Chapter III

State and Patterns of Globalisation in Egypt and India

The impact of globalisation on the role of State in national economy and social sector is a major theme of debate in the contemporary world. It is observed that world is undergoing a process of growing interconnectedness. It is an agreeable fact that States are not individual actors in the present international system and therefore, no State is naturally protected from the pros and cons of the globalisation process. The need for interdependence in a highly integrated global economy virtually makes it impossible for any country to keep itself away from the process of globalisation. The intensification of trans-border relations has catapulted international relations to a post-national arena by redefining the relationship between state and economy. That is, with the acceleration of globalisation a new environment has been created in the global level wherein State action cannot be restricted within the domestic sphere. It affects the historical role of State in shaping the character of national economy and society.

This chapter examines how globalisation has altered the traditional understanding of state sovereignty on the one hand and States’ response to globalisation on the other. The process of globalisation has clearly diminished the role of State in social development and economic planning in the developing countries that includes Egypt and India. Through the study of the emerging patterns of social development, this chapter explains how neo-liberal agencies intruded into the state power in Egypt and India through new policies and programmes like social capital, those that are designed within the framework of Washington Consensus and Post Washington Consensus. It also discusses how far the structure of a state can sway the new development policies, which are largely similar for every state.

I Introduction

Globalisation is a process of making the world a single shared space that link people separated by time and space. It has challenged the dominant conceptions of political space in International Relations by rewriting the traditional notions of cross-border relations and has facilitated more extensive and open border relations among States.
At a basic level, it promotes a mutual restructuring of state and international system (Clark 2001: 31). According to Giddens (1990), the diminishing distance between time and space has expanded interconnectedness through de-territorialisation and disembeddedness and has lifted the social relations out of local contexts.

Globalisation communicates multiplicity of linkages and interconnections across borders and grow above the nation States (Held and McGrew 1992: 65). It also signifies the increasing volume of goods, services, capital, communications and people flowing across national boundaries. Massive increase in capital flows across the boundaries of States in the form of Foreign Direct Investment (FDI) should get primary attention in any attempt to figure out the patterns of globalisation (Hurst and Thompson 1996).

The corresponding development of global circumstances such as the homogenizing capacity of information technology and integrative force of market capitalism together with power of machines like computers or Wireless Application Protocol (WAP) phones in fact contributed much to condense the sense of time and space among people and communities. That globalisation visualises such a dramatic condensation of time-space quotient is then implicit in its processes (Harvey 1989). This has created a 'pluralistic totality' in the global sphere (Axford 2002: 540).

While discussing the patterns of globalisation, Appadurai (1990) highlights the various aspects of the development and functioning of different global scapes that characterise the globalisation phenomenon in life. The first among these is the ethnoscapes where tourists, migrants and refugees negotiate to alter the world around them. The second, techno-scapes, show an increasingly indifferent attitude to conventional boundaries both in production of goods and delivery of services. The third, finance-scapes develop and spread new kind of institutions like money markets and portfolio investments across boundaries. The fourth, media-scapes, engage with dissemination of information through communication technology. The global distribution of media images that appears on our computer screens, newspapers, television, and radio denote this. Finally, the Ideo-scapes blow up a world of new political ideas. Precisely, each of these scapes reflects various aspects of globalisation such as diminishing
nationality, marginalisation of State and lessening state control over socio-economic activities even at the domestic level.

The debate on globalisation and state is developed in a context, which has two seemingly contradictory elements in it. Historically, State is identified as a social system with a set of rules enforced by a permanent administrative body within a clearly demarcated geographical space (Chirot 1977: 427). However, globalisation has developed a condition in which the forms of social organisation go beyond nation-states. Consequently, the people are increasingly sharing problems and collectively facing issues that do not abide by nation-state borders.

The observations made by classical thinkers like Marx (1979) and Weber are relevant while we analyse state and patterns of globalisation in the developing countries. For Marx, political power is not autonomous: rather it is part of an economic power. According to the classical Marxist understanding, the State, represented by ruling class, invariably betrays its own citizens and ally with multinational capital. Contradictory to this, Weber argued that, political sphere is autonomous in its relation to economy. Weber considered state formation as one of the most important prerequisites for economic development. However, as Fine (2001: 472) observed, the correlation between economic and political developments has much significance in any attempt to understand the patterns of globalisation.

As far as the nature of debates on State and economy is concerned, the predominant dependency paradigm of late 1960s and 1970s was gradually sidelined by the advocates of liberalism and neo-liberalism (by 1980s and 1990s) in favour of a liberal/free market economy (El-Laithy 2002: 321; Amin 1997). Subsequently, such a perception has strengthened in development thinking that an active process is going on which generates irreversible change from limited development to more development (Fine 2001: 430). The advocates of this new paradigm indeed projected poor resource allocation as the fundamental reason for underdevelopment in most of the developing states. In their opinion, the incorrect pricing policies of the developing States are responsible for underdevelopment. The IMF and World Bank packages for

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1 For Marx, the State is not a neutral institution and the class relations fundamentally determine the character of state apparatus.
socio-economic development have recommended privatisation of public assets and services as the remedy.

In this background, one can observe that the distinction between domestic economic activity and worldwide economic activity is becoming increasingly difficult to sustain. The global financial integration as well as the activities of MNCs integrates national and local economies into regional and global production networks (Patnaik 1995; Ohame 1990; Keohane 2002). The national borders are no longer significant barriers to the conduct and organisation of economic activity. Under these circumstances, national economies can no longer function as autonomous systems of wealth creation. In particular, how far the State can organise its social activities in a highly integrated, market dominated world economic system attracts prime attention.

i 1. Origin and development of modern State system: An overview

The origin and development of State was a major concern of social scientists ever since academic enquiry has developed. Several contradictory arguments and theories on State are offered in this connection. A few of them argued that States are not simply the product of modernity: others tried to establish that the development of State is embryonic to modernity. Anyhow, whether that is in the ancient city-states in Greece, medieval city-states in Italy, big empires that spread across continents or modern nation-states in Western Europe, the interaction between states is a historic reality ever since the political power was consolidated territorially (Hall 1986).

A historical analysis would definitely outline how, after the collapse of Roman Empire, a highly decentralised feudal system in Europe had facilitated the modern nation-state formation in Europe. In fact, we shall see the roots of a flourishing bourgeoisie in the 12th century AD and more alliances between bourgeois grouping and royal courts subsequently. The considerable autonomy that land lords enjoyed against their monarchs or emperors as well as their absolute control over serfs had formed an appropriate climate for the creation of nation-states throughout the 12th and 17th centuries.

2 For a detailed debate on this, see John Allen Hall (1986)
The emergence of nation-states in Europe is commonly seen as dependent on three connected processes of centralisation: the emergence of supra-local identities and cultures (the 'nation'); the rise of powerful and authoritative institutions within the public domain (the 'State'), and the development of particular ways of organizing production and consumption (the 'economy') (Der Veer 1998). This centralisation of power by local feudal lords gradually led to the creation of small independent territories within the empires and that later transformed to nation states.

In addition to this, the demographic fluctuations as well as the gradual emergence of an economy based on industry, trade and commerce had made significant changes in the class equations. The growing influence of the commercial middle class in fact further contributed to the development of sovereign powers (Fine 2001: 437). By the mid 18th century, a different type of nationalism emerged that led to colonialism and anti-colonial struggles, which later culminated in the formation of independent States in the world outside Europe.

Two fundamental transformations - the formation of territorially bound political communities and the development of modern nation-states - had played a major role in shaping the structure of contemporary political life. Though the second did not substitute the first in all respects, it has led to a break in the special link between geography and political power. In connection with this; a remarkable transnationalisation of political activity has originated. Though it includes both international and transnational connections, a clear shift is observable in the frame of reference from the national, international and trans-national to the global (Hoogvelt 2004: 259). The environmental issues which needs a global strategy to address and economic pressures has further contributed to it since it expanded governance structure to the global level. In short, the inter-wave of the domestic and external realms of States weakened its sovereign capacity to decide the destiny of the people within their borders.3

One major characteristic of the postcolonial States was that it was a group of weak States with disproportionately intense tasks, which they were not able to handle.

3 It is significant because the cross border relationships have always had a tendency to evade geopolitical boundaries of States.
Similarly, the demands faced by the postcolonial governments in developing countries were heavier (Fine 2001: 426). However, their over enthusiasm in consolidating power within the State framework had forced them to go ahead with such weighty tasks. During the 19th century, the role of developed states was just the role of an observer where they engaged in such tasks as maintenance of law and order, protection of private property, defence, etc.4

i 2. State formation and developing countries

The origin of modern state system in the developing countries needs a reference in this connection. The inter-link between colonialism and border demarcation is one of the special characteristics of state formation in the developing countries. India was a hotchpotch of principalities in the colonial period (Chandra 2000). History reveals that it is the British who had integrated Indian state as it exist today because, the reaction to colonial policies had formed mass mobilisation that had ultimately led to the formation of a national sentiment among the people. Similarly, one can easily identify the significance of European penetration that had played a major role in the state formation in West Asia (Owen 1992; Bromley 1999; Harik 1991). The British paved the foundation of modern Egyptian state as well. What is common in both the States is that the institution of State that exists now have been imposed from outside.

Egypt and other states in West Asia are characterised by the lack of mass movement and political participation and the elitist character of the State over masses that became common aspects of state formation. Economic production and surplus accumulation are two closely related phenomenon that have a major role in the state formation and consolidation of state as a political entity (Bromley 1999). In fact, the massive revenue from oil and the monopoly of state/ruling elites over petroleum industry have strengthened the regimes in the region. It also guided the rulers to develop a rentier economy where State is independent in economic activities (Pant 1996; Owen 1992). Thus, the political system in the region has survived without popular consent and any popular challenge.

4 It is interesting to note that the same role is proposed for States of the developing countries in 1990s by imposing policies over them that considerably reduce the authority of States in financial matters.
The above-mentioned aspects are more or less true in the case of the development of the postcolonial state of Egypt. However, the economic crisis in the second half of 1980s seriously challenged the legitimacy of the regime. The new economic reforms and the withdrawal of State from social sector further deepened this challenge to the legitimacy of the state. In the political sphere of Arab world, this legitimacy crisis pushed the democratisation debates forward, but to a limited extent.

Shifting understandings on the role of state in the economic development is also a matter of concern in the context of globalisation (Fine 2001: 462). Shortage of entrepreneurship in the private sector was a common phenomenon and a major predicament in the postcolonial states during the initial years of independence. State had to compensate for this by playing the role of an investor. Lack of infrastructure for education and healthcare has necessitated additional government efforts in social sector. The countries had deep distrust in the capitalist-free market ideology owing to hard colonial experiences. This has led to a search for alternative paths and culminated in the socialist planning (Sabry 1961; Raj 1965).

Import substitution industrialisation has become the dominant mode of industrialisation that ensured the protection of national industries against foreign competition. Governments become either an investor or a major partner under this strategy. The Indian development pattern in this regard attracts much attention. The major characteristics of Indian socialism after independence can be identified as: (a) it gave support to traditional Indian patterns and emphasised the development of traditional crafts like spinning, weaving and other small-scale cottage industries. (b) It put much attention to the development of heavy industries along the lines of soviet planning with an objective to build socialism through strong government investment in industrial sector, especially in the heavy industry. The major objective of state intervention was to prevent monopolisation and domination of Indian economy by foreign capital and domestic private capital (Raj 1965; Chakravarty 1987; Bardhan 1998).

5 Though the mixed economy policy allowed private sector to continue its operations, it did not have enough capital required for industrial entrepreneurship. Besides, the state apparatus had regulated and controlled private economic activities largely.
The planning model was successful only in the initial stage. More attention was given to agriculture during this period that marked significant achievements in this sector. After the positive impacts in the initial stage, Indian State had faced stagnation in industrial development and this was manifested in the economy since 1970s. The protectionist policies have led to chronic inefficiency especially in the public sector (Fine 2001: 469-72). Even the policies gave much emphasis to equality and land reform had also failed in producing positive results in concrete terms.

The States had faced deep economic stagnation and developmental crisis by 1980s. The ineffective apparatus of state in fact slowed down the economic growth. The State had been following a policy of over protection of domestic production. Along with this, the inward orientation of economy, extreme corruption and inefficiency and the elimination of economic incentives for efficient production and allocation have contributed into a deep economic stagnation. Because of all these, the existing pro-socialist policies became unappealing by the 1980s.

As we have already seen, during 1990s, the move towards liberalisation of domestic markets and international trade has been accelerated. A general consensus has been developed on the role of State in economies like it should be prepared to national and international competition and State has to be more proactive to a liberalised market. The major points of consensus that emerged were: (a) substantial reduction is essential in the dominant role of state in economic process and in the regulation on private sector. (b) The role of the state has to be limited to the task, making state apparatus more effective. (c) States have to play a more responsible role in economy, not as the commander, but as a facilitator of market and free trade, or the capitalist model (World Bank 1997a).

Neo-liberals argue that the process of economic globalisation should be pursued by persuading national governments and their associations to abandon programmes and policies, which, discriminate against foreign firms and investors. Measures like tariffs over foreign goods, subsidies to domestic producers and protection of public control were the major targets of the neo-liberals in this regard.
Supporters of neo-liberalism advocate that encouragement of international trade will promote economic growth and bring wealth to the world’s poor.

In the age of globalisation, non-state actors, especially the private sector, become major players in the national economies of those states where State had historically played the role of the lone agent of social developmental activities (Terrence 1994; O’Brien 1966; Nemat 1998). The private sector has gained much influence in the economy and its share in GDP and imports consistently increased. The newly emerged situation in those countries in fact compels the private sector to share the responsibilities in social services. As part of this wave, India has also changed its previous policy of protectionism to a more open attitude to foreign investment.

The relationship between the state structure and economic development is a theme that attracted particular attention of scholars who participated in development debates (Amin 1991). This is equally significant when examining the developmental experiences of Egypt and India. Egypt is an authoritarian state where the ruling party personifies national aspirations and tries to channel all democratic activity within the party (Ibrahim et al. 1996). It is this party, which integrates trade unions, youth, women and employers associations. As it is clear, in a way, this is the continuation of the centralised, bureaucratic, authoritarian rule of the pre-independent era.

It is generally observed that internal pacification is a prerequisite for the economic development of any State and essential for long run capital accumulation. Similarly, an economic crisis would definitely challenge the stability of regimes. Hence, the character of the state as well as its capacity to achieve internal pacification and stability are two interrelated aspects that get attention in this context.

The popular notion that democracy can ensure a more effective interaction between state and people than authoritarian regimes may be given some attention in this context. As we have discussed, there is a common concern over the need of democracy to create a suitable atmosphere to build social capital, since it facilitates more involvement of citizen in the system. This was supposed to give some inherent

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6 Authoritarian regimes always systematically undermine the rights of people
advantage to India in implementing the new social development programs. However, on the ground, questions remain on whether the democratic pattern helped India to handle the severe social crisis that intensified along with the acceleration of liberalisation policies.

It is noticeable here that the basic structure of the state was inherently capitalist since the colonial and national bourgeoisie had created a quasi-capitalist pattern of development in both these states. Though Egypt and India had emphasised a foreign policy and a national developmental model free from imperial alignments, the internal state structure had remained unchanged even after independence.

The distinctions between the nature and dynamism of the core and peripheral societies have special significance in the understanding of State in the developing societies. The study of Chirot (1977) illustrates that strong states have effective governmental institutions throughout the world. Similarly, something common as well as notable in the peripheral states is that people are more likely to identify themselves with religion/ethnicity/village; primarily sociological factors. It is worth mentioning that, the strategy proposed as part of globalisation does not consider the specificities of the peripheries. The capacity of the state apparatus in the peripheral states is also problematic since the state institutions are too weak to address problems at times. Similarly, the economic structure is less diversified since most of them are less industrialised. However, the strategy proposed is more or less same for both the core and peripheral states.

As scholars like Ben Fine have projected, the inefficiency of Indian democracy remains the major cause of slow economic growth. According to him, the government is not able to come out with innovative ideas and projects because of the pressure from various interest groups who are very active and influential in decision-making. However, the distributional significance of democracy is important, especially in the context of the prevailing extreme inequalities in such societies (Fine 2001: 477). In this sense, the argument that democratisation itself is an important aspect of development cannot be neglected.
The reforms propagated by international economic institutions are wide-ranging. Extending beyond macroeconomic stability, it aimed to reform the financial sector and State-owned enterprises, modernize fiscal and monetary policies for better allocation of public resources. In fact, the Breton Woods institutions project poor allocation of resources by developing/Third World states as the major reason of socio-economic crisis. Therefore, the reform strategy is driven by the need to raise and sustain broad-based economic growth, and ensure that the poor contribute to and benefit from economic growth. Moreover, it demands a redefinition of the role of the State in economy and social development. According to the World Development Report, "the state can no longer be seen as the main provider of jobs, goods and subsidised services for its citizens. The role of the state in the new ‘social contract’ that the country is moving to, is to supervise the public interest and protect the poor and vulnerable in an essentially private-sector-led economy" (World Bank 2001).

We shall see the elements of such an orientation in the policies of Indian state. Regarding development strategy, the role of the government has drastically changed. This is categorically stated in the Tenth Five-Year Plan document, ‘...the public sector is much less dominant than it used to be in many critical sectors and its relative position is likely to decline further as government ownership in many existing public sector organisations is expected to substantially decline. It is clear that industrial growth in future will depend largely upon the performance of the private sector and our policies must therefore provide an environment, which is conducive to such growth’ (Government of India 2002b). The socio-economic policies of the State in 1990s were leading towards this direction.

II Nature of State sovereignty

Globalisation clearly demands the removal of national barriers in favour of liberalisation of economies. Today, such an understanding has developed among societies that there is no relevance in insisting upon an autonomous national economy because States cannot keep itself away from the new dynamism of global economy. The major reason of this is that the developing States are highly dependent on IMF
and WB, the two powerful international financial institutions that play the determining role in the global economy.

Historically, states played a significant role in organising the lives of people and defining their political identities. The sovereign state system has been regarded as the defining feature of international order ever since the modern age. Today, the intensification of the globalisation process and technological has changed on the one hand and the end of cold war on the other has redefined the prevailing notions on state sovereignty. Economic globalisation has led to a significant range of internationalisation of political authority and globalisation of political activity. The breaking down of the political, social and economic barriers between states paved the foundation for a serious rethinking on traditional structures in world politics (Scholte 2000: 135).

It is crucial to acknowledge that globalisation does not merely indicate a shift in the extent or level of social relations and activity. One aspect should get prime attention in the current debate on globalisation in this connection is the question of power - shaping and sharing of power, its modalities and instrumentalities of organisation and the distribution of power between states. It also involves the spatial re-organisation and re-articulation of economic, political, military and cultural power (Held et al. 1999).

In this context, globalisation may be identified in its larger context as a system of power management – more accurately political power management – in a rapidly integrating world. Social mechanisms are developing at different part of the world, which unite or separate and associate or disassociate human beings (Scholte 2000: 134). It has significant impact on the life of people all over the third world - and of course, in India and Egypt - though majority of them live outside the mainstream power structure.

Globalisation is regarded a long term and technology dependent historical process, onto which has been grafted an additional but separate project for the

\[7\] Modernity is the ideological backup of liberal political and social system based on sovereignty of States and inaugurated with Westphalia.
creation of a single global market. It is criticised for the way it undermines the fundamental political principles of national sovereignty, accountability of regime and democracy. Clearly, State is the institution, which is seriously challenged by globalisation. The autonomy of the State is eroded by the integration process, an essential component of globalisation, (Hoogvelt 2004) that always tends to outmanoeuvre the State by creating many authority structures above it. It is very clear how the socio-political compulsions to liberalise economy further weakens the State structure. In addition to this, the authority of the State is constantly under challenge from sub-national forces such as ethnic movements that emerged in various parts of the world.

The politics of identity in general and national identity in particular has been undergoing fundamental transformation due to the cultural flow across borders. This questions the autonomy and sovereignty of nation-states, which are covered by contemporary processes of economic globalisation (Evans 1995; Strange 1996; Waters 1995; Hoogvelt 2001; Holton 1998). There is a tendency in all spheres to overstate the power of global financial markets by ignoring the centrality of states to sustain their effective operation, especially in times of crisis. As a result, economic globalisation spells out the end of welfare State and social democracy by enforcing the new market driven development agenda of neo-liberalism.

The role of international financial institutions such as World Bank and the IMF are very critical in managing the global economy. Reinforced by financial liberalisation and an accompanying shift towards markets and private financial institutions, the global financial system poses serious threats to state power in general and the economic sovereignty of state in particular. Privatisation ultimately means that the resources of the State are decreasing. In this context, State is not able to allocate enough resources for social necessity, though it remains the central agent of social development. This has been clearly reflected in the social sector of India and Egypt.

However, there is an argument that, the on-going transformation of the Westphalia regime of sovereignty and autonomy has varying consequences in
different states. Another prominent argument in this regard is that, it is not the idea of
the state but a particular type of state that is under threat. For the proponents of these
views, state adapts the process of globalisation and it co-operates with the process by
taking part in the creation of institutions required for neo-liberal globalisation. Thus,
state functions as a major agent of globalisation.

The forces of globalisation such as the market are aided by the State at
different levels. Generally, states participate in this process because it intends to
ensure the benefits of globalisation for people. The economic reform package was
intended to trigger a process of structural transformation of economy with the
presumption that market economy has greater efficiency in the use of productive
resources.

New policies under globalisation targeting welfare policies of the modern
states, simultaneously creates new patterns in social development. By connecting the
concept of national security with economic security, it has created a new milieu, in
which States are forced to practice new types of behavioural patterns while interacting
in the global realm. It even transforms the context of political choice for the
requirements of market economy. For the most part, the governance structures of
global economy operate principally to preserve and duplicate the forces of economic
globalisation.

Against such dominant views regarding globalisation and state sovereignty,
Gray (1998) argues that globalisation of economic activity surpass the regulatory
reach of national governments. In his opinion, the multilateral institutions of global
economic governance have limited authority over the process because States still
bitterly safeguard their national sovereignty and have a crucial say in issues related to
national interest — whether it is economy, development, security, foreign policy, etc.
and they refuse to surrender such powers.

The erosion of national sovereignty is premised under the fact that once there
was a golden age when States possessed some kind of unlimited control over their
territory and the movement of resources, people and cultural influences across their
borders. However, in the opinion of scholars like Holton, States in its history have
never been able to attain supreme control of trans-national movements of people and resources across borders (Holton 1998).

In this connection, the argument that the impact of globalisation is mediated significantly by a state’s position in global political, military and economic hierarchy gets particular attention. Some argue that, the domestic economic and political structures as well as its institutions have gained a significant say in determining the pace of globalisation in a particular State. The point is that, there are many counter arguments against the theoretical and empirical basis of the claims that States are being covered by contemporary patterns of globalisation. While the interaction networks are being strengthened at the regional and global level, they also create numerous, but varying, influences across different locales. However, neither the sovereignty nor the autonomy of State is simply diminished by such developments. Indeed, any assessment of the increasing impacts of globalisation must acknowledge the highly differentiated character of state since it is not experienced uniformly to all States.

Globalisation relocates the role of nations in global politics and brings certain new agencies like INGOs and other NGOs in place, which are encroaching largely the power of individual nations. The autonomy and strength enjoyed by corporate entities gives much say to them even in shaping the political policies of nation-states. In this context, globalisation has become a political means of the ruling neo-liberals, who use certain images to justify their political agenda. By emphasising on a globalised world, the Breton Woods institutions contend that countries should open up their economies to liberalisation under SAP.

There is a vigorous debate going on about the possibility of achieving distributive justice at the global level. In this connection, a section among the advocates of economic liberalisation and globalisation project the necessity of developing a range of State and non-state global institutions and organisations to address the issues of unequal development and deteriorating social conditions of the poor. According to them, to secure significant legal and political reforms are indispensable to address the inequities of a globe where more than eighteen million
people a year die because of famine (Jones 1999: Pogge 2001: 9). The aim of this is to address a range of perpetual concerns and injustices in issues related to political, economic, social, developmental, environmental, gender and human rights. However, this approach has been criticised by the supporters of state sovereignty. For them, the creation of such global institutions and organisations also contribute to weaken national sovereignty while creating political structures at global level, which are remote from the people.

ii 1. Globalisation and political liberalisation

By the last decade of the 20th century, an intense political struggle had developed among many contending actors and social forces in the international politics. This along with the rapid spread of market economy has strengthened the demand for a wider democratisation all over the world. The struggle of people and their associations in the local, regional, national and global level also had considerable impact on the opinion formation to protect the political rights of the people (Falk 1994: 476-7).

Evidences show that economic liberalisation had always played an important role in the political liberalisation of regimes throughout the history since it has an inherent tendency to democratise the state structure. This observation is more or less correct if we verify the course of political development that had taken place along with industrialisation and free market economy in Western Europe. There was a clear interlink between industrial capitalism and liberal democracy in its initial stage. Certainly, both developed hand in hand in the West in the subsequent centuries. However, the developments taking place in the developing countries in connection with economic liberalisation has challenged this historic conception.

New social movements, business enterprises, and educational institutions manage a polity with an intensifying culture (Lechner and Boli 2004: 55-7). However, this is not asserting that territorial political communities are becoming more and more outdated but it recognises that they are nested within global, regional and trans-national communities of fortune, identity, association, and solidarity. These movements and meetings of people reflect the character of globalisation as the
potential of 'partnerships for change' among government, business groups and civil society.  

By 20th century, especially in the context of de-colonisation, liberal democracy has become a highly acceptable norm of governance in most of the developing countries. Nevertheless, the ground realities in most of those states were not at all appropriate to experiment with the principles of liberal democracy. Naturally, various kinds of authoritarian regimes replaced colonial masters. Those states already absorbed the principles of liberal democracy – India is one among them - that could build certain institutions of democracy, but miserably failed in internalising the essence or values of democracy into the administration process and/or state institutions.

In the context of Third world, a keen observation will ratify the Marxist understanding that State is an instrument in the hands of the dominant groups. They control national economy and shape societies according to their interest. In the context of globalisation, the global economic institutions have expanded a particular pattern of economic orientation to international economy. The aim was to shape societies of the developing countries as per the interests of those in the developed countries.

It is clear that, a strong anti-democratic tradition is inherent in almost all socio-political institutions in both Egypt and India, despite the fact that one is considered democratic and the other authoritarian. It is very evident in the functioning of institutions like family, society, bureaucracy, schools and other educational institutions and even the media. In India, the elements of feudal, patriarchal and caste- elitism clearly dominate (and even control) the functioning of political parties, political institutions and political processes which ends up promoting a different kind of authoritarian tendency in the seemingly democratic structure in India.

In Egypt, the minimal political reforms introduced in the State can be identified with the attempts of the regime to reshape the domestic political and

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8 This aspect had been stressed by the former United Nations Secretary-General Kofi Annan in his speech at the closing session of the World Social Forum Meet 2002 held at Porto Alegre.
9 The Panchayati raj system in India is a good example of this.
economic structures to protect their authority and power. The popular understanding on globalisation, that it has an inherent tendency to democratise societies through the creation of a free economic space that eventually leads to the creation of a free political space is not sustainable in the case of Arab world. This is particularly clear from the experiences of Egypt because the policies like privatisation and economic liberalisation adopted by the Egyptian state hardly contributed to political liberalisation.

The major problem with the participation programmes introduced by Egyptian state is that it had undermined the necessary climate for participatory practices because of the authoritarian character of the State and the negative approaches of the regime towards any kind of power sharing. The Policies under SAP have undermined these ideals by further weakening the economic and political power of the weaker sections.

Any political change in Egypt may be identified along with the developments in the wider context of Arab world - the only corner in the world where democracy – or better say liberal democracy in western terms - is totally absent in the political process\textsuperscript{10}. As of late, even the debates on democracy have become a matter of concern in the political realm of the region. However, what is interesting is that, neither such debates nor the ongoing political liberalisation process in the region is the product of a gradual development; but the result of the economic crisis emerged in such States by predicament in the oil industry (Harik 1991: 4). In fact, the political reform in Egypt – popularly called ta-addudiyya - was an attempt of the ruling class to react to the waves of democracy (Korany et al. 1998).

There are sharp differences on whether political liberalisation can be considered as democratisation. In any case, even political liberalisation was not a matter of concern for political elites and mostly for the public anywhere in the Arab world during the oil boom period. What is interesting in the region is that, the capitalist States stood for market liberalism and aggressively propagated western

\textsuperscript{10} Many debates are going on in this regard and by using the standards of West, many argue that the region is totally an ‘absentee democracy’. However, few content this view and try to project the elements of democracy in Islam as well as State administration.
liberal democracy as the model of governance for developing States kept close ties with the authoritarian regimes in the region. This is because, for them, it is beneficial to maintain close ties with the authoritarian regimes to protect and promote their political and economic interests than pressing for democratisation.

The legitimacy of Indian political system is derived mainly from the democratic processes and the timely and open elections at various levels. This ensures the participation of people in the political process. Yet, the political and bureaucratic elites remained as the key decision makers. This is the reason why the democratic regime in India could not capitalise the inherent advantages of democracy by incorporating people and ensuring their effective participation in the system. In addition to that, the large size of population and the heterogeneous character of the society in India have created many obstacles in the effective implementation of development programmes introduced by State or agencies of State time to time.

There is always a contradictory relationship between the power of the elites and the power of the common people even in a developed democratic system. The regimes play a major role in the restructuring of economy and polity; means the response was a top to bottom approach and the existing power structure was hardly affected by such developments (Guazzone 1997: 240-2). In essence, Egyptian political system had undergone only a few cosmetic institutional changes even when massive structural changes were going on in the economy. The one party rule has continued without any considerable change. The only change that has taken place during the period in this regard was the reorganisation of opposition political parties and newspapers. The rule of 1953, prohibited political parties, had withdrawn and the right to organise political parties was legalised simultaneously in the year 1977. However, the experiences show that, this did not make any impact as far as the mobilisation of political opposition is concerned.

Government had reversed such minimal initiatives of political reform by introducing certain new measures such as the law on guarantees of democracy for

11 In fact, there was a reverse impact of it seen in 1990s. For example, the opposition news papers in Egypt which were very popular in 1980s started to face big crisis in 1990s. Similarly, the opposition parties had also lost their credibility.
trade union elections (in February 1993) without even consulting the union leaders. Similarly, a new legislation in May 1994 revoked the right of rural inhabitants to elect village mayors. These were conscious attempts from the side of government to divert attention from the fundamental questions related to power and democracy. The people in power had little respect to the concept of sharing of power. On the ground, the society was highly controlled by State institutions and the government systematically silenced the dissent voices.

The Egyptian government introduced certain draconic laws such as the law restricting the press freedom (in 1995) and law dissolving the socialist labour party and closing its newspaper (in Spring 2001). These are important because all these happened in the 1990s after the signing of SAP and the formalisation of the relationship between the State and international market. Scholars like Sayyid (1993: 73) consider this as the symbol of further diminishing the plural character of Egyptian political system and its growing incapacity to accommodate dissent voices.

Compared to their counterparts in India, the condition of political parties is more gruesome in Egypt, both in structural and functional terms. The criterion to get registered as political party is comparatively very difficult in Egypt. Among the 14 recognised parties, majority exist only in paper. The extreme administrative interferences in general elections systematically block any chance of transfer of power. At the level of political praxis, hardly any demonstration or public meeting takes place. Even colleges and universities are averse to public debates on crucial issues; such institutions simply back up official values on the one hand and heavily reproduce the same authoritarian reactionary attitudes on the other. All this ensure the maintenance or of further strengthening the authoritarian structures of governance.

It is very evident from the above discussion that, during 1990s, Egypt has been speeding up the liberalisation process in economy but going back from the process of meaningful political liberalisation. As Hassan (1997: 237) observes, Egypt had followed a controlled-change pattern in political liberalisation. Under this pattern, the formation of a civil society institution was very weak, since there was no freedom for organised labour, media, intellectual circles, etc. to act on their own. In reality, they
were neither capable nor ready to defy the government dictum. A true democratic transition based on the consolidation of civil society and popular participation in political process is unimaginable in these circumstances. Equally, the autonomy of civil society organisations over the hegemony of State is not even a remote possibility.

The Egyptian experience questions the validity of the neoliberal argument that market economy and participatory democracy are two pillars of the liberal political order. Unlike other developed states, the new middle class in the country (and the region) was highly dependent on the state power and ruling elites. This is the reason why economic development in the region in general and Egypt in particular did not lead to any kind of political change. Hierarchical social structure, particularistic values and low-level social mobility have been identified as major hurdles of democratisation in Egypt. These elements in fact reproduce/reinforce the patriarchal social relations and retain an effective control in the hands of those who are at the top of the socio-political pyramid (Halabi 1999: 388).

III Role of State in social sector: Continuity and change

The major societal features of the process of globalisation in the last decade of 20th century are the high government spending with low priorities to social development, the absence of any linkage between the revised trade policies and social development plans like health care, poverty alleviation and the failure of State to convert economic growth into the total welfare of the people. The role of State was redefined from the builder of economy to the facilitator of favourable conditions for foreign capital and for the participation of private sector in the development process. In the new context, globalisation provides new guidelines for institutions around the world about the way they should deal with common problems. SAP essentially reduces the economic and social role of the State by narrowing the States’ arena of responsibility and targeting public services and social security.

An overview of the State intervention in social sector is significant in understanding the patterns of globalisation since the evidences illustrate that developing countries are becoming more integrated to the global economy and the
speed of which has accelerated over the past two decades. The policy changes proposed by Washington Consensus like the short-term stabilisation measures that facilitated long-term liberalisation goals hold special attention in this regard. The important among them like devaluation of overvalued exchange rates, reduction of budget deficits, reform in tax structure and cutting down state expenditure has reversed the economic orientation of the States who have taken part in it. However, the progress of integration is uneven in developing countries especially in trade and international finance, and more recently in information technology.

The withdrawal of state from social sector and the entry of new agents like non-territorial capitalist forces to fill the vacuum created by this is a new phenomenon that has stimulated many discussions and debates in the discipline of International Relations. State withdrawal from social sector is a very common phenomenon in the developing States, especially in the last two decades of 20th century. One major reason of this was the worldwide development of a new political economy. The major characteristic of this new political economy was extreme pessimism with regard to governments and their policies. The neo-liberal economic theory has reinforced this through disseminating cynicism and distrust on various nationalist regimes. This new orientation was essentially a political counter offensive directed at developing societies and operating under the pretext of SAP (El-Laithy 2002: 457).

What are special in the transition from state socialism to Open Door Policy in Egypt are the fundamental differences between the two stages in the process (CSDC 2001: 25). The objective of the first was to minimise the role of public sector in providing basic infrastructure and simultaneously promote private ownership and management in economy and ensure the participation of private sector in production, accumulation, foreign exchange and employment. In the beginning of reform, this was identified as the means to reach the end of high economic growth with social development. The fundamental objective was to ensure better distribution of income and wealth among social classes and regions.

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12 But except for the successful East Asian economies, the level and pace of their integration has until recently lagged that of the developed countries.
The earlier theories of economic development had generally assumed that economic growth would eventually lead to improvement in the living conditions of the poor in developing countries and help in the overall reduction of poverty. The logic behind such an expectation was that States would play an important role in the distribution of resources and the benefits would then trickle down. But, this was criticised in 1970s and '80s due to unfulfilled expectations even in the midst of unrestricted State intervention. Failed redistribution of income and productive growth worsened social crisis by increasing poverty and unemployment and high inequality among different sections in the society. Consequently, the search for effective social development and poverty alleviation programmes continued.

Within few years, the adjustment policies had created major impact on social conditions of the States that further deteriorated with new policies and programmes. The cutbacks in expenditure, especially in education and healthcare, have further deteriorated social situation. Similarly, the abolition of subsidies resulted in an increase in food costs that too to an uncontrollable situation (Rao 1998; Ravallion 1998; Korayem 2002; Nasser 2002b). The allocation was insufficient in human resource development. By the late 1980s itself, debates on development with a human face flourished. As part of this, demand for more compensatory finance to deal with social consequences of expenditure cuts was strengthened.

As many scholars notice, the problem with globalisation while approaching the social development is that, it has no substantial insight into the contemporary human condition (Held et al. 1999). It supports the observation of Polanyi (1957) on the serious defect in market liberalism that subordinates human purposes to the logic of an impersonal market mechanism. This is very clear from the experiences of the states under study. The uneven distribution of the development infrastructure has remained a major hurdle to social development in both the states. Indicators of social development in developing countries in general, and Egypt and India in particular, give us a clear picture of this unequal distribution.
Because of the debt crisis in 1982, the flow of private capital to developing countries halted. This has forced them to adopt some remedial measures that can reduce the monopolistic role of government in economy, deregulate economy, stimulate export orientation and thus move out from the crisis in Balance of Payments. Only in the late 1990s, developing countries started realising that participation in international economy and the opening up of domestic economy had some benefits to their economy.

There is a strong link between aid flows and policy reform in the developing states. The conditionality of foreign aid and policy reforms were the outcome of this structural inefficiency of the system. It is true that, foreign aid can mitigate the adverse effect of structural adjustment for short run. In this context, the question - does aid ultimately contribute to social welfare and economic growth or does it create a permanent dependence to donors have raised heated debates among scholars. When those who follow orthodox and liberal positions put forward a positive view on aid related projects and programmes, the leftist scholars highlighted on subordination and dependency created by the aid (Fine 2001: 609).

It is interesting to note that the neo-liberals also strongly criticised the role of aid in development especially in 1970s and 80s because, in their opinion, it hinders the economic growth and development. In their view, the inefficiency of the government institutions in fact remains a hurdle to the effective use of aid. What is noticeable here is that the political Left opposed aid since they consider it as an instrument of capitalist exploitation whereas the neo-liberals opposed it because they consider it as a hurdle to capitalist development/free market. However, both have agreed in the point of diminishing returns of aid.

The absence of proper cost–benefit analysis at any level was a major limitation of the policies and programmes followed by those States under state capitalism, state socialism or mixed economy. Preferential treatment by State had gradually hampered growth in agriculture sector. In addition to this, the poor

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13 Egypt was heavily indebted in 1982 but recovered by late 1990s. Debt as percent of GNP was estimated as 115% (1982), 79% (1990), 29% (2001). For details see World Bank (2003: 550)
monetary management and fiscal policies have systematically undermined the possibilities of economic growth and social development.

In the existing political situation in developing countries, the aid received is always used by the powerful to strengthen their influence. The obvious outcome is that it hardly reaches the people for whom it is intended to. With this basic conclusion, neo-liberals demanded a review in aid related development strategies that obviously proposed the limiting of the role of State/government in handling resources mobilised through aid. In this context, the proponents of neo-liberal development advocates for more intervention of Non Governmental Organisations in handling aid.

iii 1. Beyond SAP: Washington Consensus to Post Washington Consensus

Washington Consensus\(^\text{14}\) indicates the shift from modernisation to neo-liberalism in socio-economic development in the developing States, which remained dominant in the debates of 1980s and until mid 1990s. The soul of the strategy proposed by these institutions was to build a competitive market economy through privatisation and deregulation. This paved the foundation for a set of institutions and policies that became instruments of globalisation as well as extremely influential in the debates on development of developing countries.

The elements of Washington Consensus are trade liberalisation, financial liberalisation, privatisation, de-regulation, foreign capital liberalisation, secure property rights, unified competitive exchange rates, diminished public spending, public expenditure switching, tax reform, social safety net and flexibility of labour markets. By rejecting State interventionism and relying totally upon market, Washington Consensus has completely changed the nature of debates on development in the developing counties. It projected a new understanding on development that 'development is what market brings'. By overemphasising the role of market, Washington Consensus has set a new agenda of 'market versus the state'.

The East Asian crisis provoked a series of debates on the advantages and disadvantages of liberalisation and globalisation to developing States. Academic

\(^{14}\) Here the term 'Washington' represents IMF, WB and the US Executive Branch in the institutional level and macroeconomic prudence, outward orientation and domestic liberalisation in the policy level.
critics targeted Washington Consensus and liberal international order since they found the programme not suitable to address the severe social crisis in the States. The work of Stiglitz (2002) thoroughly exposed the adverse effects of neo-liberal globalisation – 'market fundamentalism' in his terminology – to developing States. He argued that, since mid 1990s, the policies of market fundamentalism have produced financial instability, economic crisis and chronic poverty in most of the developing countries. The major reason pointed out in this regard was that the new norms in international trade imposed by international institutions were against the interests of developing countries.

Evidences show that, the radical liberalisation of international trade favoured only the interests of advanced economies. The core of Stiglitz's (1998; 2000; 2002) criticism on liberalisation and structural adjustment is that they just concentrate on the rapidity of approaches proposed by the agents of neo-liberalism. Privatisation should be preceded by suitable competitive policies and institutional and legal changes to create a viable framework for market reforms. Stiglitz developed a two dimensional critique by highlighting the inappropriateness of international institutions to address developmental issues of developing countries on the one hand and failure of states in reforming domestic institutions on the other hand.

The critics of market economy had found Washington Consensus not suitable to address the severe social crisis in the states. The negative impacts of the policies and programmes under Washington Consensus over the overall development of developing States has actually led to Post Washington Consensus – the latest paradigm on development. Post Washington Consensus is an overlapping combination of Keynesianism, welfarism and modernisation in its essence. The paradigm was developed on the basis of certain assumptions like markets do not work perfectly in underdeveloped economies due to some structural limitations and therefore the states must intervene to correct market distortions. Besides, states should adopt favourable discretionary policies to address this situation.

The advocates of Post Washington Consensus are also highly critical to Structural Adjustment and stabilisation, especially regarding its social content/social
consequences, and put forward the agenda of a new adjustment, that is an adjustment with human face. They underscore the comparative and historical experiences that make state intervention vital in attaining development, especially social development (Fine 2001: 135). In fact, this has reemphasised the role of state in social development, which was marginalised by Washington Consensus as part of the pattern of globalisation projected by them.

The neglect of social actors and social dimensions in development as well as the undue importance given to getting prices and technology right in the first stage of neo-liberalism has made a clear demarcation between the 'economic content' and the 'social content' in development. Washington Consensus has given much liberty to discretionary intervention under commitment to laissez-faire and the Post Washington Consensus has widened and deepened this through the policies and programmes that intent either to market strengthening or to market correcting. The social content of development gained much attention in Post-Washington Consensus.

It is interesting to note that, while setting the latest agenda of development, World Bank has stepped back from its earlier argument (based on Washington Consensus) of conflict between market and State. Rather, it has followed a more admissible approach to criticisms like neo-liberalism neglect the poor, women and environment and undermine popular participation in development programmes. It accepted the importance of non-economic dimensions of development. In other words, when Washington Consensus invariably projected the notion of market versus state in the development debates, Post Washington Consensus presented development as a non-market response to market imperfections. Social capital represents this shift from Washington Consensus to Post Washington Consensus. What is significant in this latest discourse is that, the 'social and its theories' are taken seriously by economists. The relationship between market and non-market activities and the strategy to correct market imperfections were the major concerns for those who emphasised on Post Washington Consensus.

The criticism of Joseph Stiglitz (1998a) on neo-liberalism and Washington Consensus was the manifesto of this new consensus. The most important aspect of
Post Washington Consensus was its emphasis on a kind of adjustment with a human face. According to this understanding, more focus and intervention by government on economic policies, basic education, healthcare, law and order and environmental protection - the fundamentals of social development - can produce better results. At the same time, it is also important that mere focussing on these fundamentals is not the only duty even for a minimalist government. Rather, the State has an important role to play in appropriate regulation of industrial policy, social protection and welfare.

Concisely, Post Washington Consensus reemphasised state intervention in greater depth and breadth by totally rejecting the analytical agenda of state verses market. For the new paradigm, these two (state and market) are complementary: not one against other and it is possible that both can work together. The fundamental question is not whether the State should or should not be involved, rather how it gets involved. In the opinion of Stiglitz, "(we) should not see the state and markets as substitutes.....the government should see itself as a complement to markets, undertaking those actions that makes markets fulfil their functions better (Stiglitz 2002: 25). The advocates of Post Washington Consensus have propagated this basic philosophy in developments debates they engage. This has projected an alternative view of development by re-establishing the appropriate role of State in view of market imperfections.

However, Post Washington Consensus was also criticised for reductionism because the social variables and processes used were unfamiliar to the traditional economic variables like power and conflict and class relations. It is argued that the social transformation facilitated by globalisation could not suit individualist approach of Post Washington Consensus. Few scholars criticised it a product of same World Bank, so that it cannot be anything else, but the facilitator of neo-liberalism.

The reflections on these policy changes are visible in both Egypt and India since the states are integrated to international economy. Moreover, the level of dependency of those states to international economic institutions has increased unparalleled given any point of time in their history. Obviously, from both angles, the
states were forced to continue with such policy reforms due to internal social crisis on the one hand and external pressure from WB and IMF on the other hand. The expansion of social security nets and new social protection schemes has to be understood in this context.

iii 2. Emerging patterns in social development: Social capital and participation

By late 20th century, the developing countries realized the serious problems related to distribution as well as the socio-political consequences of an ever-increasing social inequality in the developing States, the outcome of new policies. This contradiction in development is fundamentally related to the inherent inability of the market to ensure a comparatively reasonable and equitable distributional system. The plurality of Indian society and the diversity of its economy made it more complicated compared to Egypt. In the present context, it is clear from the experiences of Egypt and India that the forced withdrawal of State - which had historically played the role of an agent in social distribution of resources - has reduced the possibilities of an even distributional system.

As a socio-economic impact of the new measures, people are forced to move to informal economy. In fact, their role in the formal economy has become very limited and the majority of the poor were simply 'removed' from mainstream economic activities. One of the most important aspects of this kind of liberalisation in Egypt and India is the decreasing potential of those marginalised sections to dissent against various State policies. People are becoming easily governable since they simply accept that they are bound to obey the rules framed by State (Sabry 1997). Though people can mobilise themselves, mostly the States succeed in creating a duty/responsibility consciousness among them that ultimately weaken all such moves15.

The concept of social capital cannot be separated from neo-liberal agenda since it obviously contributes to the reduction of state power and a parallel increase in the responsibilities of society itself. Social capital is different from other measures of

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15 It is very interesting to note that, in place of labour organisations, professional unions such as FICCI and caste organisations do intervene in mainstream political activities.
neo-liberalism because, it rejects the argument of market driven development. Moreover, it is proposed as the mechanism supposed to fill the vacuum being formed by the withdrawal of state from social sector. Apart from that, social capital legitimises the role of state and its institutions in social development to a limited extent. The important point is that though the debates accept the limitations of market in essence, it hardly proposes any fundamental change in the market system and mode of operation. However, the major criticism to the concept that it is complementary to the neo-liberal agenda prevails since it is also instrumental to reduce the role of state. In addition to this, many highlighted the anti-political effects of social capital (Harris 2001: 120).

Grass root organisations gained much attention in the neo-liberal development debates as a viable alternative to state power. Even foreign Non Governmental Organisations have taken a major role in this context in shaping the public policy where states are seeking more partners to share their responsibilities in the social sector. Many so called civil society organisations were started in the form of professional and workers syndicates and co-operatives at the national level and promoted joint participation in development. On the other hand, the expanding role and spread of the activities of International Non-Governmental Organisations (INGOs) and social movements have strengthened a global civil society that always intervened in issues across the borders. The intensification of human migration has changed the character of societies from mono-cultural to multi-cultural. This has obvious impact in the exercise of state power over the citizen and there was significant change in the exercise of state power in the present context.

The rapid proliferation of NGOs puts forward a novel, but tiresome, idea of privatisation of development. The problem with them was that they were not capable to address the fundamental issues related to development - the issue of distributional inequality - in most of the developing countries. Instead, it further expanded social inequality by limiting the role of state in the social distribution of resources. By highlighting on legal and political equality, they surpassed social and economic equality (Glavanis 2002: 466). What is more serious is that, these groups/institutions, which are influenced by neo-liberal ideas, could not respond to the social
requirements and ground realities of most of the developing societies effectively. What we see here is that, the proposed resolution to the problem is not resolving the problems in effect; rather it complicated the real issues.

The social capital seized a major share of the debates on social development and it is having much significance in any debate related to State and patterns of globalisation. It gradually replaced the neo-liberal paradigm of the 1990s in which the role of market got much emphasis whereas the social content of development was neglected. It is observed that such a strategy produced heavy social costs in those historically backward States.

iii 3. State structure, social development and globalisation

The presence of new structures and processes in the world politics is a major outcome of globalisation. This has changed the spheres of intervention of State as an organic unity. In the changed context, the development of certain notions related to common humanity with universal human concerns, needs and interests that germinated the idea of society of states. According to Hedley Bull, the society of states exist when a group of states conscious of certain common interests and common values form a society in the sense that they foresee themselves to be bound by a common set of rules in their relations with one another and share in the working of common institutions (Bull 1977: 113). For McGrew (1992), it is the essential sameness in the surface appearance of social and political life across the globe.

The new economic policies and the SAP introduced in 1991 intended to congregate the fiscal problems on the one hand and to counter the low level economic growth on the other hand. Both India and Egypt had signed the paper with IMF in the year 1991, setting out policies to reduce public expenditure as a way of limiting the budget deficit, which had risen to an undesirable level by that time.

As we have discussed, the Indian state had followed a mixed economy model based on rapid industrialization and rigid control over foreign capital as the development policy before entering into the era of globalisation. The development model that Nasser had instituted in Egypt was similar to the Indian model. The
leading role of state in economic planning was the major feature of this pattern of development. Public sector was the key player in both States, though private sector was also allowed a limited role in the national economy.

However, we shall see a paradigm shift in this policy in Egypt where state adopted infitah, a policy better termed as State capitalism. The state led development model had undergone harsh criticism by early 1980s due to in-cohesiveness, inefficiency, corruption and increase in external debt, which led the public sector to a crisis. The unfavourable conditions in balance of payment and the serious debt problems forced the regimes of these countries to pursue World Bank instructions with SAP in its core.

The nationalist populist regime in the post independence Egypt characterised a bureaucratic polity where the decision-making power concentrated exclusively at the top brass office corps and civilian bureaucrats like managers and technocrats. It restricted any meaningful political participation or the development of effective and autonomous civil society organisations in the State. The importance of a strong and vibrant civil society in mediating a link between the State and the market was generally accepted in the debates related to state and economy.

As part of globalisation, the technical determinants of national economy encouraged a process of centralisation of market forces at the global level which further accelerated power disparity between the markets of the developed and the developing countries in the global economy (Pant 1996: 168). The intensification of the globalisation process in Egypt and India has led to the formalisation of the relation of national economy with the world market. It has rewritten the association of international financial institutions and private markets with states and domestic economy.

The national economy was preparing itself for tight competition in a global economy. This was further tested by the reduction of tariff and protection as well as the removal of many non-tariff barriers. In Egypt, the maximum tariff rate had decreased from 80% in 1990 to 50% in 1997 and the average tariff rate reached the level of 20% by the year 1997 (Sabry 2002; World Bank 2001b). It was obvious that
the measures taken increased the competitiveness of the economy. There was an extraordinary growth in FDI in Egypt, which increased from $4 million in 1994-95 to $258 million in 1995-96 and $654 million in 1996-97 (Central Bank of Egypt 1998). However, this did not contribute to the social development of the state.

This ultimately led to the gradual withdrawal of state from the role of the central agent of economic activities in these countries. Because of this, State intervention in social sector in India and Egypt was adversely affected. On the other hand, the new rules in investment and trade facilitation policies have limited the possibilities of more private investment in the social sector. The subsidy-cuts and the sudden decline in the public spending eventually led to the decline of the standard of living of a huge chunk of the population in those States.

Many scholars criticised the new way of insensitive state support to privatisation as per the dictum of neo-liberalism that created worldwide unequal development (Held 1991; Amin 1997). The promotion of private initiatives in the economy and its total outward oriented approach has forced the nations to be prepared for competition in a global economy. Thus, efforts to ‘increase competitiveness’ of economy have become the guiding principle of State policies.¹⁶

Egypt and India signed the paper with IMF in the year 1991, setting out policies to reduce public expenditure as a means to limit the budget deficit, which had increased to an undesirable level by that time. Though one can view it in continuation with the ongoing reform in Egypt, which started in 1973 itself, it was considerably more rigorous. Many contractionary fiscal and monetary measures were taken to handle the situation. The negotiation with IMF not only ruled out the chances of more allocation for social sector but also reduced the government spending in social welfare.

Egypt finished the first stage of the Structural Adjustment Programme (SAP) in 1993-94 with the introduction of some urgent policies, such as minimising inflation, reduction of budget deficit, and control over balance of payment crisis to

¹⁶ Because of this, the FDI in Egypt marked a phenomenal increase - from $4 million in 1994/5 to $258 million in 1995/6 and $654 million in 1996/7 (Central Bank of Egypt 1998).
stabilize the economy. The intensive privatisation of public sector enterprises was started. The results show that such policies were successful in attaining macroeconomic gains. The budget deficit was reduced from 17% in 1989 to 3.5% of GNP in 1993 and the inflation rate from 21.2% to 11.1% in the same period (USAID 1993; WB 1994; Central Bank of Egypt 1998). This was achieved with high social cost that severely affected the standard of living of the people. The price level increased almost 300% and the unemployment rate jumped up to 17.5% (Nasser 2002b)

In India, the new reforms led to a paradigm shift in economic and social development policies. Liberalisation process has led to the removal of import restrictions, reduction of external trade controls, introduction of free markets in food grains and cutting down of subsides (Dev 1995; Singh 1999). By the year 1995, more restrictions over private capital were removed in India. The fiscal adjustments meant to control balance of payments had much negative impacts on public investment and welfare expenditure. This led to a sharp decline in the central government revenue expenditure for rural development projects. The prophets of free trade regime and market economy used the excuse that subsidies encourage consumption rather than production to justify the suspension of food and agriculture subsidies. In short, despite the fundamental difference in the state system, both states committed in formulating policies to reduce public expenditure, especially social service expenditure, by way of limiting the budget deficit. Certain institutional changes were also introduced for the creation of a market economy.

As part of a wider institutional and structural change, the political and economic restructuring facilitated by market economy has reversed the populist policies of states. Unemployment and inequalities in income distribution have developed in such societies, which has promulgated certain valid questions on the sustainability of the social contract between people and rulers that ensured the

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17 According to the estimates of Ministry of Finance, the social welfare subsidy went down from 2.1% in 1990-91 to 1.2% of the GDP in 1996-97. If the total subsidy was 2.2% of the GDP in 1988-89, it was only 0.9% of the GDP in the year 2000 (Government of India 2004).

18 This aspect has been discussed in detail in the fourth chapter.
legitimacy of the ruling regime in the quasi-rentier authoritarian Egypt. As Bayet observes:

The authoritarian nature of the State in the Middle East restricted meaningful political participation and the development of effective civil society organizations. The regimes’ etatist ideology and patrimonial tendencies rendered State the main, if not the sole provider of livelihoods for many citizens, in exchange for their loyalty. In etatist models, the State controls the bulk of the economic political and social domains, leaving little space for society to develop itself and for interest groups of surface, compete and act autonomously (Bayet 2002: 1).

In fact, a patron-client relationship was dominant in the State-society relations in Egypt. Globalisation has changed this in principle, and largely in practice also. The traditional institutional understanding of the State-society relationship has undergone a significant change in the new context. The role of State is no longer that of the provider of social needs to its citizens but the facilitator of market economy. However, the new policies were not competent enough to challenge the authority of the ruling elite because they were implemented within an age-old structure. This happened because the proposed institutional changes were not taking place along with economic change. The deteriorating social conditions created new platforms for popular mobilisation, but they were not sufficient to challenge the authority of the regime in any standard.

The experience of Egypt challenges the popular notion that ‘economic liberalisation will lead to democratization of polity’ in authoritarian regimes. The introduction in 1976 of ta-adudiyya (multi-partyism), soon after the introduction of infitah (Open door policy), did not open the polity to a democratic space in the State (Korany et al. 1998). The absence of a powerful social force from below that could promote democratisation was pointed out as the major cause of this. The elections, easing of media censorship and invigoration of associational activity – that represents political relation – did not make any impact on democratisation.

On the other hand, liberalisation process continued through privatisation, currency devaluation and reduction of subsidies on basic consumer goods and revitalization of capital markets (Baker 1999: 23). The technological advancement
and innovative financial techniques has led to massive growth in the financial sectors of investment, banking and currency exchange. The flow of capital around the world has shoot up via electronic means. Consequently, national economies are more dependent now on investment by firms and organisations beyond their geographical boundaries for jobs and economic interests than before. This includes a rise in the importance of Foreign Direct Investment (FDI) where the foreign investors play a central managerial role in the enterprise.

Briefly, we shall see a proliferation of actors and processes across national boundaries as part of this new wave (Paolini 1997: 39). As governments and their citizens have become entrenched in networks and layers of regional and global governance that are expansive, they have become subject to new a loci of authority above, below and alongside the State. Apparently, national governments could no longer be considered as the sole masters of their own or their citizen’s fate because political space and political community are no longer fixed with national territory. Indeed, the structure and intensity of contemporary political globalisation poses a profound challenge to the Westphalia State system.

As we see, the late capitalism and the new global space are disarmed and absorbed the resistances to global forces by different ways (Jameson 1991). Indeed, the counter forces of this capitalist globalisation are also global in their character. Many new global social forces were also emerged in the form of movements with the agenda of ecology, feminism, peace, democracy, etc. – all global in its character. In conclusion, there is a new ‘global Perestroika’ – an extension of the liberal/free market economic system – is emerging across the globe, consequently shaping a new global political structure different in substance from the Westphalia system of sovereign states (Robert Cox 1992).

IV Conclusion

Generally, the neo-liberal policies implemented in the developing States especially during 1990s emphasised the significance of private sector in the socio-economic development. The free and cross-border flow of international capital and the expanded role of Trans-National Companies re-established it with much more vigour. Multi-
National Corporations (MNC) play a central role in the organisation of this new global capitalist order. Trans-national production surpassed the level of global exports considerably and became the primary means for selling goods and services abroad. It is global corporate capital, rather than States, which exercises decisive influence over the organisation, location and distribution of economic power and resources in the contemporary global economy.

It is generally accepted that modernisation process without excessive centralisation may eventually develop democratic values, democratic ethos and democratic institutions, which may lead to the weakening/collapse of authoritarian regimes/system. The transfer of Egyptian economic system had taken place under a strong centralised regime. This is why the formation of certain representative institutions such as Consultative Council, Peoples Assembly and Political Parties could not make any significant impact on the overall political processes in Egypt (Walid 1993: 128). Though some tension was created between State and certain interest groups - especially Islamic groups, it did not affect the overwhelming influence of the State.

In India, the reforms originated and accelerated within the democratic political setup and the elites and bourgeoisie substantially gained from liberalisation process. The forces of privatisation easily subordinated the marginal opposition from masses, because the major political parties and other influential groups (for e.g. industrialists and business communities) supported this move. Though the political left had tried to mobilise people against these policies, this had a very less impact since their influence was limited to certain pockets of the country. At the same time, the institutional inability of Indian state/political system prevented it from an effective intervention in and regulation of the market system.

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19 In the year 1999, there were over 60,000 MNCs worldwide with 500,000 foreign subsidiaries, selling $9.5 trillion of goods and services across the globe. Multinational Corporations now account, according to some estimates, for at least 20 per cent of world production and 70 per cent of world trade for details see Held and McGrew, *Entry for Oxford Companion to Politics* (Online Web.) URL: ttp://www.polity.co.uk/global/globalisation-oxford.asp.
The history of West shows that political freedom and economic growth had gone hand in hand most of the time. However, there are enough evidences in the non-western world that challenge this argument. Many States – for instance China and Gulf States - achieved sizeable economic growth though the regimes were more restrictive to political freedom.

There is a strong view among certain groups that the State still has the advantage of setting the rules under which domestic and international business operates because it is backed often by popular support, democratic legitimacy and considerable financial power of their own. It gets special attention in the debates on patterns of globalisation. Economic planning by State is still very prominent even though the State is moving fast towards a market economy. Production as well as creation of market for capital goods is an important task ahead of the State. Thus, according to them, even in the midst of an ever-growing influence of non-state actors, State remains the most important political actor in the international system.

The poor performance of the public sector in the countries of South was one of the major reasons that complicated the social conditions of the people ever since their independence from colonialism. This along with the close association between private enterprises and political power (national political elites/régimes) has created a widespread understanding that only the extensive participation of private sector can lead (or make benefits to) developing countries to economic globalisation.

What gets special attention is that, under neo-liberalism, there was hardly any attempt to address the structural inability of the State either in India or in Egypt. This inability in fact blocked the State from taking initiative to make any change in the ground level as far as the welfare of people and social development is concerned. As we have seen, the new institutional measures taken to decentralise power/authority could not make any difference. There was hardly any effective mechanism to support the weaker, which intensified their marginalisation to the peripheries of society and economy. The social conditions of the developing countries show that experiments of market liberalism were less effective compared to the State and its agencies, which

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20 There are exceptions like authoritarian Italy and Germany who achieved massive growth under perfectly authoritarian system.
played the same role in the pre-globalisation period. Experiences show that economic growth on the one hand and rising inequality on the other hand create much social tension in countries like India because it is beneficial only to a small group who are at the top of the social ladder.

Some argue that globalisation imposes credit-based economics in developing states, resulting in unsustainable growth of debt and debt crises. The main opposition is to the process of unfettered globalisation (neo-liberal, laissez-faire capitalism), guided by governments and what are claimed to be quasi-governments (such as the International Monetary Fund and the World Bank) that are supposedly not held responsible to the populations that they govern, and instead respond mostly to the interests of corporations. High-speed technologies and organizational approaches are employed with great effectiveness by the firms, by which they extend their activities all over the world (Castells 1996).

The 1980s witnessed the emergence of an intellectual paradigm with emphasis on state minimalism. The breakdown of the domestic-foreign separation because of the intensification of globalisation raises certain fundamental questions as to how far the fundamental normative commitments about political life can be effectively achieved on a global scale since domestic and foreign affairs are deeply and irreversibly interlinked.

Neo-classical economists argue that States in developing societies have less scope to spend on their populations in comparison to developed States because the former has lesser access to resources. Neo-liberals obviously used this logic to find out the possible areas of cuts in government expenditure such as (a) military, (b) development spending, and (c) social services (El-Laithy 1997: 462). Since the regimes are not ready to compromise in military spending (which shows a growing tendency even after liberalisation), the cut back is limited in social and development spending.

The global financial markets challenge traditional attempts by liberal democratic nation-states to control the activities of bankers in the light of growing power and influence of financial markets over democratically elected representative
institutions. It is a fact that corporate interests – both domestic and international – have always offered strong resistance to aspects of State policy long before the era of contemporary globalisation. But, the State had the massive advantage of setting the rules under which domestic and international business operates and backed often by popular support, legitimacy and considerable financial power of their own.

For its critics, in the broader context of developing countries, the so-called neo-liberal counter-revolution is nothing more than the application of orthodox economics to the political sphere. They also proposed market competition as the only possible strategy to address an economic crisis. What is common is that in both Egypt and India, the elite ruling class has accepted the ideology of market.

To conclude, the developing countries followed market based development strategy as they expected the economic growth generated by a free market system would lead to social development. Either they failed to comprehend the hegemonic and greedy intentions of global capital or they did not take these acutely. Experience from history shows that market has never been a mechanism for equitable distribution of resources and it has predominantly offset such expectations. The experiences of Egypt and India during the 1990s show that comparative importance of state in social development in the developing countries has been increased because of the failure of market to ensure social development.