sectors, as well as for the price signals needed to carry out such efforts. China's incremental reform process has been quite successful in its initial attempts to accomplish these goals. Thus it should be useful to other counties in the process of implementing reform measures to draw some lessons from China's experience both of success and unsuccess.

1. Gradualism and a Pareto improvement

The Big Bang approach begins with price reform and reallocation of the existing stock of assets instead of reforming the micro-management institution so as to create new stream of resources. Therefore, that approach is, of necessity, a non-Pareto improvement and a non-Kaldor improvement. [2] China's reform that starts with the micro-management institution, that is, which improves the incentive mechanism and efficiency by delegating autonomy to and sharing profits with micro units, can accelerate the growth of new resources and enable the state, enterprises and workers to increase income without harming anyone. Such a reform is a Pareto improvement. The first stage of reform in China has resulted in a rapid increase in social wealth which has helped boost the economy's capacity for compensation during the reform process, thus creating the conditions necessary for the reform of macro-policy environment and making it possible for the next stage of reform to assume the nature of a Kaldor improvement. Such a reform

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[2] " Pareto improvement " refers to a change that will benefit at least one person without hurting anyone else. " Kaldor improvement " refers to a change that will make the number of beneficiaries so much greater than the number of non-beneficiaries that it is possible for beneficiaries to compensate for non-beneficiaries so that the latter will not suffer. See Kaldor (1939).

is bound to gain their support, thus avoiding the social shock which could possibly be caused by the reform of the non-Pareto improvement or non-Kaldor improvement type.

The lack of autonomy and incentives in the micro-management institution is common among all countries that have adopted the leap forward strategy. Although suppressed sectors differ from country to country depending on each country's development stage and resource endowment, these sectors still have something in common. First, they had relatively high price levels. Second, there was a serious shortage of supply. Third, the cost of entry was low. Because of this, any country who has adopted traditional economic system has chance to expand its suppressed sectors while not resulting in a decline in the priority sectors because the expansion of the suppressed sectors was supported by a new stream of resources. And a higher growth rate could be reached because the new stream of resources was allocated to the more efficient sectors.

2. Intrinsic logic and irreversibility of the reform

As can be seen, a trinity of traditional economic system is endogenously formed, with a high degree of intrinsic unity, inseparability among different components, and adaptability of each component to the whole system. Because of these characteristics, inconsistency of reform measures could result in a cyclic pattern of growth, while a sound approach of reform would make the reform process irreversible.

Because reforms in macro-policies, especially those regarding the interest rate, lagged behind the reforms in the allocation system and micro-management institutions, there were several economic consequences. The first one was the recurrence of a growth cycle. Maintaining the interest rate at an artificially low level gave enterprises an incentive to obtain more credits than the supply permitted. Before the reforms, the excess demands for credit were suppressed by restrictive central rationing. The delegation of credit approval authority to local banks in the autumn of 1984 resulted in a rapid expansion of credits and an investment thrust. As a result, the money supply increased 49.7 percent in 1984 compared with its level in 1983. The inflation rate jumped from less than 3 percent in the previous years to 8.8 percent in 1985. In 1988 the government's attempt to liberalize price control caused a high inflation expectation. The interest rate for savings was not adjusted. Therefore, panic buying and a mini-bank run occurred. Loans, however, were maintained at the previously set level. As a consequence, the money supply increased by 47 percent in 1988. The inflation rate in 1988 reached 18 percent. During the periods of high inflation, the economy overheated. A bottleneck in transportation, energy, and the supply of construction materials appeared. Because the government was reluctant to increase the interest rate as a way of checking the investment thrust, it had to resort to centralized rationing of credits and direct control of investment projects -- a return to the planned system. The rationing and controls gave the state sectors a priority position. The pressure of inflation was reduced, but slower growth followed.

Although the reforms in the micro-management institution improved the productivity of the state sector, deficits increased due to a faster increase of wages and welfare as a result of the discretionary behavior of the managers and workers in the state enterprises. Therefore, fiscal income increasingly depended on the nonstate sectors. During the period of tightening state control, the growth rates of the nonstate sectors declined because access to credits and raw materials were restricted. Such a slowdown in the growth rate became fiscally unbearable. Therefore, the state was forced to liberalize the administrative controls to make room for the growth of the nonstate sectors. A period of faster growth followed. Nevertheless, conflicts arose again between the distorted macro-policy environment and the liberalized allocation mechanism and micro-management institution.

While meeting the problems caused by reform inconsistency, the government had to choose between options in order to maintain the integrity of the economic system. One was to take away the autonomy delegated to micro-management units so that they would be consistent with the macro-policy environment. The other was to deepen reforms to include the macro-policy environment in order to enable the economic system to achieve a new internal consistency on the basis of a market economy. The government, on many occasions, chose the first option, but for two reasons this neither achieved the hoped for result nor could it be sustained. First, the reform of the micro-management institution enabled state enterprises, peasants and nonstate sectors to acquire autonomy and economic interests, to varying degrees, thus becoming the beneficiaries of reforms. Depriving them of this autonomy hurt their interests, thus arousing their active or passive resistance. Second, the reform of micro-management institution brought about impressive gains in the allocation of newly acquired resources. In this sense, the state was also a beneficiary of the reform. When state enterprises were stripped of their autonomy once again, and when the development of township and village enterprises was contained, economic growth slowed dramatically and the state's financial revenue dwindled. This forced the state to decentralize once again, and to take a step forward in the reform of the macro-policy environment in order to make the economic system internally consistent. It is thus that China's reform has proceeded. Although repeated setbacks have halted progress for brief periods, the general direction of the reform is irreversible.

3. Crossing a chasm in two steps

Price distortion is the major defect of the traditional economic systems of all countries undergoing reform. No matter which reform approach was adopted and how the reform schedule was drafted, price reform or the reform of the macro-policy environment had occurred sooner or later. Under the shock therapy reform method adopted by Eastern European countries and the former Soviet Union, prices were usually completely liberalized in a single step. The reasoning behind this approach was that a person cannot cross a chasm in two steps. In other words, the price signal either had to be distorted, or it had to truly reflect supply and demand and the relative scarcity of resources. There could be no in-between. Multiple prices would necessarily lead to multiple rules and multiple behavioral modes. It was therefore necessary to cross the chasm in just one step.

However, price-distorting macro-policy environment produce corresponding vested interest groups. To liberalize prices in one step is very risky. In other words, if the gap between the distorted price and market price is so great that crossing it in one step is impossible, there is the danger of falling into the chasm.

The risk arises from two sources. First, vested interest groups can oppose the reform. In China, large and medium-sized state enterprises were the beneficiaries of low factors prices and low-priced energy and raw materials. Therefore, they were the potential opponents of price reform. Since the leaders of large and medium-sized state enterprises had close relationships with government officials, and because they hired large quantities of workers, they had strong resistance power. Urban residents were the beneficiaries of low-priced consumption goods. They also had close relationships with government officials. It was cheaper for them to organize, and easier for them to form groups to oppose the reform. If the losses felt by these two interest groups were great enough, and if compensation was impossible, price reform could not be implemented successfully. Second, price reform can lead to a slowdown in economic growth, or even to an economic decline. The correction of price signals will undoubtedly induce enterprises to eventually become more competitive and the resulting production structure will conform more closely to the economy's comparative advantage. However, under the traditional system, the distortion in production structure is directly related to price distortion. After the prices are relaxed, the structural adjustment necessarily involves the reallocation of the existing stock of assets and resources, thus the J-shaped economic growth curve which first drops and later rises, or even the L-shaped long-term recession curve, results.

China's price reform adopted the dual-track transition approach of adjusting plan prices and allowing market prices to emerge alongside with them. First, reform of micro-management institution gave enterprises opportunities to appropriate a portion of the newly created resources. Correspondingly, the enterprises demanded the right to allocate resources under their control according to market price signals instead of through administrative plans. Thus the dual-track resource allocation mechanism and price system were formed. Owing to the practice of selling products at high prices if production used high-priced inputs and selling products at low prices if production used low-priced inputs, enterprises did not oppose the resource-allocation system outside the plan, or the introduction of market prices. Legitimization of market prices provided reference and demand for the adjustment of planned prices. Therefore, adjustments in plan prices could be carried out to the extent and using the method (for example by subsidizing) acceptable to the enterprises. Since the rapid economic growth was mainly attributable to nonstate enterprises outside the planning system, the scope and quantity of production governed by market prices were expanding. In fact, if the scope and quantity of production governed by the plan prices had remained unchanged, or even if they had increased, the influence of the plan mechanism on economic operation would have shrunk as its share became smaller and smaller. In addition, through incremental adjustment, the difference between planned prices and market prices was greatly reduced, and the resultant rent created by low plan price was smaller. At this point, the chasm had nearly been bridged; it was almost completely safe to cross it. Thus, although reform of the macro-policy environment in China lagged behind the reform of micro-management institution and resource-allocation mechanism, the reform was less risky and less costly. The method used shows that, at least in this particular case, crossing a chasm in two steps is possible, after all.[3]

V. Conclusion

We are now in the position to summarize the answer to the questions raised in the Introduction of the paper. The root cause of China's slow development before the introduction of reform is the adoption of a heavy industry-oriented development strategy in a capital-scarce economy, and the key to the rapid economic growth after reform was introduced lies in the reform of the trinity of the traditional economic system, which has resulted in a better use of China's comparative advantages. The experience of other former central planned economies and developing countries also shows that all those countries which have opted for the leap forward strategy, suffer from inefficiency and unsatisfactory economic performances; and all economies that have relied on the market mechanism to exploit their own comparative advantages are operating efficiently and have achieved rapid economic growth. The core of successful economic reform , in the final analysis, is the shift of development strategy.

China's economic reform is far from complete. It still faces a series of dilemmas. A boom and bust cycle appeared during the post-reform period. The reason is that the reform of some of the institutional arrangements but not others has caused incompatibility among the various institutional arrangements within the economy. The key to eliminating the cycle lies in extending the reform to the macro-policy environment and abandoning once and for all the leap forward development strategy. In spite of various snags and setbacks, China's reform has proceeded steadily, and its ultimate goal is becoming more evident. As long as the orientation of reform remains correct, the difficulties on the path to reform can be overcome. Successful reforms will effectively support sustainable and rapid economic growth.

In contrast to the Eastern European countries and the former Soviet Union, which adopted the shock therapy approach, China has chosen incremental reform. Certainly, stages of development, endowment structure, political systems, and cultural heritage differ from one economy to another. To be effective, actual reform measures should take the economy's initial conditions into consideration and exploit all favorable internal and external factors. However, in addition to the general advice of maintaining economic and political stability and moving the reforms in a path-dependent manner, the following lessons may be useful for a government attempting reforms in an economic system similar to that of prereform China: (1) grant autonomy to the micro-management unit to improve the incentive structure and to create a new stream of resources by improving

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[3] Comparing two phrases, which represent two different philosophies and approaches of reform, would be interesting. One is well captured by the assertion of President Havel of the Czech Republic that " it is impossible to cross a chasm in two leaps ". Another is former Chinese leader Deng's -- " felling the stones to cross the river " (The World Bank, 1996b).

productivity; (2) Allow the new stream of resources to be allocated by the autonomous enterprises outside the plan and at market prices to the suppressed sectors while maintaining the survival of the old priority sectors with the resources still under the state's plan control, and (3) liberalize the distorted policy environment and planned allocation system to make them consistent with the autonomous micro-management system when the new stream of resources allocated under the market outweighs the stream of resources allocated under the plan.

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