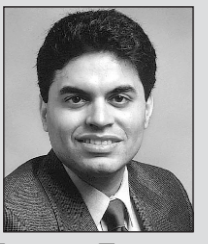


The good, the bad, the ugly



FAREED ZAKARIA
writes from Washington

TRAVELLING through the Middle East for the past week has been tough. Anger and frustration with America is worse than I've ever seen it. Still, I've been torn between two feelings, one to thank George W. Bush and another to curse him. (This is one of those columns that will get angry e-mails from both sides.) Bush's efforts to push for reform in the Arab world -- despite the irritation it has caused -- has put the topic front and centre on the region's agenda. Everywhere in the Arab world, people are talking about reform. Last week the World Economic Forum held a second annual meeting on the subject in Jordan. Next week the Arab Summit in Tunis will likely endorse reform, the first time it will do so. "People won't admit it, but three years ago reform was something few talked about," said a Jordanian diplomat. "Today it's everywhere."

Of course, there were other forces and other people who helped. The globalisation of the 1990s had begun to affect the Arab world. Satellite television and the Internet were bringing the outside world into these countries. And after September 11, despite the defensive rhetoric, Arabs began to ask themselves, "Why did this happen?" Writers and scholars began pointing out that for the past 40 years the Middle East had lagged behind.

the rest of the world economically, socially and politically. The United Nations produced a report

that documented this reality in graphic detail: only sub-Saharan Africa had a worse record of economic growth, 50 percent of Arab women were illiterate, and so on.

Into this mix came Bush, Condoleezza Rice, and Colin Powell and his top policy aide, Richard Haass, all of whom made the case over the past two years for ending America's blind support for Arab dictators and embracing and

ing this issue made it unavoidable. Today reform is more in the air than on the ground -- with a few important exceptions -- Dubai, Jordan, Qatar and Bahrain. At the Forum's plenary session on reform, Amre Moussa, the secretary-general of the Arab League, claimed that reform has been taking place in the region for years. But his fellow Egyptian, the prominent businessman Naguib Sawiris, archly responded, "Then

audience members (about 300 people) were polled as to whether they believe Arab governments are committed to reform (a) merely rhetorically or (b) fully; 94.4 percent voted for (a).

Still, the wind is behind those who advocate free-market, modern, Western-style reforms. Just don't call them American-style reforms. Thanks to the bitter cocktail of unilateralism, arrogance, and incompetence that has characterized so much of the Bush administration's policy, American support could turn into the kiss of death for reformers. The easiest way to sideline a reform is to claim that it is pro-American. That is the line being taken by reactionaries within every country from Kuwait to Algeria.

Recent events aren't helping. Abu Ghraib has confirmed the worst suspicions of every Arab. Middle Easterners are shocked by the images, but their broader feeling is that America is hypocritical. Saudi Arabia's Crown Prince Abdullah, whom I met in Jeddah, said with great passion: "The people who committed these acts at Abu Ghraib are a small group of deviants, I'm absolutely sure... that they do not represent the American people, who have high moral standards. But also understand that the people who committed those terrible acts on September 11 were not representative of the Saudi people. The American people are pure and good, as are the Saudi people. Small groups of deviants do not represent their respective societies."

Competing for space with the Abu Ghraib pictures on the front page are ones from Rafah. Every pro-American reformer I spoke to complained about the administration's blind support for Ariel Sharon and pleaded that we become much more engaged to make peace. Sawiris said, "If 300 million Arabs believe that you're being totally unfair, surely it should make you pay some attention."

Anti-Americanism is morphing from a purely anti-Bush phenomenon into a much broader cultural attitude. Samar Fatany, a Saudi woman who has a weekly radio show, said to me, "If you continue on your present path, you will have no partners in the Middle East. In my generation there are thousands of people who studied and lived in America, who know America, love it, and understand that you can make mistakes. We explain America to our people. But in this next generation, you are creating so much bitterness. They don't understand you, and they don't want to understand you. What will come of that?"

The results will be bad for both sides. Arab reform, which can and should be helped by American efforts and contacts, will not go as far as it could. And American interests and security will suffer in this rising tide of hatred. What could have been a policy of "win-win" is now becoming "lose-lose."

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assisting reform efforts. These moves in turn led the Europeans to develop their own set of proposals. Some of the administration's rhetoric was heavy-handed (surprise, surprise), but champion-

ing has nothing changed economically or politically to this day?" Sawiris argued that reform remains stymied by economic and political elites who fear losing power. At the end of the session the



An Iraqi father reaches over barbed wire taking his son from an unidentified relative who brought the boy for a brief visit to see him as he takes part in a day two of a three day sit-in by families in tents set up outside the Abu Ghraib prison, west of Baghdad, demanding the release of their loved ones 25 May 2004.

PHOTO: AFP

The book is of course not just a history of evolution of economic policy in India; a critical examination of policies followed is a far more important objective of the essays contained in it. This the author does skilfully and in considerable detail, bringing to bear a lifetime of expertise and experience. Dhar calls the book, a 'la Keynes, a collection of essays in persuasion. Those he seeks to persuade, I believe, are primarily Indian policy-makers and students of development, but their counterparts in Bangladesh and Pakistan, which after all share with India some of the heritage that has in various ways influenced their economic performance, will also find the story interesting and instructive.

The book is about the "changing nature of India's political economy", which makes it interesting. Students of Indian economic development will be familiar with many of the landmarks Dhar revisits: the Second Five Year Plan (1956-1961), crafted by Mahalanobis, that sought to lay the foundations of Nehruvian socialism, with its emphasis on the public sector; the crisis of the mid-1960s which exposed the weaknesses of Indian economic policy, particularly its neglect of agriculture and its export-pessimism; the disastrous results of the devaluation of 1966, partly as a consequence of the promise of external financial not materializing; the constraints imposed by the Indo-China and Indo-Pakistan conflicts; the crisis of political leadership of the 1960s and the break-up what Dhar calls the "Nehruvian consensus"; the oil crisis of the early 1970s; and the financial crisis of the 1990s.

Fareed Zakaria is Editor of Newsweek International.

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Economic policy in a functioning democracy

MAHFUZUR RAHMAN

INDIA'S economic policies have evoked more interest than those of perhaps any other developing country. This is partly because of the size and diversity of the country and partly because the achievements and failures of its economic policies have often been seen as test of the efficacy of its cherished democratic political traditions. For years its slow rate of growth -- the "Hindu rate" -- was a matter of curiosity to students of economic development. Its more respectable performance in recent years has again attracted attention, particularly because it contrasted with slow growth and stagnation in much of the developing world. P.N. Dhar, now Professor Emeritus at the Institute for Economic Growth in Delhi, a close associate of Indira Gandhi in the 1970s, and a former high United Nations official dealing with economic policy analysis, has seen it all.

The Evolution of Economic Policy in India is a selection of essays written over some four decades. Some of the earlier chapters, written in the 1960s, tend to stand out rather as staccato variations on the central theme. The main theme of the book, the evolution of economic policy in India since the 1950s, is discussed in a number of major chapters, also written over a number of years, the most recent one in 1993. Essays written on the same set of issues at different points of time are bound to contain overlaps and this is true of some of these chapters.

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Book Review

The Evolution of Economic Policy in India: Selected Essays

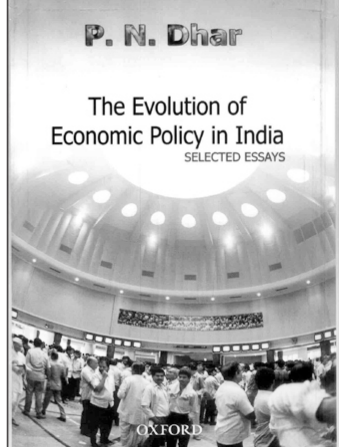
By P.N. Dhar

Oxford University Press, New Delhi. 251 pages.

The Indian economy may not have been actually shining as brightly as the ruling political party claimed in the days before the recent elections, but the achievements, made within a democratic political framework that can be an envy of other developing countries, has been considerable. One of the major failings of economic policy that Dhar stresses is the lackluster performance of manufacturing industry. The original expectation, he reminds us, that heavy industry would lay the foundation of rapid industrialization was frustrated by excessive regulation and control as well as by policy objectives in a federal framework of the country that served purposes other than those of rapid industrial growth.

In a book devoted to economic policy, one naturally expects to find out whether the achievements and failures can be attributed to policy successes and failures. It is a measure of the complexity of issues of economic development that the answer is "complicated by the fact that in the course of the last three-and-a-half decades there has been constant need to arrange and rearrange priorities between development objectives and to adjust to circumstances as they evolved". There is no better way to say that there is no simple answer to such questions. One can easily argue, however, that the answer can apply to any other country. Dhar expresses his frustration that Indian policy makers are apt to make policy changes only in a crisis. Here too India is not alone.

To Dhar, acceleration of economic growth must be a critical goal of economic policy if poverty is to be reduced. Here, inevitably, the emphasis is on policy reform. But, in a democratic society, the success of reform will depend on "the political management of change" that can be exceedingly difficult. To start with, political "excesses" of the past that resulted from the failure to distinguish between instruments and objectives have to be dealt with. Examples of such excesses abound: the process of import substitution was carried beyond the requirements of protection of infant industry; the growth of the public sector was nurtured without regard for its costs and returns; while policies of protection of workers' rights were laudable by themselves, they were made use of to the point



where organized labour itself became an "exploitative class". Similarly, policies that ushered in the green revolution also created a strong political interest group among rich and middle-income that still clings to state subsidies those policies started with.

The author's emphasis on growth as the primary instrument to reduce poverty will be acceptable to many. He does not dismiss other instruments to achieve that objective but calls for making existing poverty reduction programmes more cost-effective. Perhaps more importantly, he warns against purely populist measure such as artificially raising the minimum wage. One wonders, nevertheless, whether there is any automatic link between high economic growth in the aggregate and, say, provision of clean drinking water in the remote villages, where the bulk of the poor still lives. To cater to such needs must also be a part of the "political economy" of reform and development. The recent elections in India seem to suggest how, in a democracy, reformist regimes can founder on their inability to supply basic amenities for the poor. Perhaps these considerations should play a larger role in policy than Dhar seems to assign them.

Dhar unambiguously opts for an open economy. He commends the economic reforms initiated a decade ago in deregulation of industry, liberalizing foreign trade, and devaluation of the rupee, but emphasizes what still needs to be done: reduction of subsidies, reform of the public sector, review of labour legislation. But the critical areas of reform are those "in which vested interests, the beneficiaries of old policies, are bound to be hurt, and therefore, are politically difficult to manage", a statement with which it is easy to agree.

Dhar points the finger to a number of such interests in the Indian context, especially organized labour, farm interests, big and medium, and even small-scale industries that can mount powerful political lobbying. He reserves some of his sharpest criticism for organized labour, the labour aristocracy, as he calls them. Here and elsewhere his critics might easily detect a certain ideological

colour, which Dhar, to his credit, makes no attempt to hide. His ready acceptance of the inevitability of the diminution of national sovereignty in an increasingly interdependent world economy will also not meet with ready approval from anti-globalisers. Neither is he overly eager to criticize the IMF.

Most readers conversant with the voluminous literature on economic reform in developing countries and Indian economic history will, I believe, find themselves on familiar grounds in much of the book. An important exception is the somewhat discursive Epilogue where he puts the future of the Indian economy in the context of recent developments in the world economy and polity, and in the regional context. In the latter, Dhar devoted considerable space to the country's relationship with Pakistan. Far more than trade and other economic relationships with its neighbour to the west with which it fought three wars, it is the political relationship between the two countries that concerns him. It is interesting to see him delve at some length into the question of the nuclear equation between the two countries and issues of Kashmir.

This may be strange in a book on economic policy. But it can be argued, without necessarily sharing all his points of view on the subject, that here Dhar has come down from the proverbial ivory tower of economics to a very real world of geopolitics that can either nurture or stifle economic development. He wishes India to take the lead in allaying suspicion and fear of its smaller neighbours and "lead the subcontinent out of its fractious history". In the discussion of regional relations his concern is, of course, the place of India in the region and the world. But, refreshingly, he also stresses the preservation and strengthening of secular and democratic traditions of the country as a way to secure that place.

Postscript. How would Nehru have acted as leader of India had he been alive today? The leader of the independence movement and prime minister of the country during its first seventeen formative years makes several cameo appearances in the book. The author's admiration for Nehru is evident in its pages. In an appendix to the book Dhar attempts to rescue Nehru from Nehruites, and presents him as an eclectic thinker who would have altered his socialist policies to meet the requirements of changing times. A number of Nehru's actions and pronouncements towards the end of his life are presented as evidence. The least one can do is to give the man the benefit of the doubt. The pages of the appendix are among the most interesting in the book.

Mahfuzur Rahman is a former United Nations economist.