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**Pursuing Globalism:  
Strategic Rivalry and the Continuity of Economic Openness**

by

Jalal Alamgir

B.A., St. Lawrence University, 1993

A.M., Brown University, 1995

Thesis

Submitted in partial fulfillment of the requirements for the

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This dissertation by Jalal Alamgir is accepted in its present form by the  
Department of Political Science as satisfying the dissertation requirements for  
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Date May 15, 2000

Thomas J. Biersteker

Thomas J. Biersteker, Director

Recommended to the Graduate Council

Date May 15, 2000

Robert Wade

Robert Wade, Reader

Date May 15, 2000

Dietrich Rueschemeyer

Dietrich Rueschemeyer, Reader

Approved by the Graduate Council

Date 17 May 2000

Peder J. Estrup

Peder J. Estrup  
Dean of the Graduate School and Research

## ANECDOTES AND ACKNOWLEDGMENTS

Lord, grant that my discovery may increase knowledge and help other men. Failing that, Lord, grant that it will not lead to man's destruction. Failing that, Lord, grant that my article may be published before the destruction takes place.

- Walker Percy, *Love in the Ruins*

Writing a dissertation is difficult business. Here's some evidence to back my hypothesis. First I had to survive fieldwork, our version of manual labor. Everyone is suspicious in South Asian cities, and being a data-digger there is like being a foreign spy. I've been interrogated by officers in khakis and beret, even detained for mistaken identity. They wheedled out of me a written oath to not sour relations between India and other countries. I've been in auto accidents in highways teeming with "a million mutinies," and scoffed countless times for insisting on what I thought were my inalienable rights. I grew up in South Asia; I was happy to be back, still happier to rediscover it through the corrective lenses of Ph.D. research.

To keep things in perspective I would read paperback thrillers at night. Robert Ludlum's *The Cry of the Halidon* took two nights off my schedule, but I was particularly interested in it since the protagonist is an ex-academic. Alex McAuliff left the university because he found it a bleak environment: there's neither glamour nor glory, only a vague belief you're serving a higher purpose. As Dr. Amit Mitra, another ex-academic who now runs a business group in India, told me over the phone, trying to dodge an interview: "its value-addition to most people outside is minimal." McAuliff went on to become a spy. I

lost heart sometimes, facing such disparaging attitude toward intellectuals, but I braved it, and stayed on.

Before I left for the field, I had learned that scholarship is antiseptic: we should try to disinfect our writing with pure data. Unfortunately in South Asia, where identities are simultaneously fluid and rigid, such highbrow customs are greeted with the kind of sham respect that was once accorded to Victorian etiquette. While in India, I went to visit a famous economist, Prabhat Patnaik, whose works I had read with keen interest as an undergraduate. I began to describe my project. My methodical presentation, which I am sure would have fetched me an “A” in America, drew visible annoyance in that damp university room. “Really,” he asked, raising his hands, “are you a journalist or a scholar?” I was toting around a journalistic notepad, to be sure, but life, Dr. Patnaik was trying to tell me, was neither singular logic nor *ceteris paribus*.

I didn’t get rid of the notepad; I needed it. “Always take notes, otherwise you’ll forget things.” This was Robert Wade’s invaluable advice for success in fieldwork. I complied dutifully. And when it came to conducting interviews I chose a pad over a tape recorder. I wanted to interpret text and give it social meaning, instead of taking the lightly spoken word as gospel.<sup>1</sup> I am of the conviction that careful and contextual translation of primary data has brought me closer to “the truth.” Save us that liberty or let Gallup Polls reign.

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<sup>1</sup> I thought of Gabriel Garcia Marquez. Before he took up writing novels he was a journalist. Here’s what he said: “The tape recorder listens, repeats—like a digital parrot—but it does not think; it is loyal, but it does not have a heart; and, in the end, the literal version it will have captured will never be as trustworthy as that kept by the journalist who pays attention to the real words of the interlocutor and, at

Back on campus in 1998, in one piece and with sheaves of yellow paper, I was expecting a final hurdle, the proverbial nightmare for all dissertation writers. But to my relief and eternal gratitude my advisors didn't ask for a complete reworking of the project. Let me start by thanking Thomas Biersteker. My early forays into the subject of globalization were prompted by his research, for which I twice served as a paid assistant. When I passed my Comprehensive Exams, Tom inducted me as an ABD (All-But-Dissertation) student by proclaiming, "you are no longer a consumer of knowledge, you are now a producer of knowledge." My first effort at producing knowledge would have been scarcely complete without his supervision, criticism, generosity of time, and benign neglect of occasional foible. As a result I am spoiled now, and I should warn him that I'm counting on the same standard of support in future!

Dietrich Rueschemeyer innocently offered prompt critique on a number of my projects, which allowed me to later trap him into being a reader of this thesis. I had mentally prepared an impassioned entreaty to persuade him to work with me, and I thank him for sparing me the effort. Robert Wade contributed many valuable suggestions along with a list of people to "ring up and talk." Had I been more proactive about meeting him at least once for lunch during my hectic final semester, I certainly would have had the benefit of additional suggestions and a longer list—but I'm sure it's my loss.

The research was funded by three fellowships. The Center for the Comparative Study of Development gave me a Pre-Dissertation Research Award in summer 1996 to

---

the same time, evaluates and qualifies them from his knowledge and experience." Marquez, "The Best Job in the World," *Index on Censorship* 26 (3), May/June 1997, p. 80.

unearth preliminary data. A Field Research Fellowship from Brown University Graduate School financed my stay in South Asia between July 1997 and May 1998. A Doctoral Fellowship from the Watson Institute for International Studies sponsored the first year of writing, 1998-1999. The Centre for Policy Research in New Delhi and the Southern Asian Institute at Columbia University provided excellent institutional facilities.

I am especially indebted to Isher Judge Ahluwalia and Jayedeva Uyangoda, without whose strong support in the subcontinent my work would have been very difficult. In addition I received suggestions and encouragement from Balveer Arora, Sanjaya Baru, Amit Bhaduri, C. P. Bhambri, B. Bhattacharya, James Der Derian, Bishwajit Dhar, Rodney Bruce Hall, Rounaq Jahan, Borhanuddin Khan Jahangir, Ayesha Jalal, Atul Kohli, Craig Murphy, Deepak Nayyar, V. A. Pai Panandiker, S. Shiva Ramu, Ahmed Samatar, Eswaran Sridharan, Grahame Thompson, and Ashutosh Varshney. I should add the disclaimer that not everyone here shares all my views.

I thank Mr. and Mrs. Ahad, who insisted on having me stay for four months in their house in New Delhi, and quickly became a second family to me. Heartfelt thanks also go to Anne Ranasinghe, who hosted me in her lovely home in Cinnamon Gardens in Colombo, arranged for a few interviews, and shared with me over dinner both her poetry and politics, not to mention the post-dinner Scrabble games “to keep our faculties running.”

My mentor, friend, coach, and boss, Linda B. Miller, willingly took on the additional role of Jewish Mother to prod me in the right directions. She and Fred Fullerton allowed time off my duties at the *International Studies Review* so I could meet

impending thesis deadlines. An acclaimed editor, Linda crusades against the ubiquitous use of “however” in modern English writing. Expunging several hundred from this manuscript was, to say the least, fanatical abuse of what could have been for me many productive hours at day trading—but doubtless, the text reads better now.

I thank my unbeatable brother Joy for his daily phone calls, Amita for her humor, comments, and companionship, Deepa and Nagesh for providing sustenance and making sure I don’t forget the discontents of capitalism, Liz-Ann for bolstering my spirits, Minuka for email counseling, Rachel for emphasizing the power of good writing, Rich for pressing me to finish before he did, and Tanvir for taking care of social obligations since we were twelve.

Wrapping up the dissertation will end a convenient conversation topic. Whenever we talked over the phone for the past two years, Abba would first ask me, without fail, “how many chapters?” I should confess now that sometimes I had to make up numbers: “I’m at Chapter 4, Abba.”

“But last time you said you were done with 4,” he would insist.

“So how’s your health?” I would try to wriggle away.

Amid such confusion, Amma would step in graciously to reassure me: “It’s ok; whether you finish now or never, as long as you turn out to be a good person...”

For you two, a hearty bow: you’re great scholars, inspiring social workers, and by far the best parents I’ve ever met. To you I dedicate this work, all in all eight chapters, I promise.

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## LIST OF ABBREVIATIONS AND ACRONYMS

ASEAN	Association of South-East Asian Nations
Assocham	Associated Chambers of Commerce and Industry (India)
BJP	Bharatiya Janata Party
CII	Confederation of Indian Industry
CITU	Centre of Indian Trade Unions
CPI	Communist Party of India
EEC	European Economic Community
EOU	Export Oriented Unit
EPZ	Export Processing Zone
ESAF	Enhanced Structural Adjustment Facility
EU	European Union
FDI	Foreign Direct Investment
FICCI	Federation of Indian Chambers of Commerce and Industry
FIPB	Foreign Investment Promotion Bureau (India)
GATT	General Agreement on Tariffs and Trade
IFC	International Finance Corporation
IFI	International Financial Institutions
IMF	International Monetary Fund
INC	Indian National Congress

MIGA	Multilateral Investment Guarantee Agency
MNC	Multinational Corporation
NGO	Non-Government Organization
OECD	Organisation of Economic Cooperation and Development
PSU	Public Sector Unit
RBI	Reserve Bank of India
SAARC	South Asian Association for Regional Cooperation
SAF	Structural Adjustment Facility
SDR	Special Drawing Rights
SEBI	Securities and Exchange Board of India
SEZ	Special Economic Zone (China)
TNC	Transnational Corporation
TRIMs	Trade-Related Investment Measures
TRIPs	Trade-Related Intellectual Property
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNRISD	United Nations Research Institute for Social Development
WTO	World Trade Organization

## CHAPTER ONE

### The Puzzle: The Continuity of Economic Openness

Given the democratic nature of our political system, it's a miracle we have got this far.

- Manmohan Singh (Indian Finance Minister, affiliation: Congress)  
Commenting on policy continuity, *Financial Times*, 30 September 1993

Reversing economic liberalization is ruled out.

- Deve Gowda (Indian Prime Minister, affiliation: United Front)  
Interview with *Newsweek*, 16 December 1996

We in India are committed to globalization.

- Yashwant Sinha (Indian Finance Minister, affiliation: BJP)  
Speech at Davos World Economic Forum, 1 February 1999

The extensive protests in Seattle last year and Washington, DC this year seemed to have awakened America to a sudden discovery of popular discontent against globalization. A greater surge of discontent has been rumbling in India for almost a decade now. India began to open up its economy definitively in mid-1991. The political and economic circumstances were volatile, and it seemed that it would take a “miracle” to sustain economic openness in a country as diverse and politicized as India. Over the next nine years, policymakers confronted a steady wave of protests, strikes, lockouts, civil disobedience, even violence—from social groups, organized labor, producer and business associations, nationalist parties, environmentalists, and intellectuals. The government in India changed five times in nine years, but the process of opening up the economy continued unabated. Since 1991 there has been only one notable policy retrenchment from globalization, and successive Indian governments, regardless of party, have affirmed that reversal of outward orientation is “ruled out.”

India's relentless policy continuity is baffling. After decades of inward-looking policies, how did India manage to switch its economic direction with such persistence? Conventional narratives of globalization identify two causes. First and foremost, the change is attributed to a balance of payments crisis that hit the Indian economy in 1991, in the wake of the Gulf War. This view is consistent with the general economics literature that identifies a similar pattern of crisis-led policy change elsewhere in the developing world.<sup>1</sup> Leftist perspectives in India also acknowledge the role of the crisis, and indicate, in addition, the influence of Indian businesses, restating the classic Marxist argument that the move toward a market economy has been orchestrated and sustained by the bourgeoisie.<sup>2</sup> But questions remain. If economic crisis prompted liberalization, we should expect that constant political crises and turbulence would also prompt appropriate policy responses. It is not rational for weak, coalition governments to continue openness at substantial political cost—costs that are evident in Indian voter behavior. Earlier efforts at liberalization were piecemeal at beginning and extinguished prematurely mostly because of domestic political difficulties.<sup>3</sup> And the Marxist perspective unrealistically

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<sup>1</sup> The literature on crisis-led reforms in both India and other developing countries is vast. See for instance Joan Nelson, ed., *Economic Crisis and Policy Change: The Politics of Adjustment in the Third World* (Princeton, NJ: Princeton University Press, 1990); Ian Little, Richard Cooper, W. Max Corden, and Sarath Rajapatirana, *Boom, Crisis, and Adjustment: The Macroeconomic Experience of Developing Countries* (New York: Oxford University Press, 1993). On India, see Vijay Joshi and I. M. D. Little, *India: Crisis, Adjustment, Growth* (Oxford: Oxford University Press, 1993).

<sup>2</sup> There has been a steady stream of articles corresponding to this view in *Economic and Political Weekly*.

<sup>3</sup> Both Indira Gandhi and Rajiv Gandhi initiated efforts at liberalization. See Atul Kohli, *Democracy and Discontent: India's Growing Crisis of Governability* (Cambridge, UK: Cambridge University Press, 1990), chapter 11; Lloyd I. Rudolph and Susanne Hoeber Rudolph, *In Pursuit of Lakshmi: The Political Economy of the Indian State* (Chicago: University of Chicago Press, 1987), chapters 7 and 8.



takes the bourgeoisie to be a unified whole. Evidence indicates that Indian capitalists, in fact, were deeply divided over economic openness.<sup>4</sup>

The second narrative underscores the influence of international financial institutions (IFIs), such as the World Bank and the IMF. The conditionalities of policy-based lending are said to compel India to open up the economy. This explanation finds strong support in a larger body of literature that examines similar compulsions in other developing countries.<sup>5</sup> As in the first narrative, closer inspection reveals shortcomings. India is a large, resourceful country with a strong prior record of independence from the influence of international organizations. Moreover, most of its policy struggles with the IFIs have been about fiscal deficit and domestic, not external, liberalization. Indian policymakers seem to have implemented pro-globalization policies preemptively and out of their own volition.

The general literature on globalization and policy reform provides some cues in addition to these two Indian narratives. One powerful stimulus for continuity is expressed simply by the adage, “nothing succeeds like success.”<sup>6</sup> If policies are successful in raising the external balance, investment, and growth rate, they can create new constituencies and interests to support subsequent policymaking toward continuity of openness.<sup>7</sup> On the

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<sup>4</sup> Chapter 3 elaborates on these narratives in greater detail.

<sup>5</sup> An early, but impressively comprehensive, study is Paul Mosley, Jane Harrigan, and John Toye, eds., *Aid and Power: The World Bank and Policy-Based Lending*, 2 vols. (London: Routledge, 1991). For more see Stephan Haggard and Robert R. Kaufman, eds., *The Politics of Economic Adjustment* (Princeton, NJ: Princeton University Press, 1992).

<sup>6</sup> This is how Jagdish Bhagwati put it, discussing “favourable factors” that might sustain economic reforms in India. Bhagwati, *India in Transition: Freeing the Economy* (Oxford: Clarendon, 1993), p. 92.

<sup>7</sup> See Dani Rodrik, “The Rush to Free Trade in the Developing World: Why So Late? Why Now? Will It Last?” in Stephan Haggard and Steven B. Webb, eds., *Voting For Reform: Democracy, Political Liberalization, and Economic Adjustment* (New York: Oxford University Press, 1994).

other hand, economic growth in India, as in many other countries, was accompanied initially by worsening inequality, against which Indian constituencies did not hesitate to act, both with the ballot and on the streets. It seems unlikely that pro-openness political forces would develop rapidly and solidly without marked improvement in poverty and social development, especially under a democratic and federal system with frequent coalition governments and a long history of apprehension about free markets. The performance-based explanation also does not specify how macro-level performance figures might translate into interest articulation in favor of reforms despite sectoral variation and rural-urban divides.

A final approach emphasizes that bureaucratic competence or insulation of technocrats from political demands may provide continuity for risky policies. Like the other explanations it contains elements of truth, but is inadequate to shed sufficient light on continuity. Major studies of India's bureaucracy report negative results, showing that inefficiency, corruption, patronage, and a lack of professionalism, coupled with gigantism and democratic restraints, have turned India into a "failed developmental state," particularly compared to East Asian bureaucracies that successfully harmonized the costs of openness with domestic political interests.<sup>8</sup> Although technocrats played a crucial role in devising policies, India's bureaucracy seems hardly capable of orchestrating the level of political and economic consensus needed to continue policies toward openness.

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<sup>8</sup> Ronald J. Herring, "Embedded Particularism: India's Failed Developmental State," in Meredith Woo-Cumings, ed., *The Developmental State* (Ithaca, NY: Cornell University Press, 1999); Peter Evans, "The State as Problem and Solution: Predation, Embedded Autonomy, and Structural Change," in Stephan Haggard and Robert R. Kaufman, eds., *The Politics of Economic Adjustment* (Princeton, NJ: Princeton University Press, 1992); Robert Wade, "The Market for Public Office: Why the Indian State is Not Better at Development," *World Development* 13 (4), 1985, pp. 467-497; John P. Lewis, "Some Consequences of Gigantism: The Case of India," *World Politics* 43 (3), 1991, pp. 367-389.

In short, conventional explanations of India's path to economic openness are not inaccurate, but incomplete. The mainstream literature on globalization affirms these explanatory factors particular to India and other developing countries, and points out the additional role of technology and transnational corporations (TNCs).<sup>9</sup> Nuances aside, the general argument is that the sophistication of technology, the mobility of finance, and the reach and intricacy of transnational business have all exceeded state capacity for effective regulation. States, therefore, have no recourse other than to "surrender to markets."<sup>10</sup> This view implies that continuity is a result of policy paralysis due to the technology-centric logic of contemporary capitalism. But these explanations, like the other narratives, also seem limited. A careful reading of policy documents, legislation, speeches, and interviews in India would challenge the notion of "helplessness" in face of world market forces. The causal direction, in fact, seems to be the reverse: Indian policymakers have proactively continued to open up *in order to* increase access to technology, finance, and transnational business.

### Toward an Alternative Approach

In this dissertation I intend to venture an alternative understanding of policy continuity by discarding some of the assumptions and conventions of mainstream narratives. The first step is to conceptually separate cause from continuity. The narratives reviewed above conflate the two, attributing the *continuity* of economic openness to the same factors that are said to *cause* openness. A crisis that leads to policy change cannot

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<sup>9</sup> This literature is reviewed extensively in chapter 2.

<sup>10</sup> The phrase comes from Erik R. Peterson, "Surrendering to Markets," *The Washington Quarterly* 18 (4), 1995, pp. 103-116.

account for policy continuity through subsequent crises. There is nothing inherent about a triggering event that assures policy continuity, and in many cases crisis-led policy changes have been temporary. Malaysia's imposition of capital controls during the Asian Financial Crisis is one example. This study aims to explain continuity.

Second, I "bring the state back in."<sup>11</sup> Continuity cannot be explained without looking at who enacts policy and why; therefore, the agency of the state is crucial. Revisionist approaches to globalization have pointed out persuasively that the state is far from powerless. In fact, as studies by Eric Helleiner, Ethan Kapstein, Louis Pauly, and Linda Weiss show, it is the state that authors the policies that create space for globalization to flourish.<sup>12</sup> Even when states choose not to intervene in the market, that itself is a policy statement that market actors must trust in order to function efficiently. States enforce regulations, and complex capitalism requires sophisticated rules. The pursuit of wealth and economic prosperity, modernization, industrialization, and social development are phenomena that are still nation-centric, promoted vigorously by state policies.<sup>13</sup> States, finally, are not passive because they compete economically, politically, and ideologically against other states and non-state actors.

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<sup>11</sup> Peter B. Evans, Dietrich Rueschemeyer, Theda Skocpol, eds., *Bringing the State Back In* (Cambridge, UK: Cambridge University Press, 1985).

<sup>12</sup> Eric Helleiner, *States and the Reemergence of Global Finance* (Ithaca, NY: Cornell University Press, 1994); Ethan Kapstein, *Governing the Global Economy: International Finance and the State* (Cambridge, Mass.: Harvard University Press, 1994); Louis Pauly, *Who Elected the Bankers? Surveillance and Control in the World Economy* (Ithaca, NY: Cornell University Press, 1997); Linda Weiss, *The Myth of the Powerless State* (Ithaca, NY: Cornell University Press, 1998).

<sup>13</sup> See Paul Hirst and Grahame Thompson, *Globalization in Question* (Cambridge, UK: Polity Press, 1996); Robert Wade, "Globalization and Its Limits: Reports of the Death of the National Economy Are Greatly Exaggerated," in Suzanne Berger and Ronald Dore, eds., *National Diversity and Global Capitalism* (Ithaca, NY: Cornell University Press, 1996).

Third, I integrate economics with security as equally important contexts of state policymaking. International studies is conventionally bifurcated into the separate domains of political economy and security. Mainstream approaches to globalization are informed mostly by political economy perspectives, which tend to conceptualize globalization as an economic phenomenon that affects (or does not affect) the state's policy behavior. Students of security studies, on the other hand, expect state behavior to be shaped significantly by features of the world political or inter-state system—its anarchic order, hierarchical distribution of power, pressures of competition, and prevalent norms and institutions. The literature on globalization manages to overlook the significance of the world political system on state action. I concur with Jacob Viner's assertion fifty years ago that both "power" (security) and "plenty" (economics) are "proper ultimate ends of national policy."<sup>14</sup> Accordingly I interpret state policies toward openness as efforts to balance interests emerging from both. This study synthesizes security incentives with economic incentives into a composite explanatory variable termed *strategic context*.

Finally I assert that will, determination, or commitment go a long way toward explaining leaders' tenacity in continuing policies despite political turmoil and voter dissatisfaction. One example is the French government's failure to reduce unemployment in the nineties. This was explained conventionally as policy paralysis induced by the European Union. But Paul Krugman argues that there may be a more important reason: "French policy is indeed paralyzed—not, however, by impersonal market forces but by the determination of its prestige-conscious politicians not to let the franc decline against

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<sup>14</sup> Jacob Viner, "Power versus Plenty as Objectives of Foreign Policy in the Seventeenth and Eighteenth Centuries," *World Politics* 1 (1), 1948, pp. 1-29.

the German mark.”<sup>15</sup> Similarly, a number of economic theorists have argued that globalization does not automatically constrain state capacity to maintain egalitarian policies toward income distribution. Much of the policy incapacitation, in their view, lies in a lack of will, manifest in not cost-benefit calculations but a passive acceptance of neoclassical economic orthodoxy.<sup>16</sup>

The challenge is to uncover ideological mainstays that can provide a basis for will or commitment across governments, parties, or even economic programs. In other words, there are ideological currents embedded into *the state* itself, currents that inform long-term goals in public policymaking and provide continuity. I argue that *globalism* is such an ideology or a worldview. It refers to a strong awareness about the state’s power position in the world order, and a normative vision of where the state *should be* in the global distribution of power and status.

I integrate globalism as a variable that influences policy continuity toward openness. Policymakers at the helm of a globalist state can pursue important policies based on will, determination, prestige, or long-term teleological goals rather than short-term tactical objectives. They believe normatively that their state *deserves* a prominent, pro-active role in world affairs; that belief is a significant part of their nationalist project. Globalism facilitates, and even necessitates, outward orientation. The expansion and outward orientation of Britain and America, for instance, was justified and planned utilizing nationalist imaginations, aided not just by material capacity but by a sense of

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<sup>15</sup> Paul Krugman, *The Accidental Theorist* (New York: W. W. Norton, 1998), p. 77.

<sup>16</sup> See the essays in Dean Baker, Gerald Epstein, and Robert Pollin, eds., *Globalization and Progressive Economic Policy* (Cambridge, UK: Cambridge University Press, 1998).

destiny.<sup>17</sup> Capacity alone, as Fareed Zakaria argues, did not determine why US foreign policy in the nineteenth century was sometimes isolationist and sometimes expansionist (that is, globalist). In his study of US history, Walter LaFeber shows that US expansion in the late nineteenth century was fueled strongly by imaginative thinking about what the US role should be in world affairs. Similarly Stephen Ambrose's sketch of US foreign policy in the twentieth century details how "American" values such as anti-communism, racism, and economic aggressiveness played a significant part in impelling American leaders to choose outward orientation over seclusion.<sup>18</sup>

### The Argument in Brief

This study contends that policy continuity is explained by a dialectic relationship between two variables: *strategic context* and *globalism*. The relationship is dialectic because the two variables can provide contradictory incentives. A state's strategic context refers to its context of competition against its rival states. A state that confronts the same rival in multiple arenas of competition—economic, military, diplomatic, technological—makes realist policy decisions under a "thick" context. The existence of a thick context in addition to the existence of a globalist ideology elevates the importance of international rivalry relative to domestic political exigencies, raises the costs of ad hoc policymaking, provides strong incentives for policy continuity, and helps justify both

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<sup>17</sup> See, inter alia, Paul Kennedy, *The Rise and Fall of Great Powers* (New York: Random House, 1987); Michael Mandelbaum, *The Fate of Nations: The Search for National Security in the Nineteenth and Twentieth Centuries* (Cambridge, UK: Cambridge University Press, 1988).

<sup>18</sup> Fareed Zakaria, *From Wealth to Power: The Unusual Origins of America's World Role* (Princeton, NJ: Princeton University Press, 1998); Walter LaFeber, *The New Empire: An Interpretation of American Expansion 1860-1898*, 35<sup>th</sup> anniversary ed. (Ithaca, NY: Cornell University Press, 1998); Stephen E. Ambrose, *Rise to Globalism: American Foreign Policy Since 1938* (New York: Penguin, 1993).

outward orientation and continuity to domestic constituencies. The theory, concepts, and variables are elaborated in Chapter Four.

I illustrate and evaluate the theory by conducting a detailed study of India. I show that historically India shared a thin strategic context until about the 1960s. China and Pakistan were its major military rivals at that time. India's economic, diplomatic, and technological arenas of rivalry were undeveloped, poorly defined, and dispersed. Since the 1980s China has gradually emerged as the outstanding rival in those other arenas of competition as well, providing Indian policymakers a thick strategic context for policymaking. They are under increasing incentives to strategically match China's policies that can adversely affect India's position in trade, investment, military and diplomatic power, and technology. India's path to economic openness, therefore, reveals an imitative pattern of policymaking, resembling and in many cases following China's path toward openness.

At the same time, Indian policymakers have devised and conducted policies under globalist ambitions, which historically evolved out of India's anticolonial nationalist project. They have aspired to see India emerge as a strong global power, not just militarily but economically. Globalism acts as a prism that relates a state's normative international goals to its perceived power position vis-à-vis its main rival. Because globalism is embedded into Indian imaginations as a strong ideological influence, Indian policymakers have interpreted China's economic and military advances as natural threats to India's bid for regional hegemony, and therefore urgent and policy relevant. Together India's thick strategic context and globalist aims have ensured steady policy continuity in spite of domestic political turmoil.



## Organization of the Study

I begin by devoting two chapters to analyzing the literature and narratives on policy continuity toward economic openness. Chapter 2 reviews the general scholarship on policy continuity. It looks at two specific literatures, one on globalization and the other on economic reform. The survey shows that most approaches have either taken continuity for granted or embedded it into the same factors that are said to cause globalization. The economic reform literature provides specific factors that are said to influence the timing, the content, and the consolidation of reforms. These factors include international financial institutions, bureaucratic capacity, insulation of technocrats from political demands, ideas and epistemic communities, social learning, and material interests. After assessing their strengths and weaknesses the chapter concludes that these factors only provide a limited understanding of policy continuity.

Chapter 3 reviews the debates in India about its economic openness. It identifies and details two conventional narratives of openness. The first one highlights the role of the economic crisis of 1991 and the subsequent domestic political vicissitudes in setting the pace and scope of external liberalization. The second narrative underscores the importance of the IFIs. The chapter point outs the shortcomings of the two narratives, making a case for an alternative approach to better understand policy continuity.

Chapter 4 constructs a theoretical framework that is able to explain the degree of policy continuity by using the thickness of strategic context and the existence of globalism as the independent variables.

I evaluate the theory empirically by constructing an “analytical narrative,” containing elements of both a general framework for formal analysis and in-depth, context-specific understanding of cases.<sup>19</sup> An analytical narrative is distinct by being open ended. Although a theoretical framework guides the inquiry, the search for facts is open, allowing a deep immersion into the specifics of cases even though some specifics may seem impertinent to the hypotheses under evaluation. This in the end yields a narrative, rather than formally conclusive, mode of description and explanation.

Chapters 5 through 7 constitute the empirical exploration of India. Chapter 5 details the process of opening up India’s economy by looking at policy changes in five sectors: tariff rates, exchange rates, export promotion, foreign direct investment, and foreign portfolio investment. It notes a significant degree of resemblance or correspondence between India’s policies toward openness and China’s open-door policies. It concludes that Indian policymaking shows an imitative pattern, resembling, and in important instances, following China’s path toward openness.

Chapter 6 and 7 construct an analytical narrative, explaining the policy imitation and policy continuity. Chapter 6 examines the historical evolution of India’s political and military rivalry with China, going as far back as British colonial policies toward the northern frontier. Intertwined with the evolution of its strategic context is the emergence of globalism as an ideology, which envisioned India as a prominent world power. The perception of rivalry, along with the ideology, eventually underscored the need to acquire

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<sup>19</sup> Robert H. Bates, Avner Greif, Margaret Levi, Jean-Laurent Rosenthal, and Barry R. Weingast, *Analytic Narratives* (Princeton, NJ: Princeton University Press, 1998). Bates and his colleagues use a framework of game theory with assumptions of rational choice by players under a competitive situation, but supplement it with historical accounts of individual cases.

or develop outward-oriented strategic forces and such prestige weaponry as aircraft carriers and nuclear-tipped missiles.

Chapter 7 argues that India's strategic context vis-à-vis China began to get thicker since the eighties, as China emerged as a strong competitor in India's export markets. China's economic growth and progress in human development also became increasingly evident to Indian policymakers around this time. In the 1990s competition extended to attracting foreign investment and developing high technology. Using both secondary and primary interview data, I show how the thick context provided Indian policymakers with a strong stimulus to "catch up" with China and emulate Chinese policies. Globalism, at the same time, underscored the need to establish a fast-growing economy interconnected with the outside world. Together, strategic context and globalism ensure India's remarkable degree of policy continuity. I summarize the findings and propose some theoretical and empirical conjectures in the concluding chapter.

## CHAPTER TWO

### Policy Continuity: A Review of the Literature

The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back.

- John Maynard Keynes

*The General Theory of Employment Interest and Money, 1936*

Luke, you're going to find that many of the truths we cling to depend greatly on our point of view.

- Obi-Wan Kenobi

*The Return of the Jedi, 1983*

Scholarship on economic openness has been prolific empirically, yet limited theoretically. It has preferred to explain change rather than continuity. The central concern of the literature has been with the causes and the socio-political consequences of economic openness and change, but much less with the continuity of openness. Most works either take policy continuity as given, or attribute it to the same factors that are said to cause economic openness.

This chapter intends to highlight this theoretical lacuna by assessing two sets of scholarship that speak to economic openness: the literature on globalization and the literature on stabilization and structural adjustment. In addition the chapter refers briefly to works on hegemonic stability which contains useful, but limited, pointers on policy continuity.

## Exploring Continuity in the Scholarship on Globalization

Scholars have unleashed in recent years a torrent of works on globalization. But the basic concept still remains one that was spelled out a century and a half ago:

The bourgeoisie has through its exploitation of the world market given a cosmopolitan character to production and consumption in every country ... [It] has drawn from under the feet of industry the national ground on which it stood ... In place of the old wants, satisfied by the productions of the country, we find new wants, requiring for their satisfaction the products of distant lands and climes. In place of the old local and national seclusion and self-sufficiency, we have inter-course in every direction, universal inter-dependence of nations. And as in material, so also in intellectual production.<sup>1</sup>

What Marx and Engels describe is a moment<sup>2</sup> of international capitalism. Globalization today is evoked no differently—a moment or a phase from leftist or critical perspectives, or a trend or an outcome from more conservative approaches. In both political stances there is an undercurrent on the inevitability of globalization, albeit for different reasons.

### *Marxist and Critical Approaches: Continuity from Historical Inevitability*

In their concept Marx and Engels identified the transnational movement in visible, tradable goods. Bukharin and Lenin's works on imperialism brought attention to the international movement of (largely invisible) finance and its political significance. Analyzing the role of finance in the expansion of imperialism, Lenin noted: "finance

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<sup>1</sup> Karl Marx and Friedrich Engels, *The Communist Manifesto* (Harmondsworth, UK: Penguin, 1985; first published 1848), pp. 83-84.

<sup>2</sup> The term "moment" has several meanings in Marx's writings. Here it is meant as a snapshot or a stage in the timeline of history. Hegel also used the term in his writings, but differently. For him, it is an element or unit in the process of thought, which itself goes through stages and phases like a timeline.

capital, almost literally, one might say, spreads its net over all countries of the world.”<sup>3</sup>

Like international trade, this spread of finance capital was also a phase of capitalism.

Marxist and critical approaches continue to place globalization historically and logically within the larger context of capitalism. Since capitalism progresses generally toward greater international interactions, “it is a gross conceptual error to treat globalisation as a new phenomenon.”<sup>4</sup> Works by Robert Cox, Andre Gunder Frank, Samir Amin, Immanuel Wallerstein, Terence Hopkins, Roland Robertson, Paul Sweezy, Harry Magdoff, and Leo Huberman, among others, track globalization back to the genesis of capitalism in Europe in the 1600s, and even before that.<sup>5</sup> Robert Cox in this vein concludes:

For world-systems theorists, capitalism has always been global, whether its origins are traced to the seventeenth-century Eurocentric world or to more ancient civilizations—global in vocation if not in geographic extent. In this perspective, there is nothing different about the last three decades of the twentieth century.<sup>6</sup>

In their study of long-term cycles in the global economy, Hopkins and Wallerstein clarify that the period of 1945-1990s has been special as “the moment of the most massive expansion the world economy has experienced in the whole of the 500-year

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<sup>3</sup> See Nikolai Bukharin, *Imperialism and World Economy* (London: Merlin, 1987; first published 1915); Vladimir I. Lenin, *Imperialism: The Highest Stage of Capitalism* (New York: International Publishers, 1939; 1988 reprint used), p. 66.

<sup>4</sup> James Petras and Chronis Polychronirou, “Critical Reflections on Globalisation,” *Economic and Political Weekly* 32 (36), 1997, p. 2250.

<sup>5</sup> Roland Robertson, “Mapping the Global Condition: Globalization as the Central Concept,” *Theory, Culture and Society* 7 (2-3), 1990, pp. 15-30; Paul Sweezy, Harry Magdoff, and Leo Huberman, “Globalization—To What End?” *Monthly Review* 43 (9), 1992, pp. 1-18 (Part I) and 43 (10), pp. 1-19 (Part 2).

<sup>6</sup> Robert W. Cox, “A Perspective on Globalization,” in James H. Mittelman, ed. *Globalization: Critical*

existence of the modern world-system.”<sup>7</sup> Still, the sense for world-systems theorists as well as leftist approaches is that globalization is a stage of capitalism, an advanced stage in the same chronology of expansion that dates back to the seventeenth century or earlier. For them, while globalization carries with it distinct features, it does not require a separate theory, for it is subsumed under the greater theory of capitalism. The drive for the continuity of globalization is the same drive behind capitalist accumulation: the profit motive. As a material and structural trend at the system level, globalization, like capitalism, is relentless and independent from everyday decision-making and beyond the control of most social actors, short of a revolution meant to overthrow capitalism itself.

*Mainstream Approaches: Continuity from State Powerlessness*

Like Marxist perspectives mainstream approaches also associate globalization to capitalism, and highlight a quantifiable increase in the flows of international trade and finance trade and finance flows as its essence.<sup>8</sup> Some scholars contend that the world is not yet globalized.<sup>9</sup> But the sense is that we are moving toward a (future) stage in capitalism in which economic openness would be perfect, national boundaries and

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*Reflections* (Boulder, Colo.: Lynne Rienner, 1996), p. 21.

<sup>7</sup> Terence K. Hopkins and Immanuel Wallerstein, “The World System: Is There A Crisis?” in Hopkins and Wallerstein, eds., *The Age of Transition: Trajectory of the World System 1945-2025* (London: Zed, 1996), p. 1.

<sup>8</sup> See Richard O’Brien and Ingrid Iversen, eds., *Finance and the International Economy* (New York: Oxford University Press, 1990); John H. Dunning, *Globalisation: The Challenge for National Economic Regimes* (Dublin: Economic and Social Research Institute, 1993). For statistics, see *World Trade and Investment Report* for recent years, published by UNCTAD.

<sup>9</sup> Paul Hirst and Grahame Thompson, *Globalization in Question* (Cambridge, UK: Polity Press, 1996); Robert Wade, “Globalization and Its Limits: Reports of the Death of the National Economy Are Greatly Exaggerated,” in Suzanne Berger and Ronald Dore, eds., *National Diversity and Global Capitalism* (Ithaca, NY: Cornell University Press, 1996).

national economic management would be irrelevant, and economic affairs can be logically and effectively conducted at the supranational level. Globalization is deemed, in Peter Dicken's words, as a "more advanced and complex form of internationalization which implies a degree of functional integration between internationally-dispersed economic activities."<sup>10</sup> In this teleological movement toward an end-result, some, like Lester Thurow, see regionalization as "natural stepping-stones in an evolutionary process toward a truly global economy."<sup>11</sup>

Whether it has arrived or not, the consensus is that globalization is an evolutionary stage of capitalism. Ontologically, continuity is embedded into this logic or conception of evolution. The current trend of increasing economic openness, which is a part of this evolution, is a result of three causal factors, according to the mainstream approach: transnational corporations, technology, and financial markets. Although this approach does not analyze continuity per se, it intimates that these three factors lead to policy continuity by circumscribing the state's capacity for effective policymaking.

TNCs are powerful economic actors with a massive capital reserve. They are not loyal to territories; they "vote with their feet" or exercise the "exit" option if they are faced with unfavorable constraints imposed by the state.<sup>12</sup> They have located production

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<sup>10</sup> Peter Dicken, *Global Shift*, p. 1.

<sup>11</sup> Lester Thurow, *The Future of Capitalism* (New York: William Morrow, 1996), p. 120. Others contend that both globalization and regionalization are occurring simultaneously. See Charles Oman, *Globalisation and Regionalisation*; Michael Storper and Allen J. Scott, "The Wealth of Regions: Market Forces and Policy Imperatives in a Local and Global Context," *Futures* 27 (5), 1995, pp. 505-526.

<sup>12</sup> Barnet and Cavanagh, *Global Dreams*.



and distribution facilities worldwide in order to utilize labor and transportation cost differentials. In the words of Lester Thurow, “[f]or the first time in human history, anything can be made anywhere and sold everywhere.”<sup>13</sup> The important role of TNCs in creating transnational economic linkages cannot be exaggerated, according to Peter Dicken. He concludes forcefully: “The TNC is arguably the most important single force creating global shifts in economic activity.”<sup>14</sup> In *Global Dreams*, Barnet and Cavanagh paint an ominous picture:

By acquiring earth-spanning technologies, by developing products that can be produced anywhere and sold everywhere, by spreading credit around the world, and by connecting global channels of communications that can penetrate any village or neighborhood, these institutions [i.e., TNCs] we normally think of as economic rather than political, private rather than public, are becoming the world empires of the twenty-first century.<sup>15</sup>

In a book titled *The Retreat of the State*, Susan Strange detects other newer transnational sources of power that rival the state’s crucial functions of providing security, creating wealth, dispensing justice, and permitting freedom. Power is exercised substantially by the telecom giants, the mafia, the big six accounting firms, the insurance industry, international cartels, and even the “econocrat”-centered bureaucracy of international organizations. Consequently, “politics on the global scale cannot any longer be conceived as limited to the conduct of inter-state relations.”<sup>16</sup>

Technological advancements in transportation, telecommunication and computing

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<sup>13</sup> Thurow, *The Future of Capitalism*, p. 115. See also Barnet and Cavanagh, *Global Dreams*.

<sup>14</sup> Dicken, *Global Shift*, p. 8.

<sup>15</sup> Barnet and Cavanagh, *Global Dreams*, p. 14.

<sup>16</sup> Susan Strange, *The Retreat of the State* (Cambridge, UK: Cambridge University Press, 1996), p. 14.

have shrunk time and distance greatly, allowing research and development to take place in different locations, and still be integrated as the design process of a single product.<sup>17</sup> The most dramatic effect of technology has been in finance, as it has tied financial markets around the world in real time, effectively freeing capital movements from national control.<sup>18</sup> Those who have particularly studied international finance discuss the development of several products and institutions such as eurocurrency markets, regulatory and supervisory changes, even leadership and organization within banks as factors that have propelled globalization.<sup>19</sup>

Governance, particularly over international financial flows, has become difficult. Many relations and networks have spilled over substantially across national boundaries during the past decade, but no world government exists to regulate them.<sup>20</sup> More than anything else, Philip Cerny argues, financial globalization “circumscribes the policy capacity of the state.”<sup>21</sup> New financial instruments such as complex derivatives, electronic cash and credit, can easily cross borders using computers and telecom networks, making

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<sup>17</sup> Daniele Archibugi and Jonathan Mitchie, “The Globalisation of Technology: A New Taxonomy,” *Cambridge Journal of Economics* 19 (1), 1995, pp. 121-140; Leslie Budd, “Globalisation, Territory, and Strategic Alliances in Different Financial Centres,” *Urban Studies* 32 (2), 1995, pp. 345-360.

<sup>18</sup> Richard O’Brien, *Global Financial Integration: The End of Geography* (New York: Council on Foreign Relations Press, 1992); Philip G. Cerny, “The Dynamics of Financial Globalization: Technology, Market Structure, and Policy Response,” *Policy Sciences* 27 (4), 1994, pp. 319-342.

<sup>19</sup> Roy C. Smith and Ingo Walter, *Global Financial Services: Strategies for Building Competitive Strengths in International Commercial and Investment Banking* (New York: Harper and Row, 1990); O’Brien, *Global Financial Integration*, chapters 4 and 5.

<sup>20</sup> Consult Ethan Kapstein, “Governing Global Finance,” *Washington Quarterly* 17 (2), 1994, pp. 77-88; Hirst and Thompson, *Globalization in Question*.

<sup>21</sup> See in particular Philip Cerny, *Finance and World Politics: Markets, Regimes, and States in the Post-Hegemonic Era* (London: Edward Elgar, 1993).

governance in the traditional form difficult.<sup>22</sup> Flows of short-term speculative capital increase greatly the vulnerability of nation-states. The prospect of “capital flight can now discipline all nation state governments.”<sup>23</sup> A case in point is the massive capital flight from Asian markets in 1997-1998, which led to a dramatic reduction in the value of national currencies and a shortfall in foreign reserves. Global finance forces governments in advanced industrial countries also to “surrender to markets,” argues Erik Peterson.<sup>24</sup> In a study on capital controls in Japan, Germany, France, and Italy, John Goodman and Louis Pauly find that globalization and the technological changes associated with it made it easier for financial firms to pursue “strategies of evasion and exit,” undermining the utility of capital controls as a policy instrument.<sup>25</sup> Benjamin Cohen points out an inherent incompatibility among exchange rate stability, capital mobility, and national policy autonomy—he calls the combination “the unholy trinity.” Governments that have chosen to have open financial markets are particularly prone to the effects of this trinity. Cohen concludes,

At a minimum, financial globalization has put governments distinctly on the defensive, eroding much of the authority of the contemporary sovereign state. At a maximum, it may have irreversibly altered the meaning of geography in the world economy today.<sup>26</sup>

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<sup>22</sup> Don Tapscott, *The Digital Economy* (New York: McGraw Hill, 1996); Stephen J. Kobrin, “Electronic Cash and the End of National Markets,” *Foreign Policy* 107, 1997, pp. 65-77.

<sup>23</sup> Katherine Verdery, “Whither ‘Nation’ and ‘Nationalism’?” *Daedalus* 122 (3), 1993, pp. 37-46.

<sup>24</sup> Erik R. Peterson, “Surrendering to Markets,” *The Washington Quarterly* 18 (4), 1995, pp. 103-115. See also Walter Wriston, *The Twilight of Sovereignty* (New York: Scribners, 1992); Paul M. Kennedy, *Preparing for the Twenty-First Century* (New York: Random House, 1993); William D. Coleman, *Financial Services, Globalization, and Domestic Policy Change* (New York: St. Martin’s, 1996).

<sup>25</sup> John B. Goodman and Louis W. Pauly, “The Obsolescence of Capital Controls? Economic Management in an Age of Global Markets,” *World Politics* 46 (1), 1993, pp. 50-82.

<sup>26</sup> Benjamin J. Cohen, “Phoenix Risen: The Resurrection of Global Finance,” *World Politics* 48 (2),

Scholarship on the influence of these systemic developments on state power has a long intellectual pedigree. In 1968, Richard Cooper cautioned about the perils that economic interdependence spelled for the autonomy and effectiveness of national policymaking.<sup>27</sup> The next year Charles Kindleberger predicted, “the nation-state is just about through as an economic unit.”<sup>28</sup> Raymond Vernon, in his 1971 study of multinationals, claimed that state power to control corporations is waning: “[s]uddenly, it seems, the sovereign states are feeling naked.”<sup>29</sup>

Pronouncements about the end of the nation-state have become vociferous and voluminous since the early nineties. The loss of economic power has made the state “diminished,” submits Vincent Cable. The loss of authority in every direction, “upwards, sideways, and downwards,” has made it “hollow and defective,” asserts Susan Strange with characteristic eloquence.<sup>30</sup> This phenomenon of the state losing power is manifest, for its believers, in several ways. First, it entails a loss of independence in making policies oriented to the national economy. Mittelman, along this line of reasoning, alleges that the

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1996, pp. 268-296. See also Richard O'Brien, *Global Financial Integration: The End of Geography*.

<sup>27</sup> Richard Cooper, *The Economics of Interdependence: Economic Policy in the Atlantic Community* (New York: McGraw-Hill, 1968).

<sup>28</sup> See Kindleberger, *American Business Abroad* (New Haven, Conn.: Yale University Press, 1969), p. 207.

<sup>29</sup> Raymond Vernon, *Sovereignty At Bay* (New York: Basic Books, 1971), p. 3.

<sup>30</sup> Vincent Cable, “The Diminished Nation-State: A Study in the Loss of Economic Power,” *Daedalus* 124 (2), 1995, p. 27; Susan Strange, “The Defective State,” *Daedalus* 124 (2), 1995, pp. 55-74. See also Masao Miyoshi, “A Borderless World? From Colonialism to Transnationalism and the Decline of the Nation-State,” in Wilson and Dissanayake, eds. *Global/Local*, pp. 78-106; Jan Aart Scholte, “Global Capitalism and the State,” *International Affairs* 73 (3), 1997, pp. 427-452.

state is reduced to being merely “a transmission belt in the globalisation process,”<sup>31</sup> implying that it passively transmits the needs of global economic actors to its domestic jurisdiction rather than being actively focused on domestic compulsions. Similarly, Sjolander asserts, “[s]tates are relegated to the role facilitators in the adaptation of the national economy to the new realities of emerging international economic structures...”<sup>32</sup> The logic of policy continuity is embedded into these conceptions of state passivity.

Powerlessness also implies futility of traditional macroeconomic policy tools. A fiscal stimulus meant for the domestic economy may raise the exchange rate, adversely affecting the export sectors. Or, an effort to “cool an overheating economy by raising interest rates [may be] offset by an inflow of interest-sensitive funds from abroad.”<sup>33</sup>

The nation-state is said to erode furthermore in its reduced capacity for the basic provision of services “traditionally” expected from it. Philip Cerny argues that globalization is making it more difficult for state-based collective action to provide the three types of public goods it traditionally provided. It is affecting the provision of regulatory public goods, that is, property rights, currency, standards, and law, which allow the market to function properly; productive/distributive public goods, such as education, health, and public ownership of certain industries; finally, redistributive public goods, such as welfare services, and employment policies. “Indeed, globalization leads to

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<sup>31</sup> James H. Mittelman, “The Globalisation Challenge: Surviving at the Margins,” *Third World Quarterly* 15 (3), 1994, p. 439.

<sup>32</sup> Sjolander, “The Rhetoric of Globalization,” p. 608.

<sup>33</sup> Marina v. N. Whitman, “The State of Business: Global Competitiveness and Economic Nationalism,” *Harvard International Review* 15, 1993, p. 5.

a growing disjunction between the democratic, constitutional, and social aspirations of people ... and the increasingly problematic potential for collective action through state political processes.”<sup>34</sup> This failure questions the legitimacy of the state. In the final analysis, globalization is said to not just cause powerlessness leading to policy continuity, but jeopardize the very political foundations of the state: legitimacy, governance, and sovereignty.

### *Why Continuity is Not an Issue*

Critical and mainstream approaches to globalization have contributed to a voluminous literature on economic openness. Yet both conflate the cause of openness with its continuity, deeming continuity either inevitable as a stage in a historical movement or a result of policy paralysis of a state confronting the power of TNCs, technology, and financial markets.

There are additional conceptual reasons why continuity has been disregarded. If we reduce the various concepts of globalization to the barest minimum, the lowest common denominator (so to speak), then we are left with international *interactions*, particularly economic interactions, as the central feature of globalization. Although the degree of interactions is said to have reached “high” levels in the past few years, there seems to be no major ontological difference among Marx’s and Engels’s idea in the 1850s, the current concept of globalization, and the other related concepts such as

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<sup>34</sup> Philip G. Cerny, “Globalization and the Changing Logic of Collective Action,” *International Organization* 49 (4), 1995, p. 618.

interdependence or integration. Ernst Haas, for example, defined integration in 1964 as a continuing process of increasing “interaction and mingling so as to obscure the boundaries between the system of international organizations and the environment provided by their nation-state members.”<sup>35</sup> Robert Keohane and Joseph Nye in 1977 took “transnational interactions” as the central feature of interdependence. These interactions entailed “the movement of *tangible and intangible items across state boundaries* when at least one actor is not an agent of a government or an inter-governmental organization.”<sup>36</sup>

Because the central feature of globalization is indistinct from earlier systemic movements in the world economy, continuity cannot be theorized separately. Conceptually there is no *discontinuity*, no marked break or point of fundamental change that would allow us to be concerned about the continuity of globalization. Changes in systemic trends or orientation of actors have been progressing since the Second World War in the same direction, toward greater openness and interactions. The downtrends in economic interactions in the early seventies and early eighties have been a function of recessions rather than fundamental policy shifts. The absence of major retrenchment or arrest from the direction of progress toward openness, both conceptually and empirically, has made scholarship complacent about what makes continuity possible. Policy

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<sup>35</sup> Ernst B. Haas, *Beyond the Nation-State: Functionalism and International Organization* (Stanford, Calif.: Stanford University Press, 1964), p. 29. Integration as a concept was suggested even earlier, in 1957, by Karl Deutsch, but Deutsch was thinking of the world being integrated as a security community, which for him entailed a system of shared community sense and institutions to guide peaceful change. See Deutsch, et. al, *Political Community in the North Atlantic Area: International Organization in the Light of Historical Experience* (Princeton, NJ: Princeton University Press, 1957).

<sup>36</sup> Robert O. Keohane and Joseph S. Nye, Jr., *Power and Interdependence* (Boston: Little, Brown, 1977), p. 5.

continuity is given; it is a non-issue.

There is another reason that scholars have avoided, willy-nilly, the topic of continuity. Since globalization is an extensive as well as an intensive phenomenon, many scholars find it graphic, yet difficult to confine within precise parameters. Luis Roniger, for instance, identifies five major trends encapsulated simultaneously in globalization: transnationalization, continentalization, regional translocalization, popular localization, and hybridization/creolization.<sup>37</sup> Richard Falk observes “a new alignment of forces that is being crystallized by a constellation of market, technological, ideological and civilizational developments.”<sup>38</sup> A report by the UN Research Institute for Social Development sees globalization as a broad phenomenon entailing six major aspects: spread of democracy, spread of capitalism, increased mobility of capital, change in production systems and labor markets, technological change, and “the media revolution and consumerism.”<sup>39</sup> Gordon Laxer offers no fewer than eight features. He takes globalization to be simultaneously the internationalization of production, increased mobility of capital, deregulation, liberalization, heightened importance of information technology, trends toward standardization of tastes and preferences, the rise of a world culture, and an erosion of the nation-state.<sup>40</sup> James Mittelman, similarly, lists the features of

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<sup>37</sup> Luis Roniger, “Public Life and Globalization as Cultural Vision,” *Canadian Review of Sociology and Anthropology* 32 (3), 1995, pp. 259-286.

<sup>38</sup> Richard Falk, “State of Siege: Will Globalization Win Out?” *International Affairs* 73 (1), 1997, pp. 124.

<sup>39</sup> UNRISD, *States of Disarray: The Social Effects of Globalization* (Geneva: UNRISD, 1995).

<sup>40</sup> Gordon Laxer, “Social Solidarity, Democracy and Global Capitalism,” *Canadian Review of Sociology and Anthropology* 32 (3), 1995, pp. 287-314.



globalization in the following manner:

The manifestations of globalization ... include the spatial reorganization of production, the interpenetration of industries across borders, the spread of financial markets, the diffusion of identical consumer goods to distant countries, massive transfers of population within the South as well as from the South and the East to the West, resultant conflicts between immigrant and established communities in formerly tight-knit neighbourhoods, and an emerging worldwide preference for democracy. A rubric for varied phenomena, the concept of globalization interrelates multiple levels of analysis—economics, politics, culture, and ideology.<sup>41</sup>

Because these multi-dimensional definitions lump together so many simultaneous, even contradictory trends, it is theoretically difficult to judge overall continuity or discontinuity. It might well be possible that some of these trends would exhibit continuity and others reversal or discontinuity, obfuscating general conclusions. The issue has been left conveniently unexplored.

*Why Continuity Should be a Concern: The Discontents of Openness*

Both Marxist and mainstream perspectives should be concerned with continuity because of the dialectic nature of globalization and its consequences. A number of works by cultural and critical theorists have underscored a “double movement”<sup>42</sup>: that globalization and openness entail discontents and backlash. Globalization is simultaneously a process of integration and disintegration, homogenization and

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<sup>41</sup> James H. Mittelman, “The Dynamics of Globalization” in Mittelman, ed. *Globalization: Critical Reflections* (Boulder, Colo.: Lynne Rienner, 1996), p. 2.

<sup>42</sup> “Double Movement” is a phrase coined by Karl Polanyi in his seminal *The Great Transformation* (Boston: Beacon Press, 1944), in which he argues, looking at 19th century Britain, that capitalism moves through long-term upswings and political backlashes. Also similar in notion is the long-term curves of Leon Kondratieff, a recent, interesting application of which can be found in Hopkins and Wallerstein, eds., *The Age of Transition*.

polarization, convergence and divergence.<sup>43</sup>

Some works, for instance, have been concerned about the disjuncture between modernity and postmodernity that accompanies globalization. Construed as “the cultural logic of late capitalism” by Frederic Jameson, postmodernism is seen to be an expression of not only the superficial features, but particularly the inherent, deeper contradictions that distinguish late capitalism or globalized capitalism from early modern industrial capitalism.<sup>44</sup> Phenomena like cultural homogenization have intrinsic contradictions that lead to disorganized pluralism and heterogeneity through fragmentation, local resistance, resurgence of traditions of yore, cultural breakups, and fanaticism. To the extent that globalization is a condition of postmodernity, it is marked by a form of disorganized capitalism at the “abstract” level of the supranational, while at the same time “social difference and social disruption at the level of the face-to-face are accentuated in and through that same process.”<sup>45</sup> This is what Roland Robertson implies when he defines globalization as a “two-fold process involving the universalization of particularism and

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<sup>43</sup> See, e.g., John Saxe-Fernandez, “Globalization: Processes of Integration and Disintegration,” *International Journal of Politics, Culture, and Society* 8 (2), 1994, pp. 203-224; Philip G. Cerny, “Globalization and Other Stories: The Search for a New Paradigm for International Relations,” *International Journal* 51 (4), 1996, pp. 617-637; Mittelman, “The Dynamics of Globalization”; Claire Turenne Sjolander, “Globalization: What’s in a Wor(l)d?” *International Journal* 51 (4), 1996, pp. 603-616; Stephen Gill, “Global Structural Change and Multilateralism,” in Gill, ed., *Globalization, Democratization, and Multilateralism*, pp. 1-18.

<sup>44</sup> Frederic Jameson, *Post-Modernism or the Cultural Logic of Late Capitalism* (Durham, NC: Duke University Press, 1991). The best exposition of postmodernism and its connections to capitalism, I think, is David Harvey’s seminal work, *The Condition of Postmodernity* (Cambridge, Mass.: Blackwell, 1989). Another excellent, and refreshingly short, work is Perry Anderson, *The Origins of Postmodernity* (London: Verso, 1998).

<sup>45</sup> Paul James, “Postdependency? The Third World in an Era of Globalism and Late Capitalism,” *Alternatives* 22 (2), 1997, p 213.

the particularization of universalism.”<sup>46</sup>

Widespread disruptions at the national and regional level question the assumed inevitability of the continuity of economic openness. At the level of the region, experts have pointed out a resurgence of regional identities, trade blocs, and cultural backlash as reactions to the continuity of globalization. Regional identities—at the widest level, civilization identities, as insisted by Huntington<sup>47</sup>—are becoming increasingly salient, both for citizens searching for common bonds, and governments searching for collective economic security and prosperity through creating trade blocs.<sup>48</sup> The result is two simultaneous tendencies, one toward global economic integration and the other toward regional integration and consolidation. These two concurrent trends may be malign and contradictory, with great potential for conflict.<sup>49</sup>

In a popular book titled *Jihad vs. McWorld*, Benjamin Barber investigates the cultural and “tribal” reactions to the “numbing and neutering uniformities” of globalization. While globalism and tribalism oppose each other, both contain elements of

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<sup>46</sup> Roland Robertson, *Globalization: Social Theory and Global Culture* (London: Sage, 1990). The narratives, context, and rhetoric that accompany these shifts are examined in detail in several works, notably Rob Wilson and Wimal Dissanayake, eds., *Global/Local: Cultural Production and the Transnational Imaginary* (Durham, NC: Duke University Press, 1996).

<sup>47</sup> Samuel P. Huntington, “The Clash of Civilizations?” *Foreign Affairs* 72 (3), 1993, pp. 22-49.

<sup>48</sup> Andrew Hurrell, “Regionalism in Theoretical Perspective,” in Louise Fawcett and Andrew Hurrell, eds., *Regionalism in World Politics* (New York: Oxford University Press, 1995). See also in the same volume, James Mayall, “National Identity, and the Revival of Regionalism.”

<sup>49</sup> Robert D. Hormats, “Making Regionalism Safe,” *Foreign Affairs* 73 (2), 1994. Others view the two as benign and complementary trends. Regionalism is a step upwards from nationalism or nation-state-centrism, and a natural, intermediate phase before truly globalized activity is possible. See Lester Thurow, *The Future of Capitalism*; Andrew Wyatt-Walter, “Regionalism, Globalization, and World Economic Order,” in Fawcett and Hurrell, eds., *Regionalism in World Politics*. Consider also the argument by Kenichi Ohmae that not national but regional lines are becoming much more meaningful boundaries for economic activity. Kenichi Ohmae, *The End of the Nation State: The Rise of Regional Economies* (New York: Free Press, 1995).

anarchy and both “make war on the sovereign nation-state and thus undermine the nation-state’s democratic institutions.”<sup>50</sup> The central political actors in the world, Barber argues, are “tribes” whose aim is to redraw boundaries in order to divide. The major political consequence of globalization is the threat to democracy in a world in which people are either consumers or fanatics, not citizens with civic duties. “In a future world where the only available identity is that of blood brother or solitary consumer,” Barber writes, “... democracy does not seem well placed.”<sup>51</sup>

Cultural and critical approaches have been weak for they have showed current disruptions and predicted future conflict, but not theorized policy continuity. For instance, Immanuel Wallerstein, in *After Liberalism*, predicts that under the tenets of globalization advocated by “the ministrations of the IMF,” the liberal ideology cannot continue to support a reformist state “that helps people cope,” and that a major political struggle will ensue, “more consequential than any other of the past five hundred years.”<sup>52</sup> Yet these approaches have not contributed useful insights about why policies toward openness have generally continued without any significant setback. Some micro-level perspectives have underscored decision-making and the decisional context of *positive action* toward globalization, but those, too, neglected the importance of those actors whose decisions can reverse the process. Inaction on part of those who have the power to reverse the process but have not done so warrants a theoretical investigation.

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<sup>50</sup> Benjamin R. Barber, *Jihad vs. McWorld* (New York: Ballantine, 1995), p. 6.

<sup>51</sup> *ibid.*, p. 224.

<sup>52</sup> Immanuel Wallerstein, *After Liberalism*, p. 3.

*Why Continuity Should be a Concern: The Importance of State Power*

Furthermore, policy continuity should be a concern because the state still exists and exerts power in everyday life. Much of the mainstream approaches take policy passivity as a sign of policy incapacitation. But it is equally plausible that passivity might stem from not powerlessness but unwillingness to intervene. Paul Hirst and Grahame Thompson's work, *Globalization in Question*, urges that the myth of globalization should be dispelled, for it "exaggerates the degree of our helplessness in the face of contemporary economic forces."<sup>53</sup> Peter Evans, similarly, argues that while the state finds some choices curtailed, it is not eclipsed as an institution. The widespread belief that states are incapable and inefficient in an era of globalization implies that "meaner, more repressive ways of organizing the state's role will be accepted as the only way of avoiding the collapse of public institutions."<sup>54</sup> Evans offers two reasons why globalization should not lead to the automatic conclusion that states are losing power. First, several important cross-country quantitative studies show that there is a strong positive relationship between economic openness and the size of government.<sup>55</sup> Second, East Asian economies have participated vigorously in the world economy, and they have been governed by strong, interventionist states. In view of these demonstrated positive

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<sup>53</sup> Hirst and Thompson, *Globalization in Question*, p. 6. See especially chapters 6 and 8.

<sup>54</sup> Peter Evans, "The Eclipse of the State? Reflections on Stateness in an Era of Globalization," *World Politics* 50 (1), 1997, p. 64.

<sup>55</sup> The three major ones cited by Evans are well-known in the field. David Cameron, "The Expansion of the Public Economy: A Comparative Analysis," *American Political Science Review* 72 (4), 1978, pp. 1243-1261; Peter Katzenstein, *Small States in World Markets: Industrial Policy in Europe* (Ithaca, NY: Cornell University Press, 1985); Dani Rodrik, "Why Do More Open Economies Have Bigger Governments," National Bureau of Economic Research Working Paper No. 5537 (Cambridge, Mass.:

relationships between the state and economic openness, Evans concludes, the only explanation for the belief that globalization is associated with decreased stateness must be an “ideological climate that proscribes using territorial sovereignty to limit the discretion of private economic actors.”<sup>56</sup>

In *The Myth of the Powerless State*, Linda Weiss contends that not only has globalization been exaggerated in magnitude, but the extent of state power in the past has also been exaggerated in current discourse in order to show that the state has been losing its power recently. Rejecting a static view of the state or its capabilities, Weiss considers the state adaptive to changing circumstances, for they have been historically so. State power should be assessed not from general state involvement *per se* in the economy and society, but from the “transformative capacity” of the state, that is the ability to coordinate industrial change with domestic actors. Comparing Japan, Taiwan, Korea, Sweden, and Germany, Weiss shows that transformative capacity varies among states, so that some states, such as Japan, Germany, and Taiwan, have guided, coordinated, and adjusted to globalization in a robust way while others like South Korea and Sweden faltered and indeed, weakened even though they were strong to begin with. State capacity is a comparative advantage in a globalized economy. States that continue to be strong in the domestic industrial arena will reap more benefits from globalization than others. “So called ‘globalization’,” Weiss concludes, “is not likely to displace state power. If

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NBER, 1996).

<sup>56</sup> Evans, “The Eclipse of the State?” p. 71.

anything, it will make it more salient.”<sup>57</sup>

Assertions about the continued relevance state power vis-à-vis TNCs are as old as the powerlessness argument. In an article in *International Organization* published in 1971, for instance, Robert Gilpin noted only “little evidence to support the view that [multinational corporations] have been very successful in replacing the nation-state as the primary actor in international politics,” before going on to conclude: “the role of the nation-state in economic as well as political life is increasing and ... the multinational corporation is actually a stimulant to the further extension of state power in the economic realm.”<sup>58</sup>

There are several important reasons, points out Joseph LaPalombara. Firms overwhelmingly obey national priorities, rules, and regulations. They appoint indigenous managers, accept host-country laws for resolving disputes, and are willing to accept local content and export quotas. On governmental insistence, they show a greater propensity than before to enter into joint ventures, even with state-owned enterprises. LaPalombara concludes, based on these indicators of the bargaining power of the state: “[t]he internationalization of finance and the globalization of enterprise have not triggered the so-called spillover effects that so many claimed would one day render the nation-state obsolete and relegate it to the dustbins of history.”<sup>59</sup> John Zysman also argues that although governments have a different set of concerns and possibilities now, they “will

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<sup>57</sup> Linda Weiss, *The Myth of the Powerless State* (Ithaca, NY: Cornell University Press, 1998), p. 13.

<sup>58</sup> Gilpin, “The Politics of Transnational Economic Relations,” pp. 418-419.

<sup>59</sup> Joseph LaPalombara, “International Firms and National Governments: Some Dilemmas,” *The*

retain a central place in an ever more interconnected and homogenous economy.”<sup>60</sup> Peter Dombrowski, similarly, argues that while financial globalization has taken away some of the traditional roles from the state, it has also given the state new areas of responsibilities and possibly governance.<sup>61</sup>

If the state is not powerless, then sources of its policy passivity, and the concomitant policy continuity, are elsewhere. Passivity might be explained away if, as some scholars contend, the national economy is no longer relevant. But evidently that is not the case. In Richard Longworth’s words, “globalization is happening, but it is still much easier to start a company, sell goods, or find a job inside one’s own country than outside it.”<sup>62</sup> Hirst and Thompson, in the same vein, contend that the principal entities in the present economic order are still national economies, and that leaves policy independence for nation-states, even as the traditional methods of macroeconomic intervention are becoming less effective.<sup>63</sup> Robert Wade proposes a similar thesis, and like Hirst and Thompson, he rejects the use of the word globalization. In the industrial countries, he shows, ninety percent of the production is for the domestic market. The arena for state’s economic action, consequently, remains unchanged in scope. “The

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*Washington Quarterly* 17 (2), 1994, p. 89.

<sup>60</sup> John Zysman, “The Myth of a ‘Global’ Economy: Enduring National Foundations and Emerging Regional Realities,” Paper presented at Berkeley Roundtable on the International Economy, Working Meeting on Globalization, Berkeley, California, March 8 1996, p. 1.

<sup>61</sup> Peter Dombrowski, “Haute Finance and High Theory: Recent Scholarship on Global Financial Relations,” *Mershon International Studies Review* 42 (Supplement 1), 1998, pp. 1-28.

<sup>62</sup> Longworth, *Global Squeeze*, p. 9.

<sup>63</sup> Paul Hirst and Grahame Thompson, “Globalization and the Future of the Nation State,” *Economy and Society* 24 (3), 1995, pp. 408-442.



overwhelming bulk of a nation's resources that are not mobile," Wade writes, "... give governments leverage to work with."<sup>64</sup> He predicts that a further reassertion of the state is possible in both the North and the South.

The type of reassertion predicted by Wade took place during the Asian financial crisis in 1997-1998. Malaysia imposed capital controls to stem flight of portfolio capital and a slide in the value of the ringgit. The state was unquestionably the final authority that could impose such policies. The government of Hong Kong invested billions in the stock market to shore up prices as well as the Hong Kong dollar. The national government, therefore, intervenes; in fact, it is still the only effective resort to vent grievances, and the appropriate place or arena to oppose or intervene in the market on behalf of the victims of globalization. For instance, in *Has Globalization Gone Too Far?* Dani Rodrik suggests that the state should intervene to ensure social stability in face of globalization.<sup>65</sup> Jeffrey Sachs asks governments to coordinate interest rate policies with one another.<sup>66</sup> *The Economist*, which usually argues that global markets should be left alone, expresses fears that states might retreat from pro-openness policies. Treating the state as the citizens' resort and fearing retreat from openness—both of these stances assume implicitly that states, if they are willing to weather the costs, can curtail market action. It is important, therefore, to explore under what circumstances states would continue hands-off policies or reassert themselves through market intervention.

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<sup>64</sup> Wade, "Globalization and Its Limits," p. 87.

<sup>65</sup> Dani Rodrik, *Has Globalization Gone Too Far?* (Washington, DC: Institute for International Economics, 1997).

The reassertion of the state is feasible not only because of policy capacity and the continued importance of the national economy, but also because the state has been ultimately a promoter of globalization. The developments that theorists identify to be the causes of globalization have taken place because state policies created space for their growth and expansion. Leo Panitch writes emphatically: “Capitalist globalization ... takes place in, through, and under the aegis of states; it is encoded by them and in important respects even authored by them.”<sup>67</sup>

Works by Eric Helleiner and Ethan Kapstein provide concrete verification of the state’s role in promoting openness. Helleiner shows that the roots of financial globalization were in three types of policy decisions by advanced industrial states, taken in the post-1950 era. First, beginning with the United States in 1974, the main industrial states abolished capital controls by the late eighties. Second, they refrained from imposing more controls during downturns, even after considering the option seriously. And finally, they coordinated to prevent major international financial crises from spinning out of control. The three major such crises were the banking crisis of 1974, the 1982 debt crisis of 1982, and the 1987 stock market crash.<sup>68</sup> Helleiner’s work highlights persuasively that the continuity and growth of openness would not have been possible without a proactive role by the state, evident in conscious policy decisions to intervene and to not intervene.

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<sup>66</sup> Jeffrey Sachs, “Global Capitalism: Making It Work,” *The Economist*, 12 September 1998, pp. 23-25.

<sup>67</sup> Leo Panitch, “Rethinking the Role of the State,” in Mittelman, ed., *Globalization*, p. 86. See also, Chris Harman, “State and Capitalism Today,” *International Socialism* No. 51, 1991, pp. 3-54.

<sup>68</sup> Eric Helleiner, *States and the Emergence of Global Finance: From the Bretton Woods to the 1990s* (Ithaca, NY: Cornell University Press, 1994).

Kapstein argues that although states have promoted financial globalization, they have also retained and developed a regulatory framework at the international level to control financial actors. This framework ensures that “every international bank is ultimately accountable to a single, national regulator.”<sup>69</sup> The existence and health of the international financial system depend on the market-correcting functions that the state provides, including its service as a lender of last resort during crises. The 1998 bail out of Long Term Capital Management by the Federal Reserve Board is one example.

In a comparative study of state capacity, Linda Weiss shows that states with strong “transformative capacity” have promoted globalization by successfully (re)orienting their domestic industries toward increased international involvement. Strong East Asian states like Japan and Singapore have acted as “midwives” of globalization. Through a host of agencies and institutions, they have offered their firms incentives for overseas investment, and encouraged international corporate alliances and regional relocation of production.<sup>70</sup> Viewed thus, “‘globalization’ is often the by-product of states promoting the internationalization strategies of their corporations.”<sup>71</sup>

The point is if states retain a crucial political and economic function, then policy continuity toward openness should be theorized as a conscious choice. Especially we need to explain continuity of policies more completely to make sense of state “passivity”

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<sup>69</sup> Ethan B. Kapstein, *Governing the Global Economy: International Finance and the State* (Cambridge, Mass.: Harvard University Press, 1994), p. 2.

<sup>70</sup> Weiss, *The Myth of the Powerless State*, pp. 204–208. For more details see also chapter 3.

<sup>71</sup> Linda Weiss, “Globalization and the Myth of the Powerless State,” *New Left Review* No. 225, 1997, p. 4.

in the context of disruptions caused by economic openness.

### **Continuity in the Scholarship on Economic Reform**

If the literature on globalization is one source to explore how policy continuity has been conceptualized and theorized, the other germane subfield is the scholarship on economic reform, especially in developing countries.<sup>72</sup> The literature on economic reform flourished in the late eighties and the early nineties. It was concerned with discussing three topics: timing and sequence, extent and content, and consolidation or institutionalization of policies. The last topic, which is the one I will be reviewing below, drew additional attention from theorists of regime type, as consolidation became a theoretical and practical challenge particularly for countries undergoing simultaneous transitions toward democracy and a market economy. But ultimately, as Joan Nelson noted, “[t]here is no general theory of the politics of adjustment.”<sup>73</sup> Instead there are hypotheses on policy continuity—though in some cases, as in the literature on globalization, continuity needs to be inferred or extrapolated from factors that are said to be the causes of economic reform.

### *International Financial Institutions*

International financial institutions (IFIs) such as the World Bank and the IMF

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<sup>72</sup> I use liberalization, reform, and structural adjustment as coterminous.

<sup>73</sup> Joan M. Nelson, “Introduction: The Politics of Economic Adjustment in Developing Nations,” in Nelson, ed., *Economic Crisis and Policy Choice: The Politics of Adjustment in the Third World* (Princeton, NJ: Princeton University Press, 1990), p. 17.

emerged as a powerful influence on policy especially out of the rescheduling of Third World debt in the early eighties. Ideologically IFIs shaped a neoclassical “orthodoxy” that became a strong factor in determining subsequent economic policy in developing countries.<sup>74</sup> The conventional argument is that countries facing balance of payments problems become susceptible to IFI influence by taking out adjustment loans, particularly when they draw the upper tranches. Conditionalities imposed by the IFIs provide policy continuity toward openness.

While reasonable in its core, this argument has several limitations. First, reform toward openness is not the only way that countries have responded to external economic crises. Countries have in instances turned inward or increased state intervention, and a number of them have successfully overcome crises through interventionist mechanisms.<sup>75</sup>

Second, countries that have drawn from IMF credit facilities have not necessarily followed similar policy paths. Miles Kahler shows that instead of a steady continuity toward openness, many adopted ad hoc or “heterodox” mix of policies, including incomes policies, subsidies, and price controls that were not part of conditionalities. In his survey of the literature on IFI influence, Kahler concludes that overall IFI influence has been decidedly limited on both the decisions for and the implementation of stabilization and

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<sup>74</sup> Miles Kahler, “Orthodoxy and Its Alternatives: Explaining Approaches to Stabilization and Adjustment,” in Nelson, ed., *Economic Crisis and Policy Choice*. See also Barbara Stallings, “International Influence on Economic Policy: Debt, Stabilization, and Structural Reform,” in Stephan Haggard and Robert R. Kaufman, eds., *The Politics of Economic Adjustment* (Princeton, NJ: Princeton University Press, 1992).

<sup>75</sup> Stephan Haggard and Robert R. Kaufman, “Introduction: Institutions and Economic Adjustment,” in Haggard and Kaufman, eds., *The Politics of Economic Adjustment*, p. 15. See also Peter Evans, “The State as Problem and Solution: Predation, Embedded Autonomy, and Structural Change,” in Haggard and Kaufman, eds., *The Politics of Economic Adjustment*.

structural adjustment. The main reason is that there have been “powerful sources of conflict between the policy strictures of the external actors and the political interests of many developing country governments.”<sup>76</sup>

As a result debtor countries have not followed loan conditionalities consistently. An in-depth analysis by Paul Mosley, Jane Harrigan, and John Toye on the influence of World Bank policies found that only two countries (Turkey and Thailand) among the nine cases studied met more than 65 percent of the loan conditions. Even small countries such as Kenya, Guyana, and Ecuador implemented only about a third of the stipulations.<sup>77</sup> The influence of IFIs, in this light, cannot be a plausible explanation for continuity, especially for large countries like Brazil, China, or India, which have a competent technocratic base as well as substantial resources. Concluding a survey of thirteen countries, Joan Nelson points out that support from IFIs was “a sometimes necessary, but far from sufficient, condition for implementation.”<sup>78</sup> External agents, Nelson argues, usually have little direct influence on state institutions and parastatals beyond the narrow circle of the government’s economic technocrats. In fact, contends Miles Kahler, the influence of IFIs seemed to be most consistent in countries where the leadership was already committed to openness in the first place.<sup>79</sup> This, of course, calls for an

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<sup>76</sup> Miles Kahler, “External Influence, Conditionality, and the Politics of Adjustment,” in Haggard and Kaufman, eds., *The Politics of Economic Adjustment*, p. 100.

<sup>77</sup> Paul Mosley, Jane Harrigan, and John Toye, *Aid and Power: The World Bank and Policy-Based Lending* (London: Routledge, 1991).

<sup>78</sup> Joan M. Nelson, “Conclusions,” in Nelson, ed., *Economic Crisis and Policy Choice*, p. 347.

<sup>79</sup> Miles Kahler, “International Financial Institutions and the Politics of Adjustment,” in Joan M. Nelson, et al., *Fragile Coalitions: The Politics of Economic Adjustment* (New Brunswick: Transaction Books, 1989). For an empirical assessment in support of this statement, see Kahler, “External Influence,

investigation on what explains the prior commitment to openness, a topic this study hopes to illuminate.

### *Institutional Competence and Technocratic Insulation*

Another major argument is that policy continuity is a function of bureaucratic insulation, which allows technocrats to distance themselves from domestic interests and implement policies usually with strong support from the executive. A corollary of this claim is that high levels of technocratic competence provide an added boon to policy continuity despite political turmoil.

The argument about institutional competence or technocratic insulation is informed by a sensible logic, but it too, has limitations. First, by itself technocratic competence is a variable that can be used explain virtually any successful task of the government, whether it is change or continuity. But the main virtue of technocratic competence is the ability to take risk and effect change. John Waterbury, for example, underscores the importance of insulated “change teams” in executing unpopular policies, but contends that technocratic insulation has been important mostly during policy initiation, not consolidation.<sup>80</sup>

Technocracies, though insulated, are still accountable to political leaders, and in many cases their role is unpredictable. Technocrats have been useful for bargaining with

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Conditionality, and the Politics of Adjustment,” in Haggard and Kaufman, eds., *The Politics of Economic Adjustment*, p. 115, table 2.2.

<sup>80</sup> John Waterbury, “The Heart of the Matter? Public Enterprise and the Adjustment Process,” in Haggard and Kaufman, eds., *The Politics of Economic Adjustment*.

IFIs, but sustaining policies and consolidating reforms require political skills that an insulated technocracy generally cannot provide. In Zaire, for example, Mobutu would appoint technocrats as negotiators to attract international funding, but then abruptly remove or transfer them after financing was secured.<sup>81</sup>

Were technocratic competence a major factor behind success of reforms, countries with low levels of competence would find it difficult to reform their economies. Joan Nelson concludes that this has not been the case, that low levels of technocratic competence has not deterred developing countries from initiating reforms.<sup>82</sup> Bureaucratic capacity, moreover, is not a holistic quality: different policies require different machineries and mechanisms in different parts of the bureaucracy, assessment of which across countries is hardly simple. Anne Krueger makes the point convincingly by noting that devaluing the exchange rate requires a “simple” form of technocratic competence, but providing free fertilizer to small farmers to boost agricultural productivity is a complex process that requires a wholly different type of bureaucratic capacity.<sup>83</sup>

While technocratic competence may help devise sophisticated economic plans, it also increases policy choice, as Peter Evans argues.<sup>84</sup> Especially for countries with complex and competent institutions, such as India, a separate explanation is required to show why continuity is chosen over other alternatives. Competence and autonomy from

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<sup>81</sup> Kahler, “External Influence, Conditionality, and the Politics of Adjustment,” p. 128.

<sup>82</sup> Nelson, “Conclusions,” pp. 327-328.

<sup>83</sup> Anne Krueger, *Political Economy of Policy Reform in Developing Countries* (Cambridge, Mass.: MIT Press, 1993), pp. 67-69.

<sup>84</sup> Evans, “The State as Problem and Solution.”



material interests cannot account for policy choice from the basket of possible, equally sophisticated, alternatives. And if policy preferences within an insulated technocracy do not represent material interests, then where do the preferences originate?

While bureaucratic insulation provides a comfortable distance between the policymaker and domestic constituencies, it can also make the bureaucracy unresponsive and inefficient in identifying problems, which threatens long-term policy stability. In contrast to policy initiation, consolidation of reforms requires dissemination of reformist ideas to create broader public support. An insulated technocracy can undermine consolidation by stifling “effective channels for communicating with affected political interests.”<sup>85</sup> Developmental states, Peter Evans argues, have enjoyed “extraordinary administrative capacities.” But bureaucracies in East Asian states were successful in implementing industrial transformation not because they remained insulated politically or competent technically, but by invoking and institutionalizing broader participation and consensus while retaining their decision-making authority, displaying what Evans calls “embedded autonomy.”<sup>86</sup> Similarly, Dani Rodrik shows in an extensive quantitative analysis that participation, that is, access to political institutions by non-elites, historically resulted in better performance in adjusting to macroeconomic shocks.<sup>87</sup>

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<sup>85</sup> Haggard and Kaufman, “Institutions and Economic Adjustment,” p. 23.

<sup>86</sup> Evans, “The State as Problem and Solution.”

<sup>87</sup> Dani Rodrik, *The New Global Economy and Developing Countries: Making Openness Work* (Washington, DC: Overseas Development Council, 1999), pp. 83-84, and figure 4.6.

*Epistemic Communities, International Linkages, Social Learning*

An epistemic community, as defined by Peter Haas, is a community of “knowledge-based experts.”<sup>88</sup> The argument, closely related to the technocratic insulation argument, is that a global pro-reformist epistemic community provides policy continuity through disseminating and acting on convergent ideas.<sup>89</sup> The literature identifies two main avenues through which the epistemic effect is achieved. Barbara Stallings highlights “international linkages”: formal and informal linkages among technocrats, academics, economists, and practitioners in the Third World, industrial countries, and IFIs.<sup>90</sup> The “Chicago Boys” of Chile is probably the most well known example.<sup>91</sup> In almost all developing countries some senior officials have had experience as staff members of IFIs or regional and international development banks.<sup>92</sup> Stallings argues that these linkages create an “internationalist coalition” that can undertake policies toward openness.

The other avenue is “social learning.”<sup>93</sup> The idea is that policymakers in developing countries “may have finally ‘seen the light’ and accepted the superiority of

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<sup>88</sup> Peter M. Haas, “Introduction: Epistemic Communities and International Policy Coordination,” *International Organization* 46 (1), 1992, pp. 1-35.

<sup>89</sup> In this vein Thomas Biersteker conceptualizes globalization as basically a reorientation in the “modes of operation and thinking” of major institutional actors, such as states, firms, NGOs, and international organizations like the World Bank and the IMF. Biersteker, “Globalization and the Modes of Operation of Major Institutional Actors,” *Oxford Development Studies* 26 (1), 1998, pp. 15-31. On the rise of the neoclassical orthodoxy adopted by a global epistemic community, see Kahler, “Orthodoxy and Its Alternatives.”

<sup>90</sup> Stallings, “International Influence on Economic Policy.”

<sup>91</sup> On the role of the Chicago Boys see Barbara Stallings and Philip Brock, “The Political Economy of Economic Adjustment: Chile, 1973-90,” in Robert H. Bates and Anne O. Krueger, eds., *Political and Economic Interactions in Economic Policy Reform* (Oxford: Blackwell, 1993), esp. pp. 81-84.

<sup>92</sup> Nelson, “Conclusions,” pp. 330-331.

<sup>93</sup> Kahler, “External Influence, Conditionality, and the Politics of Adjustment.”

the liberal economic ideas.”<sup>94</sup> National policymakers learn about successful techniques of economic transformation through previous experience with failed models, observing other countries, as well as from policy dialogue with IFIs. The learning becomes institutionalized, and it provides continuity despite political change.

The first problem with the epistemic community, linkages, and learning approach is that it rests on questionable assumptions. At some point social learning must transform into a commitment so that policymakers can ignore risks and continue policies. An explanation based on epistemic communities readily assumes this commitment. The approach also assumes epistemic unity, ignoring ideological or political divisions within the community itself. It seems easier for an epistemic community to recognize the existence of a problem, as the Earth Summit in Rio de Janeiro did with regard to the environmental consequences of a growing world population. But fierce divisions within the community emerged when it came to devising policy solutions to address the problem, and a unified proposal was never reached. Similarly, Kahler shows, epistemic communities concur widely on certain elements of the neoclassical economic orthodoxy, such as the need for high growth. But consensus does not exist on the policy options to attain that goal.<sup>95</sup>

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<sup>94</sup> Thomas J. Biersteker, “The ‘Triumph’ of Neoclassical Economics in the Developing World: Policy Convergence and the Bases of Governance in the International Economic Order,” in James N. Rosenau and Ernst-Otto Czempiel, eds., *Governance without Government: Order and Change in World Politics* (Cambridge, UK: Cambridge University Press, 1992), p. 110. For a summary of social learning and the merits of ideational explanations for policy reform, see also Biersteker, “The ‘Triumph’ of Liberal Economic Ideas in the Developing World,” in Barbara Stallings, eds., *Global Change, Regional Response* (Cambridge, UK: Cambridge University Press, 1995). Biersteker argues that this explanation is partial at best, and makes a case for a more integrative explanation.

<sup>95</sup> Kahler, “Orthodoxy and Its Alternatives,” p. 54.

Second, the approach cannot specify *ex ante* when social learning might be put to practice, whether the practice would be approached as an experiment, or whether it would be continued. While social learning might enhance continuity, by the same logic it can *threaten* continuity, especially if elements of the initial policy package fail to deliver the anticipated results. In Joan Nelson's words, "failure erodes confidence in the sustainability of subsequent efforts; each sequential failure does greater damage."<sup>96</sup> The contradictory tendencies of social learning are additionally troublesome since learning takes place not only through the historical experience of a particular state, but also from observing the experience of other states, which increases the variation in the lessons to learn and the conclusions to draw.

Reform or policy change toward openness is undertaken often by the same technocrats who earlier implemented inward-looking policies. If that is so, then the claim that policies changed because policymakers learned from their past mistakes is a truism that cannot be proven wrong, and is simultaneously too vague to be assessed with a satisfactory degree of exactitude.

The social learning model, moreover, is fraught with what Kahler calls the "level-of-learning problem": it cannot specify satisfactorily how individual learning gets transferred and embedded into organizational structures. It also needs to explain "that a particular behavioral change is the result of a clearly specified cognitive alteration at one

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<sup>96</sup> Nelson, "Conclusions," p. 360.

level or another.”<sup>97</sup>

As mentioned in the preceding section, for reforms to continue, not only does learning need to transform into a unified ideological commitment, but the commitment itself needs to spread from a technocratic elite to a broader pro-reformist political and economic coalition both within and outside the government. Current approaches do not specify the mechanism for dissemination. In this vein Stallings also concedes that international linkages are less important at the implementation stage.<sup>98</sup> Kahler, similarly, concludes that social learning and membership in an international epistemic community were often successful in producing initial agreement toward policy change, but were unable to provide the momentum to sustain that agreement.<sup>99</sup>

Finally, although the influence of an epistemic community seems logical to expect, no systematic, comparative study exists documenting how linkages or learning have taken place and to what extent. Therefore what we have is reasonable assumptions and common sense, but not much concrete evidence. As Haggard and Kaufman note, “it is difficult to pin down precisely processes of learning and socialization that determine the way such ideas are adopted by particular sets of national leaders or incorporated into specific policy contexts.”<sup>100</sup> Most of the explanations of international linkages, accordingly, pare down their claims by observing that the effect of linkages is mediated and diffused by a

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<sup>97</sup> Kahler, “External Influence, Conditionality, and the Politics of Adjustment,” p. 124.

<sup>98</sup> Stallings, “International Influence on Economic Policy,” p. 85.

<sup>99</sup> Kahler, “External Influence, Conditionality, and the Politics of Adjustment,” p. 128.

<sup>100</sup> Haggard and Kaufman, “Institutions and Economic Adjustment,” p. 23.

host of other intermediate variables, such as historical era, stage of reforms, issue area, and country characteristics.<sup>101</sup>

### *Material Interests and Economic Performance*

A powerful explanation for continuity is in material interests: economic policies are continued because of support from strong material interests, which at the broadest, boil down to land, labor, and capital. Jeffrey Frieden and Ronald Rogowski, for example, explore the effects of economic openness on domestic material groups. Frieden argues that openness affects factors of production by their sector specificity. Holders of internationally mobile assets stand to gain most from openness. Labor and capital in internationally competitive sectors also benefit and become stronger social forces.<sup>102</sup> The implication is that continuity rests on support from the beneficiaries. A related study is Ronald Rogowski's *Commerce and Coalitions*. In a historical analysis that goes back to classical Greece, Rogowski shows that the Stolper-Samuelson theorem about the distributional consequences of trade holds well: increased economic openness favors the owners of abundant factors of production at the expense of those factors that are scarce. In the US, for example, expanding trade made land and capital more assertive and labor more defensive.<sup>103</sup>

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<sup>101</sup> For a sampling of these variables see Stallings, "International Influence on Economic Policy," pp. 84-88.

<sup>102</sup> Jeffrey Frieden, "Invested Interests: The Politics of National Economic Policies in a World of Global Finance," *International Organization* 45 (4), 1991, pp. 425-451. See also his *Debt, Development, and Democracy: Modern Political Economy and Latin America, 1965-1985* (Princeton, NJ: Princeton University Press, 1991).

<sup>103</sup> Ronald Rogowski, *Commerce and Coalitions: How Trade Affects Domestic Political Alignments*

Distributive conflict is the major problem that accompanies openness. In *Has Globalization Gone Too Far*, Rodrik contends that globalization is creating a “severe tension” among social groups and governments, which, unless checked, may prompt democratic governments to re-erect protectionist barriers.<sup>104</sup> But how can we predict whether such intervention will occur? The threshold of tolerance of opposition varies widely across states and regime types.

Although an interest-based argument can suggest which groups might stand to benefit from policies toward openness, it cannot fully explain why policies are continued. To explain policy continuity, material approaches have to assume that certain groups are more powerful than others, and proceed to explain why and how those groups prevailed over interests opposed to continuity. It is incontrovertible, but indeterminate to claim that material interests provide crucial support for policy continuity. In some cases policies have been retrenched in response to conflict, and in other cases they have continued. As Bates and Krueger conclude from their study of policy reform in eight countries: “variations in the pattern of interest group representation failed to account for variation in the success of different governments to implement economic policy reforms.”<sup>105</sup>

Generalizable frameworks to predict ex ante the influence of distributive or material conflict on policy continuity are, therefore, rare. Possibly the best known is

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(Princeton, NJ: Princeton University Press, 1989).

<sup>104</sup> Rodrik, *Has Globalization Gone Too Far?*

<sup>105</sup> Robert H. Bates and Anne O. Krueger, “Generalizations Arising from the Country Studies,” in Bates

Peter Katzenstein's theory of corporatist mediation, which shows that distributive conflicts especially in small economies were overcome by corporatist arrangements between the state and major material interests, which helped sustain policies toward openness.<sup>106</sup> The framework is limited geographically as well as by a prior existence of corporatist institutions and norms. Thomas Callaghy, for example, recognizes that most developing countries do not have the technocratic and political capabilities necessary to fashion an "embedded liberalism," which can sustain policies by balancing economic openness with political interests.<sup>107</sup> Furthermore, although they are externally open, the small economies studied by Katzenstein, and earlier by David Cameron, feature large public redistributive programs, which is a crucial ingredient to maintain the corporatist balance.<sup>108</sup>

A similar problem besets the argument about economic performance. Openness is said to increase trade rates, lower prices of imports, and encourage growth—thereby creating powerful constituencies in its support.<sup>109</sup> At the same time openness has been accompanied by worsening inequality in most developing countries, which created interests, especially voting constituencies, antagonistic to the continuity of openness. Stark examples are East European countries, as well as Bolivia, Costa Rica, Brazil during

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and Krueger, eds., *Political and Economic Interactions in Economic Policy Reform*, p. 461.

<sup>106</sup> Peter J. Katzenstein, *Small States in World Markets* (Ithaca, NY: Cornell University Press, 1985).

<sup>107</sup> Thomas M. Callaghy, "Toward State Capability and Embedded Liberalism in the Third World: Lessons for Adjustment," in Nelson, et al., *Fragile Coalitions*.

<sup>108</sup> Cameron, "The Expansion of the Public Economy: A Comparative Analysis."

<sup>109</sup> Dani Rodrik, "The Rush to Free Trade in the Developing World: Why So Late? Why Now? Will It Last?" in Stephan Haggard and Steven B. Webb, eds., *Voting For Reform: Democracy, Political*



Collor's administration, and Argentina during the early years of Menem.<sup>110</sup> Performance-based approaches cannot explain satisfactorily why the discontents of openness are being overlooked or overcome by policymakers bent on continuity, and why some countries privilege the benefits of trade over the costs and other countries do not. Achieving broad-based voter support is especially important in democracies. As Haggard and Kaufman conclude, "reforms are unlikely to be sustained unless they generate adequate economic payoff to secure at least the acquiescence of broad segments of the electorate."<sup>111</sup>

Material approaches have some conceptual problems as well. Joan Nelson points out that a group's imputed material position might not translate into policy preference in any straightforward way: often other important cleavages may cut across group identification in accordance with material ties. Social groups have complex interests.<sup>112</sup> Moreover, the benefits as well as costs of reform are diffuse and uncertain, which makes successful organization of material interests in favor of reforms difficult to predict. Given the difficulties of assessing interests, rhetoric often takes the place of cost-benefit calculation to persuade people about where their economic interests might lie.<sup>113</sup>

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*Liberalization, and Economic Adjustment* (New York: Oxford University Press, 1994), esp. pp. 82-83.

<sup>110</sup> Haggard and Kaufman, "Institutions and Economic Adjustment," p. 31.

<sup>111</sup> Haggard and Kaufman, "Institutions and Economic Adjustment," p. 36.

<sup>112</sup> Joan M. Nelson, "Poverty, Equity, and the Politics of Adjustment," in Haggard and Kaufman, *The Politics of Economic Adjustment*.

<sup>113</sup> See Bates and Krueger, "Generalizations Arising from the Country Studies," p. 456.

### Can Hegemony Explain Continuity of Economic Openness?

Structural realists and critical scholars have underscored the importance of hegemony in shaping international economics as well as international politics. According to analyses by Charles Kindleberger, Robert Gilpin, Stephen Krasner, and Robert Keohane, an open international economic regime is fostered by a hegemon.<sup>114</sup> TNCs and other actors expand only within the space and terms provided by the dominant state and its cohorts. Gilpin noted back in 1971: “transnational actors have been able to play an important role in world affairs because it has been in the interest of the predominant power(s) for them to do so.”<sup>115</sup> A hegemon is willing to provide the collective goods necessary for the global economy to operate for it stands to gain the most from open economic flows. Krasner accordingly concludes that “openness is most likely to occur during periods when a hegemonic state is in its ascendancy.”<sup>116</sup> Immanuel Wallerstein echoes the same argument. He shows that the existence or intensification of international economic openness corresponds historically to peak periods of the Dutch, the British,

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<sup>114</sup> See two works by Robert Gilpin, *War and Change in World Politics* (New York: Cambridge University Press, 1981) and *The Political Economy of International Relations* (Princeton, NJ: Princeton University Press, 1987). For Gilpin the statement is not true the other way around. Hegemony does not necessarily entail economic liberalism, though liberalism is best sustained through hegemonic stability. For more on hegemonic stability, see also Charles Kindleberger, *The World in Depression, 1929-1939* (Berkeley: University of California Press, 1973), and Robert O. Keohane, *After Hegemony: Cooperation and Discord in the World Political Economy* (Princeton, NJ: Princeton University Press, 1984), chapter 3. Keohane’s book is an attempt to establish that a liberal international order can be sustained in the absence of hegemony by well-formulated regimes.

<sup>115</sup> Robert Gilpin, “The Politics of Transnational Economic Relations,” *International Organization* 25 (3), 1971, p. 404.

<sup>116</sup> Stephen D. Krasner, “State Power and the Structure of International Trade,” *World Politics* 28 (3), 1976, pp. 317-343.

and currently the American hegemony.<sup>117</sup> Rising US hegemony, by this line of analysis, is the single most important variable that would explain recent globalization, as expressed through the expansion of TNCs, financial liberalization, even technology. Robert Cox writes: “[t]he basic principles of the *pax americana* were similar to those of the *pax britannica*: relatively free movement of goods, capital, and technology and a reasonable degree of predictability in exchange rates.”<sup>118</sup> Giovanni Arrighi, similarly, shows that the two main products of US hegemony are “the unity of the world market and the transnational expansion of capital.”<sup>119</sup>

The problem with hegemony as an explanation for the continuity of openness is that it accounts for openness in the world system rather than for individual states. What incentive would a small developing state or a rising middle power would have for maintaining economic openness? The literature cannot provide a satisfactory answer.

### Conclusions

Policy continuity has been either assumed as given or undertheorized in scholarship on both globalization and economic reforms. Lapses are manifest in several ways. Scholars from the left view globalization as a natural extension of the market system worldwide, and therefore an inevitable phase in capitalism. Others consider

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<sup>117</sup> Immanuel Wallerstein, “The Three Instances of Hegemony in the History of the Capitalist World Economy,” *International Journal of Comparative Sociology* 24 (1-2), 1983.

<sup>118</sup> Robert Cox, “Social Forces, States, and World Orders,” in Robert W. Cox with Timothy J. Sinclair, *Approaches to World Order* (Cambridge, UK: Cambridge University Press, 1996), p. 108.

<sup>119</sup> Giovanni Arrighi, “A Crisis of Hegemony,” in Samir Amin, et al., *Dynamics of Global Crisis* (New York: Monthly Review Press, 1982), p. 65.

globalization inevitable because of the pace of technological progress or intricacies of transnational business. These factors render states “powerless” to effect or maintain egalitarian policies; continuity, hence, is implicitly assured from state passivity. By associating continuity to the logic of capital and technology, both perspectives, in essence, embed the rationale for continuity into what are considered the *causes* of globalization, causes that are systemic in origin and exogenous to the orbit of state policymaking.

The literature on economic reform, similarly, leaves continuity undertheorized. Although the literature highlights the role of IFIs, epistemic communities, social learning insulated technocrats, and material interests tied to economic performance, it generally does not specify under what circumstances these might or might not affect the continuity of policies. Country surveys reveal too many contradictions and variation to yield sound generalizations, at least under the existing theoretical tools. This is not to say that the existing propositions are erroneous, but to assert that each has limitations, and further, to contend that together they have illuminated cause and consequences but neglected to theorize continuity. This study seeks to address this oversight by offering a *general* theory that can explain policy continuity toward openness.

### *Why Continuity is a Special Concern for Developing Countries*

Developing countries are theoretically important for three reasons. First, as “latecomers” or late developers, these countries have opened up their economies more radically and at a faster pace, compared to their historically inward-looking economic

stance. Advanced industrial countries have been comparatively open anyway, so their further opening up is less distinct theoretically and historically. Second, most developing countries confront immediate and widespread problems of poverty, socio-economic development, and distribution of resources. Moreover, globalization and marketization confront a greater cultural backlash there, and because of prior colonial experience, many developing countries have been historically antithetical to free trade and Western TNCs. The potential social costs and disruptions from economic openness, therefore, are starker. Finally, most developing states are considered “weak” by a number of criteria: access to resources, institutional capacity and depth, infrastructural strength, political stability especially with regard to transferring power, enforcement of rights, and coercive and cooptive power. The continuity of openness in spite of such adversities raises theoretical challenge.

Some scholars have examined globalization’s effect on North-South relations. The fact that the triad dominates economic activity means the developing countries will continue to remain shut out from the wholesale benefits of global investment and trade.<sup>120</sup> Differentiation, however, is intensifying within the developing world itself. In an edited volume that came out before the Asian crisis, Barbara Stallings argues that the newly emerging global conditions are most favorable to Southeast Asia and the least to Sub-

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<sup>120</sup> See Üner Kırdar, ed., *Change: Threat or Opportunity? Vol. III: Globalization of Markets* (New York: United Nations, 1992); Keith Griffin and Azizur Rahman Khan, “Globalization and the Developing World: An Essay on the International Dimensions of Development in the Post-Cold War Era,” *Human Development Report Occasional Papers* (New York: UNDP, 1992); Oman, *Globalisation and Regionalisation*; Hirst and Thompson, *Globalization in Question*, chapter 5; and John Dunning and Khalil Hamdani, eds., *The New Globalism and Developing Countries* (Tokyo: United Nations University Press, 1997).

Saharan Africa, where “delinking” from the global economy is a possibility.<sup>121</sup> Burbach, Nuñez, and Kagarlitsky consider this marginalization the most striking consequence of globalization. They predict that the poor countries “discarded” by globalization will become so disenchanted that a new form of economic system will arise from the grassroots level to replace capitalism in these countries.<sup>122</sup> They call the marginalized developing countries “postmodern economies.” Developing countries themselves have viewed closer economic relations with the West “with ambivalence if not outright skepticism,” particularly because of a bad history of economic dependence and political interference. The poorer countries, therefore, preferred what Stephan Haggard calls “shallow integration” to deeper, comprehensive globalization.<sup>123</sup> In light of these circumstances facing developing countries, policy continuity can hardly be taken for granted or left undertheorized.

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<sup>121</sup> Barbara Stallings, “The New International Context of Development,” in Stallings, ed., *Global Change, Regional Response*. See also in the same volume, Michael Chege, “Sub-Saharan Africa: Underdevelopment’s Last Stand,” pp. 309-347.

<sup>122</sup> Roger Burbach, Orlando Nuñez, and Boris Kargarlitsky, *Globalization and Its Discontents: The Rise of Postmodern Socialisms* (London: Pluto Press, 1997).

<sup>123</sup> Stephan Haggard, *Developing Nations and the Politics of Global Integration* (Washington, DC: Brookings Institution, 1995). Similarly, Krasner shows that the Third World historically has been skeptical of liberalism and market modes of allocation. In international forums, they have tended to support “the right of individual states to exercise sovereign control over a wider range of activities.” Stephen Krasner, *Structural Conflict: The Third World Against Global Liberalism* (Berkeley: University of California Press, 1985), p. 6.

## CHAPTER THREE

### Explaining India's Economic Openness: Conventional Narratives

Some say the action in India began with the opening of the Suez Canal ... Others say the action began with the Boeing 707 and John F. Kennedy ... Still others say the action began when that long red line of loonies came straggling in by way of Afghanistan, the Northwest Frontier and the Punjab plains ... at last it is our turn to mass market.

- Gita Mehta  
*Karma Cola*, 1979

Although India's trading links with the outside world go back at least two thousand years, they were never an integral part of its domestic economy until about ten years ago. The only exception was the height of British colonialism, when the subcontinent was forced to supply primary products such as jute, cotton, and indigo, and to consume finished British goods, particularly textiles.

For most of its post-independence history India remained relatively closed. It emphasized domestic industrialization, especially the development of heavy industries, with the goal of substituting imports and thereby achieving self-sufficiency.<sup>1</sup> It accorded centralized planning a major responsibility for production and distribution, and tried to promote growth through extensive state investments and interventions.<sup>2</sup> As typical of

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<sup>1</sup> A succinct review of the frameworks and experience of development in post-independence India is in Jagdish Bhagwati, "The Design of Indian Development," in Isher Judge Ahluwalia and I. M. D. Little, eds., *India's Economic Reforms and Development: Essays for Manmohan Singh* (Delhi: Oxford University Press, 1998).

<sup>2</sup> The major work on Indian planning is Sukhamoy Chakravarty, ed., *Development Planning: The Indian Experience* (Delhi: Oxford University Press, 1987). See also Jagdish Bhagwati and Padma Desai, *India: Planning for Industrialization* (Oxford: Oxford University Press, 1970); and Anil Kumar Jain, *Economic Planning in India* (New Delhi: Ashish Publishing House, 1986).

import-substitution industrialization (ISI) regimes, it protected its nascent industries by putting up high tariff barriers. Its import duties imposed on consumer products were often the highest in the developing world. The First (1951-1955) and the Second Five Year Plan (1956-1960) were marked by a high degree of “export pessimism.” The Third Five Year Plan (1961-1965) was exceptional. It recognized the value of export promotion. The government offered some export subsidies along with a devaluation of the rupee in June, 1966. But neither the Fourth (1970-1975) nor the Fifth (1976-1980) plan included any chapter or significant section on foreign trade.<sup>3</sup> Although the Sixth (1981-1985) and the Seventh (1986-1990) Five Year Plan sought to situate trade policies in a wider macroeconomic context, and considered trade beneficial insofar as it aids domestic industry, it was accepted that “there is no possibility of export-led growth in an economy such as India.”<sup>4</sup> Facing a rise in productive inefficiency and a change in ideological setting, the government of Rajiv Gandhi initiated economic reforms in the 1980s. The scope of those reforms remained limited, targeted at trimming regulations on industry and private business and raising domestic, not foreign, competitiveness.<sup>5</sup>

The expansionary policies associated with central planning and populist politics in the seventies and the eighties resulted in fiscal and external imbalances by the early

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<sup>3</sup> Deepak Nayyar, “The Foreign Trade Sector, Planning and Industrialisation in India,” in Terence J. Byres, ed., *The State, Development Planning and Liberalisation in India* (New York: Oxford University Press, 1997), pp. 340-368

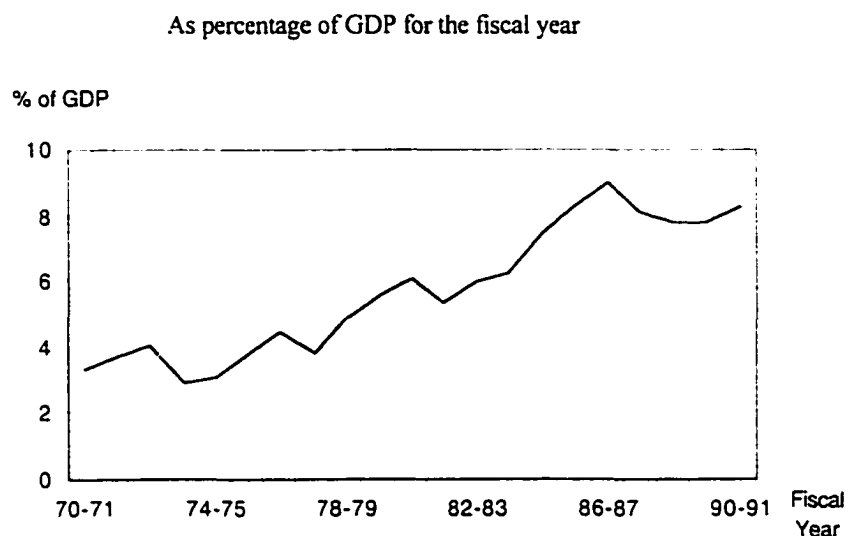
<sup>4</sup> *ibid.*, p. 344.

<sup>5</sup> See Isher J. Ahluwalia, *Industrial Growth in India* (Delhi: Oxford University Press, 1985); Arun Ghosh, et al., *Indian Industrialization: Structure and Policy Issues* (Delhi: Oxford University Press, 1992); George Rosen, *Contrasting Styles of Industrial Reform* (Chicago: University of Chicago Press, 1992). On the political effects of the reforms in the eighties, see Achin Vanaik, *The Painful Transition*



nineties, which required a correction, according to a widely-held consensus. Government consumption as a percentage of GDP grew by 7.2 percent annually between 1981 and 1991.<sup>6</sup> The fiscal deficit grew substantially, as shown in Figure 3.1.

*Figure 3.1*  
*Fiscal Deficit of the Indian Government, 1970-71 to 1990-91*



Source: Data from Kirit S. Parikh, ed., *India Development Report 1997* (Delhi: Oxford University Press, 1997), statistical table 3.

The internal debt of the government grew correspondingly, from 35 percent of GDP in 1980-81 to about 53 percent of GDP by 1990-91. The government's interest payments also doubled from 10 percent of total central government expenditure to 20

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(London: Verso, 1990).

<sup>6</sup> World Bank, *India: Sustaining Rapid Economic Growth* (Washington, DC: World Bank, 1997), p. 39, table 3.

percent.<sup>7</sup> For a government in a developing country, consumption and interest payments are non-productive ends that should not have been draining such substantial resources.<sup>8</sup>

The evidence on India's economic performance before the 1990s, nonetheless, is not overwhelmingly negative. During the eighties India posted an impressive annual GDP growth rate of 5.5 percent, when many developing countries were reeling from a depression brought about by the debt crisis. During that "lost decade," the OECD countries grew by only 2.9 percent and the low and middle income countries grew by only 2.7 percent annually.<sup>9</sup> India's growth rate in the eighties is also striking in contrast to its overall annual growth rate between 1950 and 1980: 3.52 percent, which earned the country the distinction of the so-called "Hindu" growth rate.<sup>10</sup> India's industry grew by 6.9 percent per annum between 1981 and 1990. Gross capital formation as a percentage of GDP increased significantly.

India's main economic problem was in the external sector. Since the Oil Crisis of 1973-1974 prices of key commodities have been decreasing in real terms, as shown in Table 3.1. Imports exceeded exports at an increasing rate, which resulted in alarming increase in the current account deficit by 1991. During 1980-85, the current account

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<sup>7</sup> Nirupam Bajpai and Jeffrey D. Sachs, "Fiscal Policy in India's Economic Reforms," in Jeffrey D. Sachs, Ashutosh Varshney, and Nirupam Bajpai, eds., *India in the Era of Economic Reforms* (New Delhi: Oxford University Press, 1999), p. 81.

<sup>8</sup> For more see Amit Bhaduri and Deepak Nayyar, *The Intelligent Person's Guide to Liberalization* (New Delhi: Penguin, 1996), chapter 2.

<sup>9</sup> World Bank, *India: Sustaining Rapid Economic Growth*, p. 39, table 1.

<sup>10</sup> Kirit S. Parikh, ed., *India Development Report 1997* (Delhi: Oxford University Press, 1997), p. 28, table 1.

deficit was on average \$2.3 billion. During 1985-1990, it was \$5.5 billion. The trend of India's current account balance is depicted in Figure 3.2.

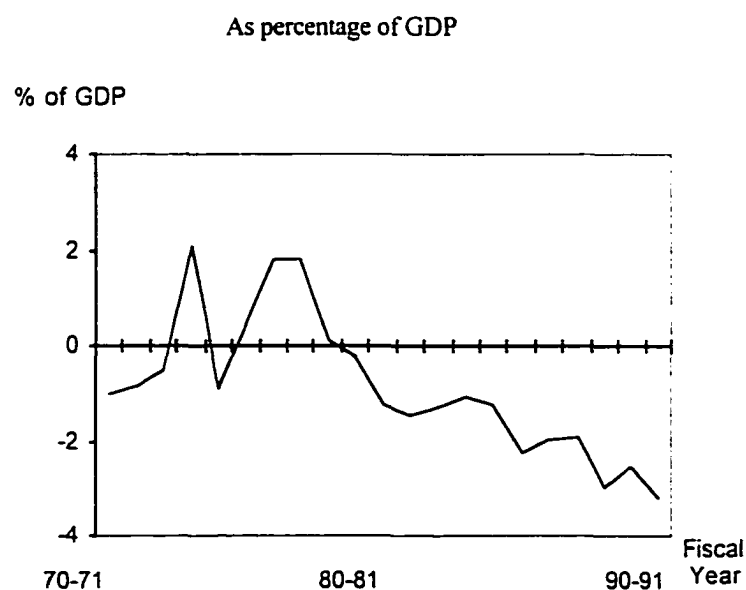
*Table 3.1*  
*Key Commodity Prices in Real Terms, 1974-1990*

Annual average percentage change

Commodity	1974-80	1981-90
Rice	-7.6	-7.1
Wheat	-7.0	-5.2
Tea	-0.3	-4.1
Cotton	-5.0	-4.4

Source: Miria Pigato, et al., *South Asia's Integration into the World Economy* (Washington, DC: World Bank, 1997), p. 40, table 4.2.

*Figure 3.2*  
*India's Current Account Balance, 1971-1991*

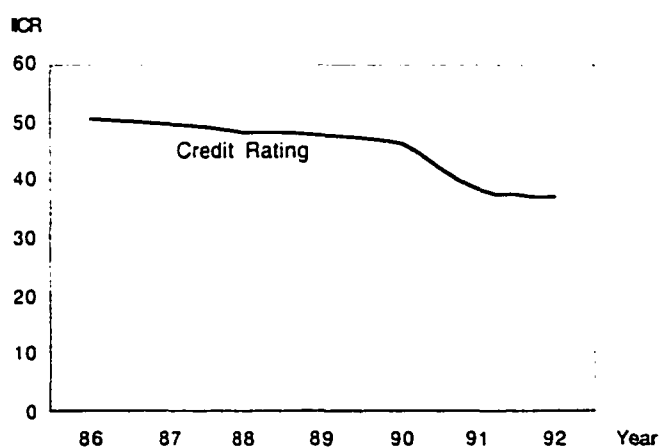


Source: Data from Kirit S. Parikh, ed., *India Development Report 1997* (Delhi: Oxford University Press, 1997), statistical table 2.

The external debt increased from 12 percent of GDP in 1980-81 to about 23 percent of GDP by 1990-91. Debt service ratio during the same period doubled from 15 percent of export earnings to 30 percent. Concern about India's economic health was reflected in a downturn in investor confidence in India. Figure 3.3 shows Institutional Investor's credit rating for India from the mid-eighties to the early nineties, recording a dramatic fall in the wake of the crisis in 1991 as well as the undertaking of the reform program.

*Figure 3.3*  
*Institutional Investor's Credit Rating of India, 1985-1992*

A higher rating indicates better credit worthiness



Note: IICR on the left axis refers to the credit rating for India in *Institutional Investor's* September issue for that year.

Source: The data comes from Miria Pigato, et al., *South Asia's Integration into the World Economy* (Washington, DC: World Bank, 1997), p. 89, table II.10.

These trends, coupled with a sharp fall in remittances from Indian workers in the Middle East after the Gulf War, put great pressures on India's foreign exchange reserves, which dwindled by mid-1991 to just about \$1.2 billion, scarcely enough to finance two

weeks worth of imports.<sup>11</sup> It is this pressure on reserves that was interpreted by the government as an unprecedented crisis. The government noted gravely: “A default on payments, for the first time in our history became a serious possibility in June, 1991.”<sup>12</sup>

The external crisis in 1991 led to a dramatic shift in India’s economic orientation, undertaken by a Congress-led government that came into power that year. The government repealed a variety of regulatory constraints and began to open up the external economy. The rupee was devalued by almost 20 percent in three days. Over the next few weeks, tariff and nontariff barriers were lowered, reducing import duty especially on raw materials for export processing. Simultaneously, executive ordinance was promulgated to encourage foreign direct investment (FDI) and foreign portfolio investment (FPI). The professed goal, in stark contrast to India’s historical economic stance, was to achieve growth through a greater reliance on foreign trade and private capital flows. As the finance minister explained, introducing the changes to the parliament:

The thrust of the reform process would be to increase the efficiency and *international* competitiveness of industrial production, to utilise for this purpose foreign investment and foreign technology to a much greater degree than we have done in the past ... so that the key sectors of our economy are enabled to attain an adequate technological and competitive edge in a fast changing global economy.<sup>13</sup>

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<sup>11</sup> Montek S. Ahluwalia, “India’s Economic Reforms: An Appraisal,” in Sachs, Varshney, and Bajpai, eds., *India in the Era of Economic Reforms*, p. 28.

<sup>12</sup> Government of India, Ministry of Finance, *Economic Survey 1991-1992*, Part I: General Review (New Delhi: Ministry of Finance, 1992), p. 10.

<sup>13</sup> Government of India, Ministry of Finance, *Speech of Shri Manmohan Singh Presenting Central Government’s Budget for 1991-92* (New Delhi: Ministry of Finance, 1991), p. 4 (emphasis added).

Important quarters of private business applauded these changes, but the turn in economic orientation was greeted generally with widespread pessimism. The government justified the shift toward globalization as a consequence of both domestic resource deficits and an unprecedented shortfall in the balance of payments.<sup>14</sup> Critics contended that the World Bank and the IMF provided, through carrot as well as stick, the major impetus for external liberalization. Protests and rallies were frequent, at times involving more than a hundred thousand people, fueled further by India's accession to the World Trade Organization (WTO) in 1995. Opposition to the reforms added to the fragility of governments at the helm of Indian power. There have been five changes of government in the nine years since 1991, but the process of globalization has continued unabated.

What is remarkable about India's story is not the undertaking of reforms per se. Adverse conditions in India's economy were present and clearly identifiable, which necessitated adjustment of some sort. The earlier external crisis in India, in the wake of the oil shocks in 1979-1981, also compelled adjustment, financed through heavy borrowing from the IMF. But crisis response in the seventies and the eighties was not accompanied with any significant current account adjustment, let alone resolute policy moves to boost exports, solicit investment, or liberalize imports.<sup>15</sup>

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<sup>14</sup> See the 1991, 1992, and 1993 budget speeches of the Finance Minister, Manmohan Singh. Also see Vijay Joshi and I. M. D. Little, *India: Crisis, Adjustment, Growth* (Oxford: Oxford University Press, 1993); Montek S. Ahluwalia, "India's Economic Reforms," in Robert Cassen and Vijay Joshi, eds., *India: The Future of Economic Reform* (Delhi: Oxford University Press, 1995).

<sup>15</sup> Vijay Joshi and I. M. D. Little, *India: Macroeconomics and Political Economy, 1964-1991* (New Delhi: Oxford University Press, 1994).

Compared to previous episodes, crisis-led economic reform after 1991 has been remarkably distinct for its *continuity*. Indian policymakers did not just react to the balance of payments problem in 1991; over the next nine years, they would take the bull by the horns, so to speak. The ad hoc industrial reforms that Rajiv Gandhi's government had attempted earlier (1985-1989) were implemented when the Congress Party enjoyed almost a three-fourths majority in the Parliament. The government of Narasimha Rao did not even have a simple majority until 1994, which they lost to BJP in 1996. But even the subsequent coalition governments proactively continued globalization, in some instances surprising the international financial institutions by their pace and extent of reforms.

In India, the political economy of India's economic openness since the early nineties is narrated conventionally in two ways. Most simply, it is interpreted as an independent move toward freeing its markets, impelled by the economic crisis of 1991. By that account the source of policy change is domestic. A rational perspective would expect that domestic political vicissitudes would influence the continuity of openness.

Alternatively, the India's globalization is said to be a representation of broader policy trends worldwide, a manifestation of the so-called Washington Consensus, prodded by the World Bank and the IMF. In this case the source of continuity is external, a function of conditionalities imposed on the government by the IFIs. This chapter reviews both of these explanatory narratives and shows that they contain puzzles and leave important questions unresolved about the continuity of openness.

### Narrative 1: Domestic Economic Crisis and Political Conditions

Though the extent of the predicament is disputed, it is generally accepted that India was in dire economic straits in 1991, which necessitated and resulted in policy reform. Arguably, a variety of historical and circumstantial causes were at play, but what is indisputable is that liberalization was *triggered* by the arithmetic of resource shortfall; it was a material urgency.<sup>16</sup> As Swaminathan Aiyer wrote, the bottom line was that “bankruptcy drove the reform process, not ideology.”<sup>17</sup>

The opposition hardly accepted that explanation. The politics of India’s globalization process subsequently has been rocky, involving challenges from organized material interests as well as political and intellectual groups. A series of knee-jerk hostile reactions from different parties followed the announcement of reforms. Different opposition groups congealed for the first time when it was found out that the government had shipped 47 tons of gold to the Bank of England to raise about \$600 million on an emergency basis. Additional rounds of opposition accompanied the promulgation and publishing of major liberalization-oriented policy documents, including the first three Union Budgets (1991/92, 1992/93, 1993/94), the Eighth Five Year Plan (1992), the report of the Tarapore Committee on Capital Account Convertibility (1997), and the report of the Fifth Pay Commission (1997), which dealt with the government’s fiscal health. Although these documents emphasized the government’s priority for the eradication of

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<sup>16</sup> “India’s Two Years,” *The Financial Times*, 6 July 1993, p. 19.

<sup>17</sup> Swaminathan S. Aiyar, “Paradise Lost,” *The Economic Times*, 15 August 1997, p. 5.



poverty, the skeptics were not easily convinced, for equal if not greater emphasis was placed on “growth” stimulated by foreign trade and investment. The Eighth Plan, for instance, first pointed out the government’s adoption of “indicative” instead of deterministic or centralized planning, and repeated, over and over again, the need for globalization of Indian trade and industry. It identified that “a key task” was to “move our trade policy towards greater openness and to reap the full benefits of international trade.”<sup>18</sup> The Plan, however, was careful to temper the urgency: “Indian industry must be readied to face international competition in a phased manner.”<sup>19</sup> Overall, the government tried to assure the opposition that “gradualism” was its stance toward the pace and extent of globalization, even though it implemented policies quite rapidly, especially in contrast to the slow and haphazard pace of liberalization in China.<sup>20</sup>

The greatest opposition to globalization was occasioned by India’s acceptance of the final Dunkel Draft<sup>21</sup> of the Uruguay Round of GATT negotiations in 1993, to take effect through India’s accession to the WTO in 1995. Tough resistance came from an odd alliance of opposition parties and nationalist groups, like the Shiv Sena and the RSS, local

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<sup>18</sup> Government of India, Planning Commission, *Eighth Five Year Plan 1992-1997* (New Delhi: Planning Commission, 1997), p. 85.

<sup>19</sup> Government of India, *Eighth Five Year Plan 1992-1997*, p. 8.

<sup>20</sup> Montek S. Ahluwalia, “India’s Economic Reforms,” in Robert Cassen and Vijay Joshi, eds., *India: The Future of Economic Reforms* (Delhi: Oxford University Press, 1995), pp. 13-29.

<sup>21</sup> The Dunkel Draft refers to the agreement drafted by GATT’s Director General, Arthur Dunkel, as a final, compromise solution to the negotiating parties. It ushered the conclusion of the Uruguay Round in 1993 and paved the way to establish the WTO in 1995. In India, Dunkel was frequently posed and sometimes scapegoated as the nemesis of independent economic development in India and other developing countries.

protectionist business groups like the Bombay Club, public-sector trade unions, farmers' organizations, and environmentalists.<sup>22</sup>

Although peak industry organizations like Assocham (Associated Chambers of Commerce and Industry) were urging that open-door policies were conducive to raising the competitiveness of Indian business, most firms that were not engaged in export-oriented businesses were wary of competition.<sup>23</sup> The government undertook programs to rally support for its policies.<sup>24</sup> Out of 243 major public sector units (PSUs), it identified nine as potential "global players." The government sought to encourage large private business to incorporate higher managerial and production standards to compete with TNCs and even expand operations abroad.<sup>25</sup> The opponents of globalization included not just small firms but large conglomerates like Godrej, the consumer goods giant, or Bajaj Auto, one of the largest manufacturers of scooters and mopeds in the world. Rahul Bajaj, the chairman, declared that Indian industry was being "wiped out."<sup>26</sup> A large number of

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<sup>22</sup> See, e.g., Inter Press Service, "India: Parliament Paralyzed by Anti-Dunkel Protest," newswire, 17 December 1993.

<sup>23</sup> For Assocham's recommendations, see Assocham, *Globalisation—Emerging Role of Business in India* (New Delhi: Assocham, 1994).

<sup>24</sup> For example, Agence France Presse, "Indian Industry Urged to Shape Up for Competition," newswire, 27 November 1993; "Ministry to Rally Support on IRA Bill," *Business India*, 11 August 1997, p. 12.

<sup>25</sup> Pankaj Chandra and P. R. Shukla, "Manufacturing Excellence and Global Competitiveness," *Economic and Political Weekly* 29 (9), 26 February 1994, pp. M2-M11; "FM Has Double Standards," *The Economic Times*, 12 August 1997, p. 2. The definitive review of the efforts of Indian companies to expand abroad is S. Shiva Ramu, *Globalization: The Indian Scenario* (New Delhi: Wheeler Publishing, 1996). For an early review, see Dennis J. Encarnation, "The Political Economy of Indian Joint Ventures Abroad," *International Organization* 36 (1), 1982, pp. 31-59.

<sup>26</sup> When asked about Bajaj's foreign expansion plans, the company chairman, Rahul Bajaj, exclaimed: "Globalisation? Ha! Let's first talk about how Indian industry can survive in India! We are being wiped out." Quoted in "Dreams of Going Global?" *The Sunday Observer*, 7 September 1997, Business Section, p. 1.

other important business leaders joined force to express similar sentiments.<sup>27</sup> Freddie Mehta, a director of Tata Sons, commented: “Indian industry in the coming years will see a few dramatic winners and a large number of losers. The staying power of Indian industry is not comparable to that of global players.”<sup>28</sup> The Executive Director of the Industrial Development Bank of India noted, “Hasty steps towards globalisation without ensuring a level playing field has led to the eclipsing of Indian industry. We should have exercised extreme caution in liberalising the economy.”<sup>29</sup> In face of external competition, Tata, the largest business group in India at that time, began a major consolidation move to integrate its 80 companies and 272,000 employees into 30 larger companies. Indal, the huge Indian Aluminum Company, faced considerable losses and the prospect of substantial layoffs after tariff liberalization introduced foreign competition in the local aluminum market.<sup>30</sup>

The most influential of these businesses formed a pressure group, known as the Bombay Club, and began to organize seminars and sessions to publicize the deleterious effects of globalization and to resist the opening up of Indian economy. The alliance of business, through its constant lobby with BJP and other parties in opposition at that time, succeeded in compelling the government to withdraw the Insurance Regulatory Authority Bill in 1997. The IRA Bill would have deregulated the insurance industry and

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<sup>27</sup> A number of informative interviews can be found in T. N. Sindhvani, *India's Role in Globalisation* (New Delhi: Capital Foundation Society, 1992).

<sup>28</sup> “Dreams of Going Global?” p. 1.

<sup>29</sup> *ibid.*, p. 1.

<sup>30</sup> “Dull and Brittle,” *Business India*, 14–27 July 1997, pp. 93-96.

allowed foreign companies a presence in the local market.<sup>31</sup> This withdrawal was the only major departure from India's pro-globalization policies in nine years.

The cut back in the economic role of the state, especially the role of industrial and social planning was also seriously criticized, even though the reformist prime minister and the finance minister were essentially social democrats, not neo-conservatives.<sup>32</sup> The withdrawal of subsidies, especially on imported kerosene and foodstuff, has been a major cause of turmoil against pro-globalization policies.<sup>33</sup> The World Bank estimated that in the first year of reform, the incidence of poverty in India increased from 36 percent to 41 percent, and attributed at least a third of this increase directly to the austerity measures of the government.<sup>34</sup> Militant rallies were held in frequent intervals in different parts of the country, denouncing globalization and the increase in prices of essential commodities. In several important instances those rallies were organized nationally; the largest of these took place in early January 1992,<sup>35</sup> October 1993,<sup>36</sup> and Fall 1997. In 1997 and 1998, the RSS, a Hindu-nationalist organization, threatened to raise a *swadeshi* (nationalist) army to

<sup>31</sup> "IRA Bill Runs Into Rough Weather," *Indian Express*, 7 August 1997, p. 1; "Industry Backs BJP," *Indian Express*, 7 August 1997, p. 11.

<sup>32</sup> James Manor, "The Political Sustainability of Economic Liberalization in India," in Robert Cassen and Vijay Joshi, eds., *India: The Future of Economic Reform* (Delhi: Oxford University Press, 1995), pp. 341-363. On the new "indicative" approach to planning, see Arjun Sengupta, "Planning for Policies: A Note on the Approach to the Ninth Indian Five Year Plan," paper presented at the National Economic Council, Dhaka, Bangladesh, 15 December 1997.

<sup>33</sup> Cameron Barr, "India's Political Woes Shake Economic Plan," *The Christian Science Monitor*, 22 December 1992, p. 6; Tim McGirk, "India's Poor Wait in Vain for Trickle-Down Miracle," *The Independent* (London), 3 September 1994, p. 9.

<sup>34</sup> World Bank, *India: Five Years of Stabilization and Reform, and the Challenges Ahead* (Washington, DC: World Bank, 1997), p. 28.

<sup>35</sup> "National Campaign Against Price Rise," *The Hindu*, 3 January 1992, p. 6.

<sup>36</sup> Wishvas Rame, "Farmers Rally Against GATT Proposals," *Economic and Political Weekly* 28 (44), 30 October 1993, pp. 2391-2396.

drive out foreign corporations, a move that was backed by small retailers and traders across the country.<sup>37</sup>

Organized labor, especially in the public sector, has been another formidable adversary of globalization policies. Nationwide industrial strikes were organized in November 1991, June 1992, and September 1993 to protest the government's policy reforms.<sup>38</sup> The Centre of Indian Trade Unions (CITU), along with other parties of organized labor, condemned the absence of labor issues in the foreign investment legislation proposed by the government.<sup>39</sup> Especially at stake was the debate over "exit policy," that is, the right of factories to lay off workers and close down.<sup>40</sup> The CITU was also one of the major organizations that sued the Enron Corporation, challenging its \$2.5 billion flagship investment project of power generation (Dabhol power plant) in Maharashtra.<sup>41</sup>

The increase in multinational investment unified in addition several large environmental groups, which lent their support across the board to other opponents of

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<sup>37</sup> See for example, "Swadeshi Army Planned to Take on MNCs," *The Business Standard*, September 5, 1997, p. 1.

<sup>38</sup> United Press International, "Violence Mars Leftist General Strike in India," newswire, 9 September 1993.

<sup>39</sup> "Coping with Changes," *Frontline*, 30 May 1997, pp. 101-2. See also Sarath Davala, "New Economic Policy and Trade Union Response," *Economic and Political Weekly* 29 (8), 1994, pp. 406-408; and the essays in the special issue on "Liberalisation Policy and Social Concerns," *Indian Journal of Public Administration* 42 (3), 1996.

<sup>40</sup> Vijaya Katti, "India's Economic Reforms: An Assessment of the Impact on Industry and FDI," *Foreign Trade Review* 28 (1), 1993, pp. 77-90; B. Bhattacharya, "Foreign Direct Investment in India," *Foreign Trade Review* 28 (4), 1994, pp. 307-329. See also Isher Judge Ahluwalia, "Indian Industry and India's Economic Reforms," Sri Ram Memorial Lecture Part II, given to the Ludhiana Management Association, Punjab, India, 21 March 1997.

<sup>41</sup> "A Disappointing Verdict," *Frontline*, 30 May 1997. CITU challenged the power purchase agreement between the government and Enron.

the government's globalization policies, who were seeking to send even Coca Cola and Pepsico out of India.<sup>42</sup> Such opposition manifested itself frequently, but especially on the eve of major forums, like the WTO Ministerial Meeting in Seattle in 1999 and the World Economic Forum at Davos in 2000.<sup>43</sup> In one of the most publicized cases of environmental activism, the World Bank was forced to withdraw funding for building a \$3 billion dam over the Narmada river.

The major political parties, in both the parliament and internal debates, went through great turmoil in staking out their positions for and against policies toward globalization. The former prime minister V. P. Singh equated the acceptance of the Dunkel Draft to economic slavery.<sup>44</sup> George Fernandes (Samata Party), who would later become BJP's Defense Minister during India's nuclear tests, charged the government with "selling out national interests to Western funding agencies."<sup>45</sup> There was a visible rift within BJP over the role of multinationals. The nationalist faction, with strong support in the rural areas, was fiercely against foreign investment. S. Gurumurthy, one of the chief leaders of the nationalist faction strongly denounced the government's pro-investment stance: "Like Nawabs and kings who shamelessly welcomed and paid obeisance to East India Company, politicians and media are welcoming Rebecca Marks [the CEO of Enron

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<sup>42</sup> "Turning Out the Lights: Opponents of India's Reforms Are Doing Its Rivals a Favor," *Asiaweek*, 25 August 1995, p. 19; "A Port Project in Trouble," *Frontline*, 11 July 1997, pp. 65-67.

<sup>43</sup> See C. Rammanohar Reddy, "Clouds Over the Summit," *The Hindu*, 6 February 2000, <<http://www.indiaserver.com/thehindu/stories/05061348.htm>>, accessed 15 February 2000.

<sup>44</sup> "GATT Proposals Will Mean Economic Slavery: V. P. Singh," *The Hindu*, 12 January 1992, p. 6.

<sup>45</sup> "Government Withdraws Bill on Insurance Authority," *The Hindu*, 7 August 1997, p. 1.

Corporation].”<sup>46</sup> The compromise solution for the internal divisions in most parties was to encourage foreign investment but retain a large social role of the state.<sup>47</sup> All parties were especially shy about retrenching public sector labor or reforming and closing sick factories.<sup>48</sup> Facing strong pressure, Finance Minister P. Chidambaram asserted in 1996 that no government employee would be retrenched as part of the austerity measures.<sup>49</sup> When the gigantic report of the Fifth Pay Commission came out in August, 1997, advocating fiscal reforms within the government, strong resistance was voiced from not only other parties but from important divisions within the government itself. Traditionally reticent, the Army expressed its complete dissatisfaction. 1.7 million workers of the Indian Railway threatened to strike.<sup>50</sup>

Most of the 25 state governments were lukewarm toward globalization, especially during the first five years of policy reform. The states opposed the central government on multiple grounds. Some states like Kerala and West Bengal were ruled by the Communist Party of India (CPI), and hence resisted globalization ideologically, before they themselves switched to actively encouraging foreign investment.<sup>51</sup> The Congress Party,

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<sup>46</sup> “We Swadeshis Can Do With Videshi Ambanis,” *The Economic Times* 4 September 1997, p. 1.

<sup>47</sup> “Whither Unity on Economic Reforms?” *Financial Express*, 8 August 1997, p. 2; “Congress Firm On Reform Path,” *The Business Standard*, 11 August 1997, p. 2. At the Congress Party’s plenary session, it was decided that reforms are supportable provided that the objective was “growth, self-reliance, and increased social justice.”

<sup>48</sup> “The State of Reform in India,” *The Economist*, 6 August 1994, p. 29. “Throes of a Textile Town,” *Business India*, 16-29 June 1997, pp. 156-158.

<sup>49</sup> “No Cause for Alarm, Says Chidambaram,” *The Hindu*, 19 June 1996, <<http://www.indiaserver.com/thehindu/1996/06/19/THF01.html>>, accessed 4 August 1999.

<sup>50</sup> See the major Indian newspapers for the first week of August, 1997.

<sup>51</sup> The switch by West Bengal, for one, divided the ideologues of the Communist Party. For West Bengal’s globalization policies, see “West Bengal, Inc.” Special Report of *the Economic Times*, 12

the pioneer of globalization policies, had been continuously out of power in some of the key states, such as Tamil Nadu since 1967 and West Bengal since 1977. In addition, the states disapproved the lack of material incentives. Although the states were urged to provide infrastructure support, subsidies, and tax incentives to exporters and foreign investors, they did not have direct access to the foreign exchange earned, which accrued to the central government.<sup>52</sup> States also have been unwilling to allow labor force adjustment. S. Guhan, who did the authoritative study on centre-state relations during the reform process, concludes, “the states’ response so far to the reforms has been grudging at best and non-cooperative at worst.”<sup>53</sup>

Finally, resistance came from India’s vibrant left-leaning intellectuals. Academic economists have always enjoyed a place of honor in Indian policymaking, and many have gone back and forth between academic vocations and policy assignments.<sup>54</sup> Their attack on liberalization policies was multidimensional, beginning with the assertion that the domestic resource limitations were exaggerated; that contrary to the claims by the government, India’s economy was not on the verge of a collapse sufficient to justify

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August 1997.

<sup>52</sup> Ramani Kumar and Pranab K Banerjee, “Role of States in Export Promotion Efforts: A Case Study of Rajasthan,” *Foreign Trade Review* 31 (3), 1996, pp. 53-65.

<sup>53</sup> S. Guhan, “Centre and States in the Reform Process,” in Robert Cassen and Vijay Joshi, eds., *India: The Future of Economic Reform* (New Delhi: Oxford University Press, 1995), p. 73. See also V. A. Pai Panandiker, “The Political Economy of Centre-State Relations in India,” in Ahluwalia and Little, eds., *India’s Economic Reforms and Development*, pp. 375-394.

<sup>54</sup> Terence J. Byres, “From Ivory Tower to the Belly of the Beast: The Academy, the State, and Economic Debate in Post-Independence India,” in Byres, ed., *The Indian Economy: Major Debates Since Independence* (Delhi: Oxford University Press, 1998), pp. 74-115.



extensive reforms.<sup>55</sup> Prabhat Patnaik contended that the priorities placed on international capital would lead to de-industrialization and unemployment.<sup>56</sup> Dependency and neo-dependency approaches saw foreign capital and trade as a rent-seeking menace,<sup>57</sup> an agent of neo-imperialism,<sup>58</sup> a threat to national autonomy,<sup>59</sup> a dilution of distributive justice,<sup>60</sup> and a threat to domestic industry and labor. As an editorial in the influential *Economic and Political Weekly* put it, "The liberalisation and globalisation process ... has emasculated Indian business enterprise, both in the public and private sectors, and driven out of gainful employment 'surplus' workers in organised industry in sizeable numbers."<sup>61</sup> The WTO was condemned widely as flatly antithetical to national

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<sup>55</sup> Errol D'Souza, "How Did the Reforms Gain Acceptability?" *Economic and Political Weekly* 32 (30), 26 July 1997, p. 1888; Mani Shankar Aiyar, "Globalising Swadeshi: Should All Mediocre Indians Give Way to Competent Foreigners?" *India Today*, 13 October 1997, p. 37; Prabhat Patnaik and C. P. Chandrasekhar, "India: *Dirigisme*, Structural Adjustment, and the Radical Alternative," in Dean Baker, Gerald Epstein and Robert Pollin, eds., *Globalization and Progressive Economic Policy* (Cambridge, UK: Cambridge University Press, 1998), p. 67; Prabhat Patnaik, "The Real Face of Financial Liberalisation," *Frontline* 16 (4), 1999.

<sup>56</sup> See Prabhat Patnaik's essays: "International Capital and National Economic Policy: A Critique of India's Economic Reforms," *Economic and Political Weekly* 29 (12), 19 March 1994, pp. 683-689; "Macro-Economic Policy in Times of 'Globalisation'," *Economic and Political Weekly* 29 (16-17), 16-23 April 1994, pp. 917-921. See also R. G. Nambiar and Gopal Tadas, "Is Trade De-industrializing India?" *Economic and Political Weekly* 29 (42), 15 October 1994, pp. 2741-2746.

<sup>57</sup> Arun Ghosh, "Rent Seeking and Economic Reforms," *Economic and Political Weekly* 29 (1-2), 1-8 January 1994, pp. 13-15.

<sup>58</sup> BM, "Deepening Reliance on Foreign Capital," *Economic and Political Weekly* 28 (10), 6 March 1993, pp. 372-373; Arun Ghosh, "GATT, MTO and the Indian Constitution," *Economic and Political Weekly* 29 (3), 15 January 1994, pp. 77-79.

<sup>59</sup> Arun Ghosh, "1994-95 Budget: A Total Surrender," *Economic and Political Weekly* 29 (16-17), 16-23 April 1994, pp. 889-892.

<sup>60</sup> Ajit Kumar Singh, "Social Consequences of New Economic Policies," *Economic and Political Weekly* 28 (7), 13 February 1993, pp. 279-285.

<sup>61</sup> BM, "An Irresponsible Budget," *Economic and Political Weekly* 29 (11), 12 March 1994, pp. 593-594. See also, Ashok Rudra, "Privatization and Deregulation," *Economic and Political Weekly* 26 (51), 21 December 1991, pp. 2933-2936; Prayag Mehta, "New Economic Policy, Workplace and Human Development," *Economic and Political Weekly* 29 (22), 28 May 1994, pp. M75-M82; Arun Ghosh, "Ideologues and Ideology: Privatisation of Public Enterprises," *Economic and Political Weekly* 29 (30), 23 July 1994, pp. 1929-1931. Countering these popular claims, some argued that the supposed threat posed the multinationals was hyperbole. See for example, Mehta, "Globalisation of the Indian

interests.<sup>62</sup> GATT's propositions about Trade-Related Investment Measures (TRIMs) came under sharp criticism.<sup>63</sup> Heated condemnation also centered on the promotion of certain intellectual property rights, especially patents and rights over common biological resources.<sup>64</sup>

All said, the social dislocation and the intellectual and political resistance only exacerbated the fragility of governments at the helm of Indian power. The reforms were begun in an extremely tenuous political and economic environment. As Vijay Joshi and I. M. D. Little observed:

There were in the beginning, to all intents and purposes, only two politically active reformers, the Prime Minister and his Finance Minister ... it is not surprising that most was achieved in areas that were the direct responsibility of the Prime Minister or the Minister of Finance.<sup>65</sup>

The agenda of most other political leaders in the first few years of reform have been haphazard, and "many ministers were probably quite reluctant to agree to many of

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Economy"; S. Ganesh, "Who Is Afraid of the Foreign Firms? Current Trends in FDI in India," *Economic and Political Weekly* 32 (22), 3 May 1997, pp. 1265-1274.

<sup>62</sup> Chitra Subramaniam, *India is For Sale* (New Delhi: VBS Publishers, 1997); S. P. Shukla, "Resisting the World Trade Organization: Agenda for Marrakesh," *Economic and Political Weekly* 29 (11), 12 March 1994, pp. 589-592.

<sup>63</sup> JM, "GATT, the Dunkel Draft, and India," *Economic and Political Weekly* 27 (4), 25 January 1992, pp. 140-143; S. P. Shukla, "Sovereignty vs Small Pickings," *Frontline*, 14-20 October 1997, pp. 89-91.

<sup>64</sup> Deepak Nayyar, "Intellectual Property Rights and LDCs: Some Strategic Issues," *Economic and Political Weekly* 27 (6), 8 February 1992, pp. 271-274; Biswajit Dhar and C. Niranjan Rao, "Dunkel Draft on TRIPs: Complete Denial of Developing Country Interests," *Economic and Political Weekly* 27 (6), 8 February 1992, pp. 275-278; Suman Sahai, "Dunkel Draft is Bad for Agriculture," *Economic and Political Weekly* 28 (25), 19 June 1993, pp. 1280-1281; Suman Sahai, "Intellectual Property Rights for Life Forms: What Should Guide India's Position?" *Economic and Political Weekly* 29 (3), 15 January 1994, pp. 87-90; Suman Sahai, "GATT and the Patenting of Micro Organisms," *Economic and Political Weekly* 29 (15), 9 April 1994, pp. 841-842. See also, S. P. Shukla, "Amendment of Patents Act: Why Parliament Must Defeat It," *Economic and Political Weekly* 29 (50), 10 December 1994, pp. 3127-3128; "Transparency in the Patents Regime," *The Hindu*, 23 August 1996, p. 8; S Venkitaramanan, "Patent injustice," *The Hindu Business Line*, 29 December 1997, p. 16.

the changes they [the Prime Minister and the Finance Minister] promoted.”<sup>66</sup> The Congress Party, pioneer of reforms, suffered major electoral defeats. Congress lost in three of the four states (Andhra, Karnataka, Sikkim) in which elections were held in November and December, 1994. Much of the central party leadership blamed the liberalization policies.<sup>67</sup> There have been five changes of government since the reforms began. The last coalition government, headed by the BJP, collapsed on April 17, 1999 again injecting a dose of uncertainty into Indian politics. After re-election BJP re-iterated its intent to continue reforms.

Given the strong political resistance and an electoral situation in which no party has been able to command national power since 1991, and especially since 1996, it hardly seemed politically rational for Indian governments to continue globalization at significant social cost. Table 3.2 presents a synopsis of the changing governments in India between 1991 and 1999.

From the point of view of rational choice, we would expect globalization to take a topsy-turvy route, following the vicissitudes of the Indian political cycle. This argument has been made, among others, by Eswaran Sridharan. At a rational level, Sridharan predicted that “[f]or a coalition government to undertake an economic and social policy package that has short-term political costs but only long-term gains will be very

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<sup>65</sup> Joshi and Little, *India's Economic Reforms*, pp. 257-258.

<sup>66</sup> *ibid.*, p. 258.

<sup>67</sup> Chris Lefkow, “Rough Seas Ahead for India's Economic Reforms,” Agence France Presse newswire, December 16, 1994; John Thor-Dahlburg, “India's Prime Minister Faces Familiar Political Problems,” *Los Angeles Times*, 22 December 22 1994, p. A-18.

difficult.”<sup>68</sup> Strong governments, like the rule by the Congress party during the first half of the 1990s, may afford to push through the liberalization agenda. But it is not rational for weak governments such as the United Front or the Janata Dal coalitions, even the increasingly shaky BJP-led alliance in early 1999, to keep up the pace.

*Table 3.2*  
*Changes in India's Governments, 1991-1999*

Year	No. of Government	Event
1991 (June)	1	Congress wins elections, forms minority government.
1993 (July)		Congress survives a no-confidence vote by 14 votes.
1994 (January)		Congress secures majority.
1996 (May)	2	No majority in general elections. BJP wins largest share of seats and forms a government.
1996 (May)	3	BJP government falls after 13 days. United Front coalition forms a government.
1997 (November)		Congress withdraws support from UF. Government falls.
1998 (March)	4	No majority in elections. BJP forms coalition government.
1999 (April)		BJP government falls.
1999 (October)	5	BJP wins elections; forms government

Indian policymakers, regardless of party, have largely ignored domestic outcries, even mobilization, for protectionism. One thing that the “hung” parliaments of India have

<sup>68</sup> Eswaran Sridharan, “Coalition Politics in India: Lessons from Theory, Comparisons, and Recent History,” Centre for Policy Research, Monograph (New Delhi: CPR, May 1997), p. 18. On reforms and the electoral cycle in India, see Sridharan, “Political Institutions and Economic Reform: Lessons from the Indian Experience 1991-96,” Centre for Policy Research, Monograph (New Delhi: CPR, May 1997).

not been inactive about is the continuity of reforms.<sup>69</sup> An editorial in the influential nationalist newspaper, *The Hindu*, felt certain on the eve of elections in 1996: “political changes would not stop India from going ahead with the new economic policy.”<sup>70</sup> The new governments that have shared power since then have explicitly reaffirmed this conviction. After the BJP won the elections in 1996, the Finance Minister, Jaswant Singh promised to pursue the same globalization path.<sup>71</sup> In February 1999, the Finance Minister asserted at the Davos World Economic Forum: “We in India are committed to globalization.”<sup>72</sup> After the fall of the BJP government in April, L. K. Advani, the Home Minister, assured that the BJP will pursue globalization with greater intensity if returned to power.<sup>73</sup> Since 1991 there has been only one major policy reversal from the globalization path.<sup>74</sup>

Such resilience is remarkable in a country like India, where the ethic of democracy is well-rooted, and where policymakers at any given time find their decision-making process complicated by demands from a motley array of domestic factions – economic,

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<sup>69</sup> “Economic Reforms and Elections,” *The Hindu*, 25 April 1996, <<http://www.indiaserver.com/thehindu/1996/04/25/THE02.html>>, accessed 4 August 1999.

<sup>70</sup> “Globalising India,” *The Hindu*, 8 May 1996, <<http://www.indiaserver.com/thehindu/1996/05/08/THE02.html>>, accessed 4 August 1999

<sup>71</sup> “The Economic Reality,” *The Hindu*, 20 May 1996, <<http://www.indiaserver.com/thehindu/1996/05/20/THE02.html>>, accessed 4 August 1999.

<sup>72</sup> “Economic Reforms to Provide Comfort,” *The Statesman*, 1 February 1999, p. 1.

<sup>73</sup> “BJP Alliance Will Continue Reforms, Says Advani,” *The Hindustan Times*, 29 April 1999, p. 1.

<sup>74</sup> This reversal was the last-minute withdrawal of the Insurance Regulatory Authority Bill of 1997, which would have allowed foreign insurance companies to compete in the domestic market. It was only the second time in India’s history that the government withdrew a bill poised for voting in the Parliament. See “Government Withdraws Bill on Insurance Authority,” *The Hindu*, 7 August 1997, p. 1. Also, “Whither Unity on Economic Reforms?” *Financial Express*, 8 August 1997, p. 2.

religious, ethnic, regional, and political.<sup>75</sup> As Vincent Cable pointed out, discussing the protests against the Dunkel Draft, India is a “country where the level of political consciousness is such that factory occupations and demonstrations can be organized in protest against a sub-clause of a draft document in GATT negotiations in Geneva.”<sup>76</sup> The Finance Minister, in the same vein, admitted to the *Financial Times*: “With all the problems we have had, it is a miracle the [liberalization] programme is still intact.”<sup>77</sup> Indeed, the continuation of globalization policies through all the turmoil and through both strong and shaky governments corroborates Prime Minister Deve Gowda’s assertion in 1996: “Reversing economic liberalization is ruled out ... Anybody can come. India is open globally.”<sup>78</sup> Deve Gowda emphasized the policy continuity in his speech at the World Economic Forum at Davos in 1997:

India is a very large country consisting of several states, and people belonging to several religions and language groups. The polity is bound to reflect this inherent diversity and essential pluralism ... But given the

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<sup>75</sup> For academic analyses of the various sources of political conflict in India, see Lloyd I. Rudolph and Susanne Hoeber Rudolph, *In Pursuit of Lakshmi: The Political Economy of the Indian State* (Chicago: University of Chicago Press, 1987); Paul R. Brass, *The Politics of India Since Independence* (Cambridge, UK: Cambridge University Press, 1994); Ashutosh Varshney, *Democracy, Development, and the Countryside: Rural-Urban Struggles in India* (Cambridge, UK: Cambridge University Press, 1995); T.V. Sathyamurthy, eds., *Region, Religion, Caste, Gender and Culture in Contemporary India* (Delhi: Oxford University Press, 1996); Maya Chadda, *Ethnicity, Security, and Separatism in India* (New York: Columbia University Press, 1997). For useful, non-academic discussions, see V. S. Naipaul, *India: A Million Mutinies Now* (New York: Viking Penguin, 1991); Shashi Tharoor, *India: From Midnight to the Millennium* (New York: Arcade, 1997); Sunil Khilnani, *The Idea of India* (London: Hamish Hamilton, 1997).

<sup>76</sup> Vincent Cable, “Indian Liberalization and the Private Sector,” in Robert Cassen and Vijay Joshi, eds., *India: The Future of Economic Reform* (Delhi: Oxford University Press, 1995), p. 224.

<sup>77</sup> Martin Wolf, “Survey of India,” *The Financial Times*, 30 September 1993, p. VI. In another interview with Stefan Wagstyl of the *Financial Times*, Manmohan Singh remarked again: “Given the democratic nature of our political system, it’s a miracle we have got this far.” *The Financial Times*, 30 September 1993, p. VI.

<sup>78</sup> Lally Weymouth, “India is Open Globally,” Interview with Prime Minister Deve Gowda, *Newsweek*, 16 December 1996, p. 41.

depth and maturity of our democratic system, governance will continue to be orderly, smooth and marked by a large measure of continuity in policy.<sup>79</sup>

The influential national newspaper, *The Hindu*, congratulated the role of Deve Gowda and his finance minister, P. Chidambaram, is stressing policy continuity, arguing that such emphasis ensured that India's participation at Davos would have a "positive outcome."<sup>80</sup> This reflects the a continual concern that pro-globalization advocates has had for policy continuity in India.<sup>81</sup> As politicized and fragmented as India is, it is rare to find domestic compulsions consistently overlooked in order to continue with a set of policies through thick and thin. The apparent irrationality of continuing globalization in face of severe opposition and fragility of governments indicates that there are other parts to solving the puzzle, and that an important source of policy continuity is probably in external factors.

### **Narrative 2: Influence of International Financial Institutions**

Several theoretical approaches elaborate external compulsions on policymaking in developing countries. Perhaps most passionate among them are dependency and neo-dependency theorists. Dependency theory investigated bilateral relations between poor

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<sup>79</sup> Deve Gowda, "India: Meeting the Challenges for High Growth," Speech given at the World Economic Forum, Davos, February 1997, <<http://www.indiaexpress.com/embassy/news/indiameet.html>>, accessed 11 February 2000.

<sup>80</sup> "Encouraging Signals," *The Hindu*, 6 February 1997, <<http://www.indiaserver.com/thehindu/1997/02/06/THE01.html>>, accessed 27 January 2000.

<sup>81</sup> See Malvika Singh, "Can the Political System Support Economic Reform?" *Business Times*, 22 September 1993, p. 26.

and rich countries, with the assumption that development pattern and policies in poor countries are “conditioned by the development and expansion of another economy.”<sup>82</sup> These dependent ties established a perverse form of elite-controlled, rent-seeking, quasi-capitalism in the developing world, and, as subsequent scholarship attempted to show, were perpetuated through investment capital from TNCs as well as through aid and credit from international financial institutions (IFIs).<sup>83</sup> Newer twists on these approaches highlight the role of the World Bank and the IMF. Poorer countries in need of multilateral funding are susceptible to pressures from the Bank and the Fund, who, critics contend, advocate policy liberalization often at the expense of adverse consequences on welfare, poverty, human rights, and the environment.<sup>84</sup>

The general dependency perspective has been invoked in the Indian case as well.<sup>85</sup> Allegations of “surrendering” to pressures from the IMF surfaced immediately after the first move toward globalization, the currency devaluation in early July, 1991. The Finance

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<sup>82</sup> Theotonio Dos Santos, “The Structure of Dependence,” *American Economic Review* 60 (5), 1970, p. 236.

<sup>83</sup> Peter Evans, *Dependent Development: The Alliance of Multinational, State, and Local Capital in Brazil* (Princeton, NJ: Princeton University Press, 1979).

<sup>84</sup> For a leftist critique of the Bank and the Fund’s influence on developing countries, see the essays in Kevin Danaher, eds., *50 Years Is Enough: The Case Against the World Bank and the International Monetary Fund* (Boston: South End Press, 1994). For a rightist critique, see Doug Bandow and Ian Vasquez, eds., *Perpetuating Poverty: The World Bank, the IMF, and the Developing World* (Washington DC: Cato Institute, 1994). See also Catherine Caufield, *Masters of Illusion: The World Bank and the Poverty of Nations* (New York: Henry Holt, 1997).

<sup>85</sup> Prabirjit Sarkar, “IMF/World Bank Stabilisation Programmes: A Critical Assessment,” *Economic and Political Weekly* 26 (40), 5 October 1991, pp. 2307-2310; Michel Chossudovsky, “India Under IMF Rule,” *Economic and Political Weekly* 28 (10), 6 March 1993, pp. 385-387; Arun Ghosh, “1994-95 Budget: A Total Surrender,” *Economic and Political Weekly* 29 (16-17), 16-23 April 1994, pp. 889-892; Prabhat Patnaik, *Whatever Happened to Imperialism?* (New Delhi: Tulika, 1995); Bhaduri and Nayyar, *The Intelligent Person’s Guide to Liberalization*, chapter 3.



Minister denied that the devaluation was part of IMF conditionalities.<sup>86</sup> The Fund and the Bank, nevertheless, continue to strongly endorse India's overall reform program, which is the main evidence that the critics of reform use to make their case for collusion. The first such endorsement came after the second round of devaluation, when a Fund spokesman stated cautiously that depreciating the currency was "an appropriate measure under the circumstances."<sup>87</sup> The language of these endorsements eventually became bolder. In 1997, for instance, the IMF's Executive Board commended India "for pursuing policies that had set the Indian economy on a new course of modernization to meet the challenges of globalization."<sup>88</sup>

The government tried to counter critics by employing in its policy documents the rhetoric of "self-reliance." For instance, the government's *Economic Survey 1991-92* declared: "The economic policies of the government have been designed to tackle the immediate crisis, but they emanate from a vision of a future ... the basis of this vision is self-reliance."<sup>89</sup> The opposition, not convinced, kept on resisting the government's policies, especially denouncing its annual budget by associating it with the "dictates" of IFIs. Confronting the salvos of accusations, the Finance Minister felt compelled to make a firm disclaimer in his budget speech in 1992:

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<sup>86</sup> "Devaluation: A Signal to IMF," *The Hindu*, 2 July 1991, p. 9.

<sup>87</sup> "Appropriate Step, Says IMF," *The Hindu*, 4 July 1991, p. 1.

<sup>88</sup> "IMF Concludes Article IV Consultations with India," IMF Press Information Notice No. 97/11, 16 July 1997.

<sup>89</sup> Government of India, Ministry of Finance, *Economic Survey 1991-92, Part I: General Review* (Delhi: Ministry of Finance, 1992), p. 27.

It has been alleged by some people that the reform programme has been dictated by the IMF and the World Bank. We are founder members of these two institutions and it is our right to borrow from them when we need assistance in support of our programmes. However, I wish to state categorically that the conditions we have accepted reflect no more than the implementation as outlined in my letters of intent sent to the IMF and the World Bank, and are wholly consistent with our national interests. The bulk of the reform programme is based on the election manifesto of our Party. There is no question of the Government ever compromising our national interests, not to speak of our sovereignty.<sup>90</sup>

The government's disclaimers and emphases on self-reliance have not appeased the critics. A violent industrial strike took place in September 1993 to protest policies that unions accused would "enslave India to lending agencies such as the International Monetary Fund and the World Bank."<sup>91</sup> Critics of the government contended that India's liberalization program contains the essential ingredients of the stabilization-adjustment-reform scheme that IFIs typically promote. As C. T. Kurien, a well-known critical economist in India, wrote: "Whether designed by the lenders or suggested by the borrower, the Indian attempt at stabilisation and structural adjustments ... appears to follow the copy book."<sup>92</sup> Similarly, *The Economist's* reports on India have been peppered with terms like "IMF-induced austerity,"<sup>93</sup> or "IMF-supervised reform programme."<sup>94</sup> The magazine has been explicit in highlighting the role of the IMF: "The IMF persuaded

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<sup>90</sup> Government of India, Ministry of Finance, "Speech of Shri Manmohan Singh, Minister of Finance, Introducing the Budget for the Year 1992-93," *Budget Speeches of Union Finance Ministers*, Vol. II (New Delhi: Ministry of Finance, 1997), p. 30.

<sup>91</sup> Agence France Presse, "India Steps Up Security Ahead of Anti-Reform Strike," 8 September 1993, newswire.

<sup>92</sup> C. T. Kurien, "Structural Adjustments," *Frontline*, 15 December 1995, p. 93. See also Agence France Presse, "Indian Loan Talks With IMF Run Into Political Uncertainty," newswire, 28 July 1993.

<sup>93</sup> "Harvesting India's Reforms," *The Economist*, 6 March 1993, p. 33.

<sup>94</sup> "India: Look Out, Asia," *The Economist*, 26 June 1993, p. 34.

India to turn its back on the policy of trade protection and import substitution that had been in place since the country became independent.”<sup>95</sup> This cycle—allegations of dependence by the opposition and sections of the press followed by assertions of independence by the government—has continued to date, including even the budget for 2000-2001.<sup>96</sup>

In addition to pressures from IFIs, India is subject to bilateral influence from the United States, the European Union and various other industrial countries that seek to tailor India’s external liberalization in line with their individual interests.<sup>97</sup> Such pressure is often explicit in meetings at the World Trade Organization or the World Economic Forum. The United States, for example, succeeded in December 1999 in influencing India to lower trade barriers on more than 1400 products, after lodging an official complaint with the WTO’s dispute settlement body.<sup>98</sup> The government acknowledges these pressures, but typically asserts that India would not agree to decisions that do not reflect “broad national interest,” apparently amalgamated from the perspectives of “business associations, labour leaders, and political parties.”<sup>99</sup>

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<sup>95</sup> “An Indian Tiger,” *The Economist*, 9 April 1994, p. 15.

<sup>96</sup> “CPI Expects Budget to Toe Dictates of IMF/World Bank,” *The Economic Times*, 27 January 2000, <<http://www.economicstimes.com/270100/27poli03.htm>>, accessed 14 February 2000.

<sup>97</sup> Batuk Ghatani, “Where the Rich Lecture the Poor,” *The Hindu*, 6 February 2000, <<http://www.indiaserver.com/thehindu/stories/05061347.htm>>, accessed 15 February 2000.

<sup>98</sup> N. Vasuki Rao, “India: Ripe For Foreign Products As Curbs Lifted,” *Journal of Commerce* (New Delhi), 9 February 2000, p. 9.

<sup>99</sup> C. Rammanohar Reddy, “National Interest Will Be the Touchstone at Seattle: Maran,” *The Hindu*, 28 November 1999, <<http://www.indiaserver.com/thehindu/1999/11/28/stories/0228000e.htm>>, accessed 1 February 2000.

From the overall evidence, it is difficult to draw general conclusions about whether international organizations have held sway over Indian policymakers or whether the government has been in control of the globalization process. Historically India, as a large developing country, has had a strong prior record of independence from external influence. Most thorough studies of India's relationship with international organizations and its role in multilateral forums conclude that India has not been a pushover against demands of other countries and institutions.<sup>100</sup> To the contrary, India has led developing countries to organize themselves against the influence of globalizing or totalizing organizations that the rich industrialized countries seemed to control. India was at the forefront of the Non-Aligned Movement to counter Cold War politics,<sup>101</sup> of the United Nations Conference on Trade and Development (UNCTAD) to counter GATT,<sup>102</sup> of the Group of 24 and the Group of 9 to counter the Group of 7,<sup>103</sup> and of the Group of 77, South-South cooperation, and the New International Economic Order<sup>104</sup> to counter the resurgence of monetarism and the rise of neoclassical economic ideology. India's emphasis on

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<sup>100</sup> See, for instance, "On the Warpath," *The Indian Express*, 9 October 1997, p. 7. Also, Govind R. Agarwal, *South-South Economic Cooperation: Problems and Prospects* (New Delhi: Radiant Publishers, 1987).

<sup>101</sup> Richard L. Jackson, *The Non-Aligned, the UN, and the Superpowers* (New York: Praeger, 1983).

<sup>102</sup> See Thomas G. Weiss and Hans W. Singer, *Multilateral Development Diplomacy in UNCTAD: The Lessons of Group Negotiations 1964-84* (New York: St. Martin's Press, 1986); Bibek Debroy, *Beyond the Uruguay Round: The Indian Perspective on GATT* (New Delhi: Response Books, 1996).

<sup>103</sup> See e.g., Anthony Rowley, "G-9 Takes On G-7," *Business Times*, 6 October 1994, p. 16; Agence France Presse, "Indian Finance Minister Slams Trade Hypocrisy Among Rich Nations," newswire, 29 September 1994.

<sup>104</sup> For an overview, see Marc Williams, *Third World Cooperation: The Group of 77 in UNCTAD* (London: Pinter, 1991). An excellent theoretical treatment of the organized interest articulation of developing countries in multilateral settings is Stephen Krasner, *Structural Conflict: The Third World Against Global Liberalism* (Berkeley: University of California Press, 1985).

independence and propensity to lead was manifest again at recent meetings of the WTO and the World Economic Forum. As the *Financial Times* put it, the Indian delegation left for Seattle “mandated to resist firmly US and European Union attempts to enshrine core labour rights and environmental standards, as well as multilateral codes on investment and competition.”<sup>105</sup> In both forums India led developing countries to resist demands to increase trade liberalization.<sup>106</sup> Murasoli Maran, the Commerce and Industry Minister, offered to lead the developing countries back into the negotiation process, provided that the rich countries agree to reform the WTO and to remove “non-trade issues.” Mike Moore, the Director General of the WTO, concluded correctly:

India is a major economic player and is an emerging superpower. No major international negotiation today starts unless India is present. In that sense, India is more than just India. Many developing countries look up to it for guidance and leadership.<sup>107</sup>

The experience of fifty years of such independence and resistance, combined with a history of Third World leadership, have had a firm impact on the ethos and mindset of India’s diplomats, administrators, and the policymaking elite. My own interviews of Indian policymakers revealed a resolute commitment to independence vis-à-vis IFIs. Some secondary evidence also indicates that policymakers have resisted pressures from IFIs toward specific liberalization measures.<sup>108</sup>

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<sup>105</sup> David Gardner, “Indian Minister Takes on the Mantle of Trade Round Saviour,” *Financial Times*, 2 February 2000, p. 11.

<sup>106</sup> Rohit Saran, “WTO Conference: Sleepless over Seattle,” *India Today*, 8 November 1999, p. 54; “A WTO For Everyone,” *Business Week*, 14 February 2000, p. 68.

<sup>107</sup> Rohit Saran, “Interview of the Week: Mike Moore,” *India Today*, 24 January 2000, p. 52.

<sup>108</sup> Martin Wolf, “India resists IMF pressure over currency,” *The Financial Times*, 26 May 1994, p. 7;

On the other hand, partly because of the discrediting of the concept of development<sup>109</sup> and partly because of empirical evidence, policymakers recognized that previous models of development either failed to deliver sustained high growth and eradicate poverty or became inappropriate under changed global economic circumstances. Their recognition was coupled with support from the IFIs, who wielded material leverage through adjustment lending. As Jagdish Bhagwati wrote:

The spread of reforms worldwide, before India was getting to them, meant that the IMF-World Bank conditionality could no longer be plausibly dismissed as ideological; it had been legitimated as a sensible prescription that only reflected what we had all learned in three decades of experience.<sup>110</sup>

The subsequent policy influence of IFIs, therefore, cannot be disclaimed. But instead of trying to draw clear-cut conclusions about their aggregate influence on India's policymaking, it would be more useful to adopt a disaggregated approach, that is, to identify the specific policy areas in which they are most interested and the sites of the major policy battles between the government and IFIs since 1991.<sup>111</sup>

With regard to India's external economy, the two most significant obligations for the government are to maintain current account convertibility, which is a commitment to Article VIII of the IMF's charter; and to remove direct import controls by 2003, which is

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Agence France Presse, "Indian Finance Minister Slams Trade Hypocrisy Among Rich Nations," newswire, 29 September 1994.

<sup>109</sup> See Arturo Escobar, *Encountering Development: The Making and the Unmaking of the Third World* (Princeton, NJ: Princeton University Press, 1995).

<sup>110</sup> Jagdish Bhagwati, "The Design of Indian Development," p. 35.

<sup>111</sup> For a review of the Bank's early relationship with India, see Mahendra Pal, *World Bank and the Third World Countries of Asia, With Special Reference to India* (New Delhi: National Publishing House, 1985). See also John P. Lewis, *India's Political Economy: Governance and Reform* (Delhi: Oxford

a commitment to the WTO. Needless to say, both are mainstays of a pro-globalization policy regime. The immediate coverage of these two obligations is India's external trade. Specifically, they ensure that imports remain under a liberal, and possibly free, regime, which is not surprising, given the mandate of the IMF and the WTO. At the same time, these policy commitments in the import sector are politically controversial to maintain. It is easy to invoke protectionist sentiments and sovereignty arguments against them. But precisely because import control is a politically charged issue area, commitments to keep imports free from control need to be ensconced through international obligations, so that they survive changes in government. India entered the IMF's Article VIII status in 1994, and joined the WTO in 1995.

Clearly there is a set of formal and informal copulas that conjoin India's import regime to the institutions that govern exchanges in the international economy. These ties ensure policy continuity for import openness in India. Continuity of globalization policies in other arenas, namely, export promotion, exchange rate, and foreign investment, has been generally the government's own responsibility, with periodic pats on the back from the IFIs.

If we analyze the policy documents prepared by the World Bank and the IMF, we find that these IFIs have been trying to exert pressure in certain areas in which they feel the government's liberalization program is lacking. Interestingly, export promotion, exchange rate, and foreign investment are not the areas that have attracted the most

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University Press, 1995), chapter 3.

concern from the Bank and the Fund. The fiercest policy battles are fought over domestic, not external, liberalization, and the four areas over which the Bank/Fund confronts the government most frequently are privatization, deficit reduction, public sector reform, and in the wake of the Asian Crisis, financial sector supervision.

The World Bank's 1994 macroeconomic analysis of India commended the liberalization efforts, but emphasized the need to reform public finance and to improve infrastructure. It also called for a broadening of the reforming policymaking process from the three major central ministries (finance, commerce, and industry) to the sectoral ministries and state governments.<sup>112</sup> The next year's report continued the policy emphasis. It urged for reforms in agriculture, and more investment in social sectors and infrastructure. It particularly pressed for "an urgent and appreciable improvement in public savings," observing that "a strong fiscal position has a central role in managing effectively the capital and current accounts of the balance of payments."<sup>113</sup>

The Bank's Country Memorandum for 1996 took stock of the first five years of reform. It recognized the achievements of external liberalization, and observed that "fiscal imbalances remained the most important threat to India's long term growth." The report identified four major policy challenges for the future: (1) reducing fiscal deficit, (2) liberalizing agriculture, (3) improving infrastructure, and (4) ensuring "social justice." The 1997 country study on India kept up the pressure on the government for fiscal reforms,

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<sup>112</sup> The World Bank, *India: Recent Economic Developments and Prospects* (Washington, DC: World Bank, 1994).

<sup>113</sup> The World Bank, *India—Country Economic Memorandum: Recent Economic Developments*,



banking and public enterprise reforms, and expenditure control at the state level.<sup>114</sup> The Bank's 1998 Macroeconomic Update re-emphasized the large public sector deficit (about 6 percent of GDP) as the major outstanding concern. Again, the report advocated fiscal reforms at the levels of central as well as state governments, overall tax reforms, and the need to strengthen the financial sector and to accelerate privatization. Other economic sectors, such as export promotion or foreign investment, were mentioned only in passing.<sup>115</sup> A visit by a specialized team from World Bank to the chief executives of the leading financial institutions also underscored the need for positive policy reform in these domestic policy areas.<sup>116</sup>

The IMF's assessments of India's policies since 1991/1992 also directed most attention to the same areas. India negotiated a Stand-By Arrangement with the IMF in 1991, which financed the first two years of adjustment. When Indian officials began to negotiate financing under the Extended Fund Facility (EFF) in May 1993, the IMF put most emphasis on fiscal reform, changes in labor laws, and banking sector reform.<sup>117</sup> In its 1993-1994 annual report on India, the IMF urged the government to return "quickly and decisively to the path of fiscal reforms," with a "less distortionary and more revenue-elastic tax system." and lower interest rates.<sup>118</sup>

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*Achievements, and Challenges* (Washington, DC: World Bank, 1995).

<sup>114</sup> The World Bank, *India: Sustaining Rapid Economic Growth*.

<sup>115</sup> The World Bank, *India 1998 Macroeconomic Update: Reforming for Growth and Poverty Reduction* (Washington, DC: The World Bank, 1998).

<sup>116</sup> P. Devarajan, "Talking to the World Bank," *The Hindu Business Line*, 6 November 1998, p. 13.

<sup>117</sup> Stefan Wagstyl, "India Asks IMF for Three-Year Support," *The Financial Times*, 14 May 1993, p. 4.

<sup>118</sup> Shiraz Sidhva, "IMF Urges New Delhi to Speed Up Reform Pace," *The Financial Times*, 28 July

This emphasis continues. The Fund's erstwhile Managing Director, Michel Camdessus, visited India after the announcement of India's 1997-1998 budget. His official statement identified two major tasks "to enable India to move on to a permanently higher growth path." The first task was to tackle the fiscal deficit. The second was a set of complementary reforms, including financial sector, privatization, legislative framework, and finally, further trade liberalization.<sup>119</sup>

More recent communication from the Fund also highlights policy challenges in fiscal consolidation, subsidies, the "profligacy" of state governments, public sector employment, and public sector management.<sup>120</sup> In May, 1999, a high level team of eight IMF executive directors visited the country. Their report complimented the government in attaining growth and opening up the economy, though it noted that India still remained "a laggard," compared to the pace at which some other developing countries were lowering their protectionist barriers. It suggested that the government should focus mainly on reducing expenditures and fiscal deficit, and try to implement reforms in labour laws.<sup>121</sup>

The gist of the discussion above is that most of the formal pressure by IFIs on India is directed at reforms of the domestic rather than the external economy. The struggle

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1994, p. 3.

<sup>119</sup> "Camdessus Sees Scope for India to Achieve Asian 'Tiger' Status," *IMF Survey*, 10 March 1997, pp. 77-78.

<sup>120</sup> S. D. Naik, "IMF's Assessment," *The Hindu Business Line*, 28 September 1998, p. 9. See also Rukmini Parthasarthy, "Economy 2000: The Damning Deficit," *Business Today*, 22 October 1999, p. 56.

<sup>121</sup> "India's Fiscal Deficit Worrisome - IMF board member," *The Hindu*, 13 May 1999, <<http://www.indiaserver.com/thehindu/1999/05/13/stories/06130004.htm>>, accessed 12 November 1999.

over policy between the government and IFIs seems stereotypical. IFIs blame the government of intransigence in implementing what they consider progressive domestic policy reforms. The central and the state governments, on the other hand, oppose what they consider external meddling of a dictatorial nature.

On issues of globalization, encompassing the five arenas of economic policymaking that I have discussed earlier, there seems to be little conflict between the government and IFIs over either ideology or implementation. The reason, I submit, is that the government has been implementing policies toward external liberalization proactively and preemptively. IFIs, therefore, have had little reason to complain, dispute, or interfere, other than to encourage such policies with material benefits. Within these five arenas, IFIs have been concerned mostly with ensuring that foreign exporters have access to India's domestic market at prices close to the world price. The specter of protectionism continues to elicit frequent policy recommendations from IFIs, and India's import openness has been ensured through a web of norms, conditionalities, and treaty commitments to the World Bank, the IMF, the WTO, as well as to individual trading partners.

The evidence indicates that import control aside, the government has been carrying out policies toward globalization in the other arenas out of its own volition and probably for its own motive. It has aggressively maintained a competitive exchange rate, promoted exports, and offered incentives to attract both foreign direct investment and foreign portfolio investment. All governments within the past decade have been decisive about continuing pro-globalization policies in these arenas in spite of considerable political

turbulence. IFIs have been quiet about liberalization in these areas precisely because the government, through its proactive and preemptive policymaking, has obviated the need for their interference. What explains this pattern of globalization? What are the government's motives for continuing economic openness?

### **Conclusions**

The two narratives reviewed above include elements drawn from the conventional hypotheses on globalization and economic reforms surveyed in the previous chapter. But they are inadequate as explanations for the continuity of economic openness. The narrative on economic crisis and domestic politics draws from theories of interest group politics, democratic accountability, and electoral cycles. It is unsatisfactory because it cannot fully explain how and why successive democratic governments, especially fragile coalitions, have been able to overlook and resist opposition from material and political interests against openness.

The narrative on IFIs includes elements of theories on external influence, ideas and ideology, and epistemic communities. But it does not seem plausible that IFI influence can account for policy continuity for a large and historically resistant country as India. Even small countries like Kenya or Ecuador have been able to successfully evade most of conditionality stipulations. Still, conditionality probably played some part, but most directly until 1993, because by then India was able to pay back its adjustment loans from the IMF. And what is most telling is that the government has implemented policies

toward openness preemptively, obviating the type of policy battles with IFIs that one encounters typically in the literature on aid conditionality and economic reforms.

### *Can Other Explanations Shed Light on Continuity?*

These two narratives are used conventionally in India to explain economic openness. There are truths to both, but they cannot fully explain continuity. We can forge a few more hypotheses by stringing together other elements from the general literature on economic reforms surveyed in the previous chapter.

As in other countries, external crisis can adequately explain the timing of reforms toward openness. The imbalances in India's economy provided scope for social learning by policymakers and underscored the *need* to change policies. But those imbalances did not specify policy *options* per se. Crisis provided a justification for policy switch. It also narrowed policy options by highlighting an urgency to increase international reserves. Therefore, policies to boost exports seemed feasible, but by the same logic, so, too, did policies to restrict imports. Therefore, crisis is better suited to explaining the initiation and goal of reforms, rather than content and continuity.

The performance argument also contains truth: higher growth rates and trade ratios must have created constituencies in support of reform. Montek Ahluwalia and Jagdish Bhagwati, for instance, have argued that the success of reforms would depend on the economic performance delivered.<sup>122</sup> Like other alternatives, the argument is fundamentally

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<sup>122</sup> Montek S. Ahluwalia, "India's Economic Reforms: An Appraisal"; Jagdish Bhagwati, *India in Transition*, p. 92.

sensible. But it is never specified how macro-level performance figures might translate into interest articulation in favor of reforms despite sectoral variation and rural-urban divides.

The bureaucratic competence argument has been applied to India to explain a variety of phenomenon. Most of those applications have taken a negative view of Indian bureaucracy. John Lewis showed that a major consequence of India's "giantism" was a cumbersome and inefficient bureaucracy, "endowed with great inertia," and with layers of hierarchy that stifle system management.<sup>123</sup> Jagdish Bhagwati assailed India's bureaucracy and its "inherently arbitrary" decisionmaking as one of the main culprits behind low productivity in the economy.<sup>124</sup> Robert Wade found the Indian bureaucracy rife with corruption and unsuited to meet developmental needs adequately.<sup>125</sup> Peter Evans found India to be a failed developmental state, where "[p]olicy networks that allow industry experts from within the state apparatus to collect and disseminate information, build consensus, tutor, and cajole are missing." Evans concludes that the Indian state "suffers from excessive autonomy and inadequate embeddedness."<sup>126</sup> In a recent study Ronald Herring compares the Indian bureaucracy to East Asian ones, and arrives at the same conclusion. Despite attracting the country's best and the brightest into the ranks of

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<sup>123</sup> John P. Lewis, "Some Consequences of Giantism: The Case of India," *World Politics* 43 (3), 1991, pp. 367-389.

<sup>124</sup> Bhagwati, *India in Transition*, p. 46.

<sup>125</sup> Robert Wade, "The Market for Public Office: Why the Indian State is Not Better at Development," *World Development* 13 (4), 1985, pp. 467-497.

<sup>126</sup> Peter Evans, "The State as Problem and Solution: Predation, Embedded Autonomy, and Structural Change," in Stephan Haggard and Robert R. Kaufman, eds., *The Politics of Economic Adjustment* (Princeton, NJ: Princeton University Press, 1992), p. 174 and 175.

its bureaucracy, India is “the most dramatic case of a failed developmental state.” Herring synthesizes the propositions of Lewis and Evans, and concludes that the bureaucracy failed to perform well because of rigidities arising from both giantism and democracy, “organizing a continental political economy, more an empire than nation ... with one arm tied behind its back by commitment to liberal democracy.”<sup>127</sup> Although technocrats played a crucial role in devising policies, India’s bureaucracy, in light of these studies, seems hardly capable of orchestrating the level of political and economic consensus needed to continue policies toward openness.

An alternative explanation, therefore, is necessary to provide a fuller understanding of India’s continuity of policies toward economic openness.

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<sup>127</sup> Ronald J. Herring, “Embedded Particularism: India’s Failed Developmental State,” in Meredith Woo-Cumings, ed., *The Developmental State* (Ithaca, NY: Cornell University Press, 1999), p. 334.

## CHAPTER FOUR

### Explaining Policy Continuity: Strategic Context and Globalism

To conquer the enemy without resorting to war is the most desirable. The highest form of generalship is to conquer the enemy by strategy.

- Sun Tzu  
*The Art of War*, c. 453-221 B.C.

The best strategy is always *to be very strong*; first in general, and then at the decisive point.

- Carl von Clausewitz  
*On War*, 1832 (1976)

The propensity of the strong to expand is one of the central features of the history of international politics.

- Michael Mandelbaum  
*The Fate of Nations*, 1988

General scholarship on globalization and economic reforms, as discussed in Chapter 2, fails to theorize adequately policy continuity toward openness. Similarly, conventional approaches to understanding openness in India in particular, as showed in Chapter 3, are ill-equipped to shed light on how Indian leaders have managed to market openness, and why they have continued open-door policies proactively, with a remarkable tenacity despite considerable political turmoil and five changes in government in the last nine years.

Persistence in spite of opposition and transfer of power, and pro-activeness in implementing open-door policies—both suggest that there might be strong motives for continuity that originate beyond individual policymakers, technocrats, meso-level or micro-level institutions, external agents, even governments. These meta-motives, so to speak, might be structural and ideological, informing policy stance and behavior at the



level of *the state*.

This chapter offers a theory that can explain, from the perspective of the state, incentives toward maintaining economic openness. To attain that objective the theory integrates insights from security with those from economics. I propose that cause and continuity of economic policies may be contingent on different factors. Policy continuity is the outcome of a dialectic relationship between the Indian state's strategic behavior relative to its rivals and its aspirations to play a prominent role in world politics. The two explanatory variables in the model are *strategic context* and *globalism*. A "thick" strategic context, that is, the existence of a single rival across all major arenas of competition—economic, technological, military, and diplomatic—elevates the importance of competition with the rival relative to domestic political exigencies, and provides the state with incentives to *imitate* its rival's policies. Globalism, which is an ideology or a world-view that the state should play an influential role in world affairs, promotes outward orientation and increases policymakers' awareness of the state's relative power position in the world. The presence of both a thick strategic context and globalist ideology generates a strong stimulus for policy continuity despite domestic political disincentives.

### **Dependent Variable**

As noted previously, conventional narratives are geared toward explaining India's *switch* in the early nineties to open-door policies. The policy event that started the process of globalization is a twenty-percent currency devaluation, undertaken in July, 1991. The corresponding policies promulgated in mid-1991 were initiated and

implemented under volatile political circumstances. These policies, said to be the *cause* of globalization in India, hardly guaranteed that a more open economy would be established successfully, given India's political and economic turmoil in the last nine years. Yet since 1991 there has been only one significant policy reversal from the globalization path.<sup>1</sup> Exploring the cause or trigger of openness, as conventional narratives do, cannot shed light on this remarkable policy continuity despite political turbulence.

The first step toward an alternative explanation is to conceptually separate policy initiation from policy continuity. This study takes the *continuity* of economic policies toward openness as the dependent variable. Though initiation and continuity are conflated in most studies, there are at least two good reasons to believe that they are contingent on different factors. The first reason concerns the arbitrariness of the initiating event. As Robert Jervis put it: "[T]he specifics of the triggering event [i.e., timing, content, etc.] cannot explain the outcome because so many probable events could have substituted for it."<sup>2</sup> Jervis goes on to show that subjective and subsequent perception of events is important to shape the outcome.

The second reason concerns the distinction between one event and a set of events.

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<sup>1</sup> This reversal was the last-minute withdrawal of the Insurance Regulatory Authority Bill of 1997, which would have allowed foreign insurance companies to compete in the domestic market. It was only the second time in India's history that the government withdrew a bill poised for voting in the Parliament. See "Government Withdraws Bill on Insurance Authority," *The Hindu*, 7 August 1997, p. 1. Also, "Whither Unity on Economic Reforms?" *Financial Express*, 8 August 1997, p. 2.

<sup>2</sup> Robert Jervis, *Perception and Misperception in International Politics* (Princeton, NJ: Princeton University Press, 1976), p. 14.

A state promotes globalization of its economy by undertaking a set of policies.<sup>3</sup> The policy set includes both a triggering *event* and a subsequent policy *process*. The triggering event refers to the switchover from an identifiable pre-globalization stage to a pro-globalization stage. The event is usually causal in that a small change in policy sets off a larger, more sweeping 'force' of changes. Such triggers must be ascertained *ex post facto*: they are identifiable only if the subsequent policy process continues successfully. If opposition compels a triggering policy to be curtailed, the policy can no longer be considered a trigger, and the retrenchment is usually explained as a rational choice on part of policymakers who want to stay in power.

A policy process includes a continuous or continual set of policy events which are alike in important ways. Export-led growth, for example, is undertaken not all at once, but in steps, as a set of incremental policy events that fall within a general rubric. What explains an event does not necessarily explain the continuity of the process because the *undertaking* of an event does not necessarily guarantee its completion. Therefore a complete explanation of openness entails explaining both why a state opens up its economy and how it sustains openness. The first part, policy initiation, has received adequate attention in the literature. This study concentrates on the second part, policy continuity.

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<sup>3</sup> It is important to note the meaning of "undertaking." A state's policy position is displayed by both what it actively does and what it does not. To paraphrase Milton Friedman, a state cannot have no policy about an issue, since the absence of policy is by itself a policy stance. Here "undertaking" of policies is meant to convey the significance of encouragement by both active and passive means.

### Explanatory Variables

To explain the continuity of openness I invoke two explanatory factors: (i) the “thickness” of the state’s strategic context, and (ii) the dominant ideology or philosophy about the state’s role in the world. I elaborate on these two variables below along with related concepts and definitions.

#### *Explanatory Variable 1: Thickness of Strategic Context*

The state’s strategic context refers to the context of its competitive economic and political decisionmaking in relation to its main rival states. The context may be broken up into four primary arenas of interstate competition, as shown in Table 4.1.

*Table 4.1  
Arenas of Interstate Competition*

Arena of Competition	Main Issues of Interstate Competition
Military	<i>About Military Power:</i> Hardware, strategic forces, missile technology, strike fighters, blue water navy, nuclear weapons, indigenous technology.
Diplomatic	<i>About Prestige/Status:</i> Security council, atomic technology, space program, industrialized country, creditor, donor, international mediator, Olympic Games, international summits.
Economic	<i>About Growth of Resources:</i> Imports, exports, foreign domestic investment, foreign portfolio investment, tariff rates, and exchange rates.
Technological	<i>About Use of Resources:</i> Computing, telecommunications, infrastructure for knowledge-based industry, capital-intensive production.

A state responds strategically to the economic and foreign policies of states against whom it competes in these four arenas. The higher the number of competitive

arenas between two rival states, the “thicker” is its strategic context. A state that confronts the same outstanding rival in all arenas—military, diplomatic, economic, and technological—has a thick strategic context. Malaysia and Singapore might share a thick strategic context. India has a thick context, as China is its main rival in all arenas. But China does not have a thick context, since it faces different rivals in different arenas. If rivalry is dispersed, or exists between states in only one or two arenas, then the strategic context is thin. From India’s perspective Pakistan, for example, is mainly a military and diplomatic rival. But from Pakistan’s perspective India is a rival in all arenas; hence, Pakistan’s strategic context is thick.

Strategic context is not permanent: it is shaped historically, and to a large extent, constructed through the *perception* of rivalry in the minds of policymakers. It mutates with changes in historical circumstances as well as perception.<sup>4</sup> United States and Japan shared a thick strategic context during the Second World War, but they have a thinner context now, as they are no longer military rivals. Similarly, India and China, I will show, used to share a thin, military-based strategic context. The context is becoming thicker, as they begin to compete increasingly in economic and technological arenas.

Since strategic context is also a matter of perception, it is subjective. Two rivals may not necessarily share a common strategic context. It is probable that Indian policymakers view China as a competitor in all four arenas, whereas Chinese policymakers view India only as an economic competitor. Strategic context, therefore, is

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<sup>4</sup> Any strategic move is dependent on perception of both the overall situation and the rival’s intent. See

dependent on a particular state's point of view. Accordingly, a state's strategic context can change as its policymakers' perception of its rival changes.

I propose that the thicker the strategic context, the greater the incentive to imitate a rival's policies. A thick strategic context, as perceived by the policymakers of a particular state, informs decision making by lowering the costs of policy imitation and raising the costs of inventive or ad hoc policies. Before elaborating the logic further, it is necessary to explicate the concepts of imitation and strategy.

### *Imitation as Policymaking Process*

The idea of imitation as a process of policy making becomes clearer if contrasted with two other modes of making policies: invention and innovation. Table 4.2 summarizes the characteristics of these three categories. It should be emphasized that these are categories of the *process* of policymaking rather than the cause or outcome of policymaking. They are not set in stone: admittedly the distinctions are imprecise and mutually inclusive, but as heuristic markers they point out some fundamental differences among policy processes.

Imitation involves closely studying the policies of other states. Outside help, material and ideological, is available for imitative policies, for such policies are not experimental: they draw from epistemic communities—"networks of knowledge-based experts"<sup>5</sup>—and a cumulative, historical knowledge base. Policymakers enacting structural

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Jervis, *Perception and Misperception*, esp. chapter 2.

<sup>5</sup> Peter M. Haas, "Introduction: Epistemic Communities and International Policy Coordination,"

adjustment policies, for example, can learn from the prior experience of countries that have undertaken similar policies.<sup>6</sup> They can also draw from the knowledge and expertise of institutions like the World Bank or the IMF.

*Table 4.2*  
*Processes of Policymaking*

Invention	Innovation	Imitation
No study of others required	Some study of others required	Close study of others required
Politically directed	Directed by technocrats	Directed by technocrats
Little outside help available	Some outside help available	Most help available
Unknown impact	Predictable impact	Predictable Impact
Useful for spurring nationalism	Somewhat useful for mobilizing nationalism	Not useful for mobilizing nationalism
Sovereignty threat not perceivable	Sovereignty threat perceivable	Sovereignty threat most perceivable
Fame of epic proportions	Little fame	Little fame

Since it is more methodical and requires continual, close study of others, much of imitative policymaking is directed by experts or technocrats, not by political leaders. Technocratic control over policymaking tends toward international policy coordination and convergence. Peter Haas, for example, examines efforts to control pollution in the Mediterranean, and finds that a group or “epistemic community” of international experts were able to persuade governments to act in environmentally responsible ways and

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*International Organization*, 46 (1), 1992, pp. 1-35.

<sup>6</sup> See inter alia Joan Nelson, ed., *Economic Crisis and Policy Change: The Politics of Adjustment in the Third World* (Princeton, NJ: Princeton University Press, 1990); Anne Krueger, *Political Economy of Policy Reform in Developing Countries* (Cambridge, Mass.: MIT Press, 1993); Ian Little, Richard Cooper, W. Max Corden, and Sarath Rajapatirana, *Boom, Crisis, and Adjustment: The Macroeconomic Experience of Developing Countries* (New York: Oxford University Press, 1993).

“contributed to the development of convergent state policies.”<sup>7</sup>

Since it is based on proven knowledge, imitation is cost-effective. The costs to which I refer here are transaction costs of knowledge generation in general, not social or economic costs of implementing certain policies.<sup>8</sup> Competing states (like competing firms), find it fruitful to copy superior strategies and institutions from others because it reduces transaction costs and costs involved in research and development, in trial and error. Imitation of proven knowledge is easier to undertake for it can be managed technically by policymakers with standardized training.

At the other end of the spectrum, inventive policymaking is experimental, ad hoc, therefore risky: it can frequently lead to failure. Yet it is potentially rewarding. Inventive policies are usually conceived and directed politically, not by specialists or technocrats. Since such policies hardly have precedents, the decisionmaking process (but not necessarily the outcome) is often inward-looking: it does not require a close study of other states. China’s Cultural Revolution and Great Leap Forward, for example, were politically directed and without precedents. Chinese policymakers did not need to study others experimenting with a similar policy; much of it was haphazard, created as situations dictated. Accordingly, such policies are undertaken without experience,

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<sup>7</sup> Peter M. Haas, “Do Regimes Matter? Epistemic Communities and Mediterranean Pollution Control,” *International Organization*, 43 (3), 1989, p. 377; also by Haas, “Banning Chlorofluorocarbons: Epistemic Community Efforts to Protect Stratospheric Ozone,” *International Organization*, 46 (1), 1992, pp. 187-224.

<sup>8</sup> For more see Avinash Dixit’s work, *The Making of Economic Policy: A Transaction-Cost Politics Perspective* (Cambridge, Mass.: MIT Press, 1996). On the theory of transaction costs, consult the works of Oliver Williamson, *The Economic Institutions of Capitalism* (New York: Free Press, 1987), and Oliver Williamson and Scott Masten, *The Economics of Transaction Costs* (Aldershot: Edward Elgar, 1999).



cumulative knowledge, or epistemic communities that policymakers can consult for help. Without prior knowledge, experience, or outside help, the risks of policy failure run high. Policy success, conversely, holds prospects for individual fame—fame or notoriety of epic proportions. Since the policymaking process is generally inward-looking, this type of policy can be useful to mobilize nationalist sentiments in support of policies. Correspondingly, the outcome of inventive policy is usually not considered a threat to national sovereignty.

I suggest that invention and imitation be viewed as ideal types. A wide mix of policies is possible in between. Most policies are neither isolated inventions nor literal copies, but *innovations*, containing important elements of both. An innovative policy takes cue from policies that have been practiced elsewhere but modifies it according to local conditions and needs. Innovative policy, however, is theoretically too diffuse to be useful. It is best treated as a residual category between the two ideal types. Invention and imitation, though themselves broad notions, are conceptually more distinct, therefore, better applicable to illuminate behavior and process.

The choice between imitation and invention involves trade-offs. By imitating either internationally adopted policies (as in an environmental regime) or matching a competitor's policies, a state lowers the risk of relative losses, that is, the risk of losing material power to a competitor state. At the same time imitative policies entail a higher risk of nationalist reactions. Regardless of the motive or process, when the source of state policies can be traced to foreign origins, critics often see the stamp of unwelcome outside influence in what is considered national or domestic affairs. The adoption of a market

system, for instance, can be viewed as Westernization or specifically, Americanization. Even western European states have resisted threats to their identities posed, for instance, by the global usage of the English language.<sup>9</sup> Benjamin Barber, among others, reviews the destabilizing prospect of such “cultural backlash” against the standardizing and westernizing tendency of the globalization process.<sup>10</sup>

*Figure 4.1*  
*Risk-Reward Payoffs for Policy Imitation and Invention*

	Imitation	Invention
Relative Loss Risk	Low	High
Nationalism Risk	High	Low

Figure 4.1 presents the risk-reward matrix of inventive and imitative policies. All else equal, imitation entails high nationalism risk and low risk of relative loss, whereas invention involves low nationalism risk and high risk of relative loss as well as a high potential for relative gains.

#### *Strategic and Substantive Imitation*

Successful imitative policymaking is a strategic process. An actor uses strategy when it is taking into account its perception or expectation of its competitor’s

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<sup>9</sup> See Jeanne Pfeiffer, “The Plurilingual European Tradition as a Challenge to Globalization,” in Inoue Nobutaka, ed., *Globalization and Indigenous Culture* (Tokyo: Institute for Japanese Culture and Classics, 1997).

<sup>10</sup> Benjamin Barber, *Jihad vs. McWorld: How Globalism and Tribalism Are Reshaping the World* (New York: Ballantine, 1996).

decisions.<sup>11</sup> Strategy highlights competitive and interactive decisionmaking. India's decisions for policy change, from a strategic perspective, would be informed by its competitor's (e.g., China) decisions for policy change, so that India can at least maintain, and possibly strengthen, its competitive position.

What is important to note is that imitation is reflected in the substance, rather than the outcome, of the policymaking process. If India and China, for example, are competitors in a world tea market, then each has a stake in promoting its own tea at the expense of the other's. If China intervenes in the market to enhance the competitiveness of its tea, it will affect the decision-making context of the other major tea producers, who will be under pressure to respond strategically to the change in relative price. This mode of competitive behavior is described and explained persuasively by strategic trade theory in economics.<sup>12</sup> A state's policies toward globalization, by this line of logic, would tend to mirror its competitors' policies. That does not mean that their policy outcome is going to be identical. India, to continue the example, can choose from a variety of policy avenues to maintain or enhance competitive position and achieve relative gains. It may offer subsidies for tea inputs, or defray transaction costs by organizing tea auctions, or offer direct tax benefits or better credit terms for producers, or deregulate and promote

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<sup>11</sup> Early theoretical treatments are still the best introduction to the concept of strategy. See Thomas C. Schelling, *The Strategy of Conflict* (Cambridge, Mass.: Harvard University Press, 1960); Anatol Rapoport, *Fights, Games, and Debates* (Ann Arbor: University of Michigan Press, 1960); Melvin Dresher, *Games of Strategy: Theory and Applications* (Englewood Cliffs, NJ: Prentice-Hall, 1961).

<sup>12</sup> For a basic, non-technical overview, see Jeffrey A. Hart, *Rival Capitalists: International Competitiveness in the United States, Japan, and Western Europe* (Ithaca, NY: Cornell University Press, 1992); Lester Thurow, *Head to Head: The Coming Economic Battle Among Japan, Europe, and America* (New York: Warner Books, 1993). For the theory of strategic trade, see Paul Krugman, ed., *Strategic Trade Policy and the New International Economics* (Cambridge, Mass.: MIT Press, 1986).

foreign investment in the tea sector—to name a few. The competitive and strategic response, thus, is reflected in the *substance* of the policy process rather than the outcome. Even if we notice international divergence in policy outcome, we may still identify a significant imitative and strategic policy process associated with globalization. Strategic imitative policymaking does not guarantee identical or convergent policies.

### *Explanatory Variable 2: Globalism*

In his sketch of American foreign policy, Stephen Ambrose uses “globalism” as the term that best captures the motivation and foreign policies of America since its involvement in the Second World War.<sup>13</sup> Although he does not explicitly define globalism, he conveys by it both America’s sense of destiny as a world power, the values that shaped its ambitions, and the policies to increase and project power globally. Employed thus, the concept includes an ideological or normative aspect as well as its material implementation. Common among most definitions of globalism is this ideological and normative emphasis toward the outside world.

I use “globalism” to convey a certain ideological and a normative position that informs the decisionmaking process by highlighting long-term goals. If strategic context informs policymakers about where the state currently *is* in relation to its competitors, globalism informs them about where the state *should be* in future compared to its rivals.

The first aspect of globalism is the desire to play a prominent role in world affairs.

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<sup>13</sup> Stephen E. Ambrose, *Rise To Globalism: American Foreign Policy Since 1938*, Seventh Edition (New York: Penguin, 1993).

In that, it is an ideology that is not shared by all states. A state's political events as well as socially constructed history, resource base as well as nationalist imaginations—all come together to give policymakers a sense of where the state should belong in the hierarchy of states. Some states, because of their size, resources, civilizational past or ideological goals, may aspire to play a world role while others may not.

The second feature of globalism is that it historically evolves as a function of nationalist imaginations. Britain's or America's rise to power captured the fancies of the nation to the extent that both British and American policymakers came to believe that playing a world role was part of their identity, responsibility, or destiny. As Paul Kennedy showed in his review of British hegemony: "Like all other civilizations at the top of the wheel of fortune ... the British could believe that their position was both 'natural' and destined to continue."<sup>14</sup>

In the case of Britain and America, a world role has been partly a function of rising capabilities, especially the domination and industrial application of new technologies.<sup>15</sup> But capability, wealth, or the material manifestation of power by itself cannot explain why some states, such as the USA, at times chose isolation over expansion. "American foreign policy," Fareed Zakaria points out, "was driven by an awareness of American strength and by the search for greater influence over the international environment."<sup>16</sup>

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<sup>14</sup> Paul Kennedy, *The Rise and Fall of the Great Powers* (New York: Random House, 1987), p. 158.

<sup>15</sup> In this vein, Joseph Nye argues, if America can continue to adapt to the changing nature of power due mostly to new technologies, it is "bound to lead." See Joseph S. Nye, Jr., *Bound to Lead: The Changing Nature of American Power* (New York: Basic Books, 1990).

<sup>16</sup> Fareed Zakaria, *From Wealth to Power: The Unusual Origins of America's World Role* (Princeton, NJ: Princeton University Press, 1998), p. 182.

This is what I want to convey by using the term globalism: not the material but the *non-material* (ideological and normative) sources of a world role, pertaining to identity, awareness, imagination, will.

Third, subjective values are inherent in globalism. To begin with, globalism affirms a *value* in being oriented globally or connected globally.<sup>17</sup> It is a normative belief or philosophy that it is good for the nation to live in an interconnected world in which the aspirant state's objectives can disseminate easily and globally. Globalism aims to project into the world what are considered indigenous cultural or national values, on the conviction that they are good for everyone.

Fourth, it seems probable that for strong states, that is, states with proven global capabilities, globalism becomes conservative, an ideological instrument to justify and retain their dominant position. For rising states, that is, states that have the desire of a world role but yet to prove their global capabilities, globalism is revisionist. Policymakers in rising states desire to change the world order so it comes to reflect their own value system. The globalist aims of socialism or Islamic fundamentalism are examples.

### **The Model: Dialectic of Strategic Context and Globalism**

The continuity of openness is the result of a dialectic between strategic competition and normative worldview. Below I elaborate on how the explanatory factors would separately influence the dependent variable, and then proceed to show how that

influence might be expected to change once a dialectic relationship is imagined between them.

*The Relationship Between Strategic Context and Policy Continuity*

As suggested above, we can expect competition to be more vigorous if rivalry between competing states covers multiple spheres of strategic interaction. States that are in intense competition with each other in multiple arenas—diplomatic, military, economic, and technological—will strategize across a larger number of policy or issue areas, increasing incentive toward imitative policymaking. The cost of policy failure is greater for a state that exists under a thick strategic context than one that competes with others in only one or two arenas, that is, one that exists in a thinner context. Between rival states A and B, the policy failure of A is a strategic advantage for B. If the strategic rivalry is intense and comprehensive between A and B, that is, if the strategic context is thick, then A's failure in one arena, say, economic arena, can translate into not only an economic, but also diplomatic or military advantage for B. A thick strategic context, therefore, increases the cost of policy failure.

For this reason, strategic context may be imagined as a barrier to policymaking.<sup>17</sup> This idea is depicted in Figure 4.2. A thick context will discourage inventive policymaking, which is risky, and encourage imitative policy making, which is based on

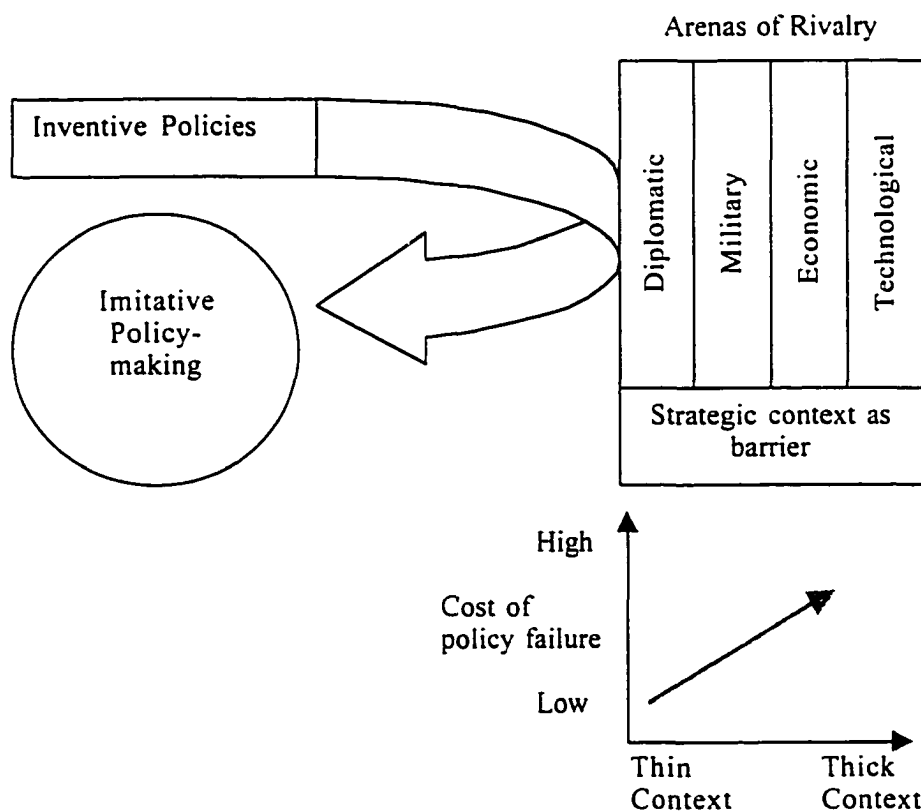
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<sup>17</sup> This concept is proposed by Roger D. Spegele, "Is Robust Globalism a Mistake?" *Review of International Studies* 23 (2), 1997, pp. 211-239.

<sup>18</sup> My concept of context as barrier draws from Gary Goertz, *Contexts of International Politics* (Cambridge, UK: Cambridge University Press, 1994), esp. pp. 22-25 and 90-113.

more conservative, proven knowledge. State institutions that may want to experiment with inventive policymaking stand a greater chance of continuing those policies if the state's overall strategic context is thin. If it is thick, it will act as a barrier, and an individual state institution's inventive idea may be overturned in favor of conservative imitative policies that entail lower risk. All else equal, a thick strategic context thus encourages imitative policies.

*Figure 4.2*  
*Strategic Context As Barrier to Risky Policymaking*



A thick context provides policy continuity by serving three functions. First, relative to domestic political needs, it elevates the importance of a rival in the decision-



making calculus of national policymakers, for the state confronts the same rival in multiple arenas of competition. Second, it allows policymakers to adopt a long-term strategic rather than a short-term tactical vision in making policy choices. Third, by acting as a barrier to inventive policymaking it provides incentives to imitate a rival's policies. Combined, these three features can induce policy continuity toward the same direction that the rival's policies would progress. If the rival's policies become geared toward not openness but protectionism, incentive will increase for the other state to follow suit. As such, a thick context does not ensure openness, it merely increases the likelihood of policy continuity through imitation.

Conversely, dispersed rivalry under a thin context would possibly decrease the importance or immediacy of international competition relative to domestic exigencies. There may still be domestic reasons for policy continuity, such as support for certain policies from strong vested interests. But with regard to policies about security and economics, a thin context, *ceteris paribus*, would raise the chances of inventive or ad hoc policies by lowering the risk of relative losses due to policy failure.

Strategic context is likely to influence nationalist sentiments, which in turn, can have policy relevance. A thick context can shore up nationalist feelings against a perceived overarching rival, or conversely, it can cause a nationalist backlash against imitation. In the first case, nationalism could be used in support of policy continuity, but that would not be possible in the second case.

If we take strategic context as static, unchanging, it would be difficult to hypothesize whether the effect on nationalism would be positive or negative. Under

dynamic circumstances we might find the effect on nationalism to be more distinct. When the strategic context *is becoming* thicker, it would be easier to use nationalism in support of policy continuity by elevating the importance of the rival. Conversely, as the context thins, there would be greater likelihood to find nationalism challenging the continuation of policy imitation.

### *The Relationship Between Globalism and Policy Continuity*

The independent relationship between globalism and policy continuity also contains some contradictions that may not be entirely resolvable with a singular logic. Globalism influences policy continuity in four ways. It extends the horizon of making decisions, harmonizes outward orientation with nationalism, helps policymakers choose and continue certain policies when cost-benefit analysis becomes difficult, and augments the perception of rivalry by relativizing the state in relation to the ambitions of other states.

Globalism, most simply, gives a long-term perspective, almost a teleological end, to policymakers' view of progress. This allows policymakers not to be fazed by short-term political fluctuations that can challenge policy continuity.

Second, globalism is the international manifestation of nationalism. This does not mean that all nationalist movements are simultaneously globalist. The reverse is more likely: globalist ideology is simultaneously nationalist. For a globalist state, the desire to play a prominent role in world affairs is considered part of the nationalist project. It becomes part of the national imagination and it asserts the normative judgment that being

oriented or influential globally is good for the nation. For a globalist state, international pretensions and policy successes shore up nationalism in support of either the regime in power or policy continuity. The nationalist wave in India after its nuclear testing in May 1998 is a recent example. For a non-globalist state, nationalism might be reinforced by images and projects that look inward into indigenous history or culture to enhance the perception of national unity. By wedding outward orientation with nationalism, globalism provides strong support for policy continuity toward openness.

A third effect of globalism, more subtle but still significant, is to aid policymakers opt for outward-oriented policies when cost-benefit analysis yields ambiguous results. In other words, globalism encourages policymakers to make choices normatively, if not empirically. Drawing a parallel with liberalism will help make this point. As a paradigm or worldview, liberalism champions individual freedom and ownership as inherently valuable. Theorists and practitioners working within that paradigm, therefore, have an interest in variables that measure freedom and property, and in a research agenda that develops and promotes concepts, variables, and theories that help establish the paradigm. Empirically measured economic growth based on free-market principles construct an enabling environment for liberalism.<sup>19</sup>

As a paradigm, globalism, in the same vein, not only supports outward orientation normatively, but benefits and becomes stronger from the empirical fact of increased trade

and investment across borders. Regardless of the social effects of globalization, positive movements in key variables that gauge openness reinforce globalism as an enabling normative belief, and in turn, the belief encourages the promulgation of certain policies to help create an environment in which the empirical indicators of globalization can reach increasingly higher degrees. For example, consider two hypothetical states that are undergoing the same economic phenomenon experienced by a large number of developing countries in the 1990s: rising trade but worsening inequality. All else equal, a state with globalist aspirations is more likely to draw positive conclusions from the phenomenon. In the eyes of globalist policymakers the benefits of trade will outweigh the costs of inequality, providing incentives to *continue openness despite social costs*. The non-globalist state will likely draw the opposite conclusions. Comparing trade with inequality, in many ways, is like comparing apples and oranges: since there is no objective way of determining which one is inherently more desirable, subjective values will tend to taint the decision.

Finally, by promoting continuous awareness of the state's position in the world order, globalism *relativizes* the nation and enhances the perception of rivalry. As Malcolm Waters notes, "[It] does not imply that every corner of the planet must become Westernized and capitalist but rather that every set of social arrangements must establish

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<sup>19</sup> The argument, naturally, flows from Marx's insight about the connections between ideology and its material roots. It is instructive to return to a key suggestion from historical materialism that enabling environments for ideologies change as material conditions change. On the "interests" of different types of knowledge and paradigms see Jürgen Habermas, *Knowledge and Human Interests* (Boston: Beacon, 1972).

its position in relation to the capitalist West ... it must relativize itself.”<sup>20</sup> Globalism entails heightened importance of the foreign, a constant vigilance on what is happening elsewhere in the world and comparing one’s own society to others.

Any form of competition entails imagery of ‘the other’: one competes against someone else. As a consequence, a divide between inside and outside, between us and them is automatically constructed.<sup>21</sup> Inherent among competitive actors, this constructed territoriality is a function of the social institution of private ownership, the importance of which can be expected to heighten under increased competition as well as a globalist orientation.<sup>22</sup>

A number of influential globalization theorists suggest, on the other hand, that globalization entails a decline of the importance of territory.<sup>23</sup> If we shift emphasis from studying formal flows across borders, we should be able to clarify the meaning of territory by distinguishing the qualitative difference between borders drawn on a map and a sense of territorial identity inherent among competing actors. This work will make a

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<sup>20</sup> Malcolm Waters, *Globalization* (London: Routledge, 1995), p. 3.

<sup>21</sup> One of the most revealing examples of the recognition of ‘us’ versus ‘them’ comes from the field of evolutionary biology. Competing species evolve into developing an acute sense of friend versus foe, and at the very least, a sense of its own existence versus the existence of others who can be potentially hostile. See Carl Sagan and Ann Druyan, *Shadows of Forgotten Ancestors: A Search for Who We Are* (New York: Ballantine, 1993).

<sup>22</sup> An interesting overview of property rights including emerging “post-modern” types of property (such as electromagnetic wavelengths, genetic code, geostatic orbits) is Geoff Demarest, *Geoproperty: Foreign Affairs, National Security and Property Rights* (London: Frank Cass, 1998). These new types of properties, the author argues, will give rise to new types ownership and identity struggles.

<sup>23</sup> Richard Rosecrance, “The Rise of the Virtual State,” *Foreign Affairs* 75 (4), 1996. See also his earlier work, *The Rise of the Trading State* (New York: Basic Books, 1986) in which he first notes the decline in the traditional significance of territory. Japan’s boom after WWII, Rosecrance argues, showed others that enormous wealth can be made without large territories under control. Rosecrance predicts, “[t]he worst aspects of the Westphalian system with its emphasis on territoriality, sovereignty, and a spurious independence, are likely to be mitigated in the years ahead” (p. 211).

case that even though formal political borders are becoming less definitive and more porous, the sense of territory-based national identity is increasing for revisionist, globalist states, such as India. It means that the perceived position of a globalist state exerts more salience in the construction of relative identity, such as poor or rich, open, free, fast-growing, modern, industrialized, and most importantly, powerful.

### *The Dialectic of Strategic Context and Globalism*

Because they might provide contradictory incentives, strategic context and globalism together influence policy continuity in a dialectic way. The independent relationships I hypothesized above can be presented usefully in the form of a matrix, shown in Figure 4.3.

*Figure 4.3  
Influence of Strategic Context and Globalism on Policy Continuity*

	Thin Strategic Context	Thick Strategic Context
Non-globalist state	Incentive for imitation: Low Outward orientation: Low Incentive for continuity: Low Comments: In the absence of incentives for imitation, ad hoc or inventive policies likely. In the absence of globalism, domestic politics likely to be primary influence on policymaking.	Incentive for imitation: High Outward orientation: Low Incentive for continuity: Med Comments: Thick strategic context would provide incentives for imitative policies. But overall, indeterminate or mixed incentives for continuity.
Globalist state	Incentive for imitation: Low Outward orientation: High Incentive for continuity: Med Comments: Globalism would provide high incentives for outward orientation. But given thin context, domestic politics would play a large role, resulting in mixed incentives toward policy continuity.	Incentive for imitation: High Outward orientation: High Incentive for continuity: High Comments: Strong incentives for continuity from both strategic context and globalism; domestic politics likely to play minor role in influencing continuity toward openness.

The figure implies that the explanatory variables, strategic context and globalism, form a dialectic because they can pull policies in different directions, providing incentives and counter-incentives to various degrees, high, low, and medium. Their effects are most distinct in the two extreme cases in the upper left and lower right quadrants. The strongest pull toward policy continuity is in the lower right quadrant, representing globalist states with a thick strategic context. All else equal, policy continuity would be tenuous in a non-globalist state with a thin strategic context, as shown in the upper left quadrant. One caveat is that the states occupying this quadrant would typically represent small countries with a limited resource base. They might be susceptible to other influences exogenous to the model, such as policy-based lending, which can provide incentives for continuity.

Since both context and ideology are mutable it is important to mark how *shifts* (i.e., movement from one quadrant to another) in globalist ideology or strategic context might influence the policymaking process. In the empirical chapters, I intend to show that India has historically shifted between the 1870s to 1940s from the top left quadrant (non-globalist; thin context) to the bottom left quadrant (globalist; thin context), and then gradually from the 1960s to the 1990s to the bottom right quadrant. Its globalism and thick strategic context currently provides it with a high degree of policy continuity.

### **General Parameters of Applicability**

The logic underlying the framework rests on several general assumptions or assertions. The applicability of the framework as an explanatory model is contingent on

the extent to which these assertions are considered valid: (a) the state is the most important policy actor that serves a territory-bound citizenry; (b) its actions are informed significantly by both the world economic system and the world political system; (c) its main policy objectives are the pursuit of power and plenty, that is to ensure security and meet scarcity for its citizens; and (d) economic and political relations among states are governed primarily by the logic of competition.

### *Primacy of the State*

Modernism and liberalism have together promoted the state as the most important macro-level actor. Although some have argued that we are in a postmodern—the prefix ‘post’ in this case suggesting a chronological, rather than philosophical, shift—age in which other actors have proliferated significantly, the state still remains a crucial political hallmark of modernism: a defined, tangible, standard, binding, and often totalizing source of political action. The concept of the modern state assumes that there is an inside/outside, internal/external, or a domestic/foreign divide—in other words, it assumes the existence of territories, physical or geography-based and non-physical or identity-based. The state’s objectives are interpreted as those that serve the interests of “its own” vis-à-vis what is constructed as “foreign.” This does not mean the state is the source of all our significant identities or actions at the collective level—it obviously is not. But it is still the most authoritative and powerful source of territory-centric action, a privilege it has fought for and enjoyed against both other states and segments of its own civil



society.<sup>24</sup>

The policies and norms that create space for globalization to take place and expand are penned and exercised ultimately by states, as evident from the most important previous scholarly works on the state's role in promoting economic liberalism and globalization. A major idea that underpins the purported role of the state is that a liberal international order is a public good on which others can free-ride, but it must be provided, securitized, maintained, and guaranteed by someone. That provider is the leading state (or a group of leading states) that stands to benefit disproportionately from international *laissez faire*. Charles Kindleberger and Robert Gilpin, in this vein, attribute the emergence of an internationally open economic order to the existence of hegemony, in particular, British hegemony in the 19<sup>th</sup> century and US hegemony in the mid-20<sup>th</sup> century.<sup>25</sup> Ethan Kapstein's and Eric Helleiner's works on the role of the leading states in regulating international finance also provide empirical support for this idea.<sup>26</sup> Louis Pauly's study of the evolution of the IMF, similarly, notes that the cause of economic and financial liberalization was advanced by the leading states, who, by delegating authority to an

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<sup>24</sup> Accidents of history have also helped the rise of the state. See Hendrik Spruyt, *The Sovereign State and Its Competitors* (Princeton, NJ: Princeton University Press, 1996).

<sup>25</sup> Charles P. Kindleberger, *The World in Depression, 1929-1939* (Berkeley: University of California Press, 1973); Robert Gilpin, *The Political Economy of International Relations* (Princeton, NJ: Princeton University Press, 1987). For a critique of hegemonic stability theory, see Bruce Russett, "The Mysterious Case of Vanishing Hegemony; or, is Mark Twain Really Dead?", *International Organization*, 39 (2), 1985, pp. 207-231.

<sup>26</sup> Eric Helleiner, *States and the Reemergence of Global Finance* (Ithaca, NY: Cornell University Press, 1994); Ethan Kapstein, *Governing the Global Economy: International Finance and the State* (Cambridge, Mass.: Harvard University Press, 1994). See also the influential article by John G. Ruggie, "International Regimes, Transactions, and Change: Embedded Liberalism in the Postwar Economic Order," *International Organization* 36 (2), 1982, pp. 379-415. Ruggie observes the compromise that leading states needed to reach with domestic labor in order to continue a liberal order internationally.

international organization, have attempted to secure legitimacy for a liberal world order from other states.<sup>27</sup>

### *The Two World Systems*

In international studies political economists have conducted the main theoretical works on globalization. Their focus is on systemic shifts observed at the level of the world economy, which are then hypothesized to affect (or not affect) the state's behavior, manifest typically in policy change. On the other hand, students of security studies expect state actions to be shaped significantly by the nature of the world political or inter-state system—its anarchic order, pressures of competition, distribution of power, and prevalent norms and institutions. The literature on globalization overlooks the significance of the world political system, and tends to examine the state only in the context of global *economic* changes.

The world political system is a significant constraint on state policymaking because it provides the arena, along with acceptable norms of behavior, to exercise authority and to compete. In most cases, internationally enforceable authority peaks at the level of the state and begins to peter out at levels higher. When we conceive of the international system, it is therefore useful—as long as it is not deterministic—to conjure a model bearing semblance to a state of anarchy, characterized by an ethos of competition

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<sup>27</sup> Louis Pauly, *Who Elected the Bankers? Surveillance and Control in the World Economy* (Ithaca, NY: Cornell University Press, 1997).

for survival and security, and the absence of a higher, significant governing authority.<sup>28</sup> Anarchy implies that states make decisions in the “shadow of war”; they are therefore forced to be concerned with, as a first priority, maintaining and enhancing security. States frequently devise norms and regimes of behavior to minimize the chances of violent conflict.<sup>29</sup> Yet the fundamental competitive ethos does not show any significant sign of dissipation, nor does the struggle for aggrandizing power.<sup>30</sup>

The world economic system and the world state system share a functional, even symbiotic relationship.<sup>31</sup> It is no accident that a competitive system of property rights and market transactions as the basis of livelihood emerged<sup>32</sup> and exists in parallel with a competitive interstate system based on anarchy as the ordering principle,<sup>33</sup> in which sovereign political units can specify and enforce property rights within set territories.

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<sup>28</sup> Inis L. Claude, Jr. *Power and International Relations* (New York: Random House, 1962); Kenneth N. Waltz, *Theory of International Politics* (Reading, Mass.: Addison-Wesley, 1979); Joseph M. Grieco, “Anarchy and the Limits of Cooperation,” *International Organization* 42 (3), 1988. The concept of anarchy, like most other basic concepts in IR, is not uncontested. For critiques, see Helen Milner, “The Assumption of Anarchy in International Relations Theory: A Critique,” *Review of International Studies* 17 (January), 1991; Alexander Wendt, “Anarchy is What States Make of It: The Social Construction of Power Politics,” *International Organization* 46, 1992.

<sup>29</sup> For theoretical treatments of how cooperation and regimes may still form under conditions of anarchy see Arthur Stein, “Coordination and Collaboration: Regimes in an Anarchic World,” *International Organization* 36 (2), 1982; Robert Axelrod and Robert Keohane, “Achieving Cooperation Under Anarchy: Strategies and Institutions,” *World Politics* 38 (1), 1985; the essays in Kenneth A. Oye, ed., *Cooperation Under Anarchy* (Princeton, NJ: Princeton University Press, 1986); Robert O. Keohane, *After Hegemony* (Princeton, NJ: Princeton University Press, 1988); Stephen D. Krasner, ed., *International Regimes* (Ithaca, NY: Cornell University Press, 1983).

<sup>30</sup> A useful study is by Charles Lipson, “International Cooperation in Economic and Security Affairs,” *World Politics* 37 (1), 1984, pp. 1-23. Lipson shows theoretically that cooperation is less likely in competition for security than it is in economic affairs.

<sup>31</sup> Christopher Chase-Dunn, “Interstate System and Capitalist World Economy: One Logic or Two?” *International Studies Quarterly* 25 (1), 1981, pp. 19-42

<sup>32</sup> See Immanuel Wallerstein, *The Modern World System, vol. 1-3* (New York: Academic Press, 1974, 1979, 1983).

<sup>33</sup> Hedley Bull, *The Anarchical Society* (New York: Columbia University Press, 1977); Kenneth Waltz, *Theory of International Politics*.

Both systems find sustenance in the general philosophy of liberalism and both are based on an underlying ethic of competitive survival of the fittest. Theoretically a state can be imagined to exist at the intersection of these two systems, and its policies interpreted as efforts to balance interests emerging from both, together.

*Power and Plenty as National Objectives*

As the modern state became defined and delimited by sovereignty over a specific territory and accountability (to various degrees) to a national citizenry (as opposed to the clergy or an internal hierarchy characteristic of pre-modern dynastic states), its long term goals, indeed its *raison d'état*, became centered on meeting the needs of national security and scarcity. Internationally, the national state interacts, through both conflict and cooperation, with actors in the world economy to meet territorial (domestic) scarcity, and with actors in a world political system to enhance territorial (domestic) security. In this vein, Albert Hirschman in 1945 and Jacob Viner in 1948 argued that both economic and political goals, that is, both "power" and "plenty" were "proper ultimate ends of national policy" for states participating in the international political economy.<sup>34</sup> Other influential studies since then have concurred.<sup>35</sup> It seems that a state's objectives compete and conflict most easily and frequently with those of other states on issues of economics and

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<sup>34</sup> Albert Hirschman, *National Power and the Structure of Foreign Trade* (Berkeley: University of California Press, 1945); Jacob Viner, "Power versus Plenty as Objectives of Foreign Policy in the Seventeenth and Eighteenth Centuries," *World Politics* 1 (1), 1948, pp. 1-29.

politics.

If both scarcity and security remain the main object of state action, then state policies to imitate and globalize should be interpreted by integrating insights from both economics and security. The field of international studies, however, is bifurcated conventionally into security studies and international political economy as separate themes. This division encourages specialized research. But what is gained in analytical precision and empirical rigor comes at the expense of theoretical breadth and integrative insights. Efforts at synthesizing the contexts of economics and security have been brilliant yet sporadic. The historical pursuit of power and plenty by the territorial state constitute the theme of creative scholarship that has sought to understand the state's external behavior by integrating security with political economy. As mentioned, in the 1940s Albert Hirschman and Jacob Viner undertook early efforts at such synthesis.<sup>36</sup> When the Cold War began in the fifties, much of the subsequent analysis of a state's strategic behavior became centered on security, defined essentially in military terms. The core theoretical growth in IR scholarship remained focused on security through the sixties.<sup>37</sup> Political economy gained wider currency in international relations partly as a reaction to

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<sup>35</sup> David A. Baldwin, "Money and Power," *The Journal of Politics* 33 (3), 1971, pp. 578-614; Robert Gilpin, *US Power and the Multinational Corporation* (New York: Basic Books, 1975), esp p. 43; Stephen Krasner, *Defending the National Interest* (Princeton, NJ: Princeton University Press, 1978); Stephen Krasner, *Structural Conflict: The Third World Against Global Liberalism* (Berkeley: University of California Press, 1985), esp. chapter 3; Robert Gilpin, *The Political Economy of International Relations* (Princeton, NJ: Princeton University Press, 1987).

<sup>36</sup> Hirschman, *National Power and the Structure of Foreign Trade*; Viner, "Power versus Plenty."

the domination of security studies.<sup>38</sup> But the sub-discipline provided an additional area of specialization rather than a case for synthesis. Consequently most of IR's contribution on state behavior remained focused on either security or economics, rather than attempting to integrate the two. The end of the Cold War heralded the expiry of the foremost military rivalry of this century, and scholars began to emphasize a greater need for an integrative approach to strategic concerns.<sup>39</sup> A number of recent works, accordingly, attempt to increase the analytical power of theorizing the state's external policy by synthesizing political economy with security.<sup>40</sup>

### *Systemic Change and the Logic of Competition*

Recent scholarship has tended to magnify the extent to which changes brought by globalization involve *fundamental* changes in the motive and context of state behavior. Clearly capitalism as a world system is going through transformations. Its organizational bedrock is shifting from a labor-intensive modern industrial complex to a technology-

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<sup>37</sup> A useful review is in Michael Mastanduno, "Economics and Security in Statecraft and Scholarship," *International Organization* 52 (4), 1998, pp. 825-854. Mastanduno argues that the variations in the integration of economics and security in IR scholarship follows variations in the structure of the world political and economic system, specifically, the distribution of power, the immediacy of the international strategic environment, and the intensity of economic competition.

<sup>38</sup> Susan Strange, "International Economics and International Relations: A Case of Mutual Neglect," *International Affairs* 46 (2) 1970, pp. 304-315. See also James A. Caporaso, "False Divisions: Security Studies and Global Political Economy," *Mershon International Studies Review* 39 (Supplement 1), 1995, pp. 117-122.

<sup>39</sup> David A. Baldwin, "Security Studies and the End of the Cold War," *World Politics* 48 (1), 1996, pp. 117-141.

<sup>40</sup> Wayne Sandholtz, et al., *The Highest Stakes: The Economic Foundations of the Next Security System* (New York: Oxford University Press, 1992); Joseph J. Romm, *Defining National Security: The Nonmilitary Aspects* (New York: Council on Foreign Relations Press, 1993); Edward D. Mansfield, *Power, Trade, and War* (Princeton, NJ: Princeton University Press, 1995); Theodore H. Moran, "Grand Strategy: The Pursuit of Power and the Pursuit of Plenty," *International Organization* 50, 1996, pp. 175-205.

intensive, postmodern information-based economy.<sup>41</sup> It is also becoming geographically more widespread and deeply embedded than ever before, manifest in an increase in international flows amply recorded in recent literature,<sup>42</sup> and a concomitant trend in most states of the world toward adopting *laissez faire*.

This economic aspect of globalization, that is, the intensification of capitalism on a world scale, does not change the ordering principle of the world political system. Nor does it change the primacy of power and plenty as objectives of the state policymaking and a territory-centric 'nation' as the object and beneficiary of such policies. Neither historically nor conceptually is there any compelling reason to think that as the breadth and depth of capitalism increases, the need for political enforcers of property rights decreases.

Scholars from time to time have viewed as systemic change not just the intensification of capitalism but a variety of other phenomena, such as, nuclear deterrence, economic interdependence, transnational activism and communication, democratic peace, information revolution, or terrorism. These changes are said to have altered the nature or

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<sup>41</sup> For both quantitative and qualitative trends, see the essays in Terence K. Hopkins, et al., *The Age of Transition: Trajectory of the World System, 1945-2025* (London: Zed, 1996). See also Samir Amin, *Capitalism in the Age of Globalization: The Management of Contemporary Society* (London: Zed, 1997); Martin Albrow, *The Global Age: State and Society Beyond Modernity* (Stanford, Calif.: Stanford University Press, 1997); Ernest Mandel, *Late Capitalism* (London: Verso, 1999).

<sup>42</sup> See John H. Dunning, *Globalisation: The Challenge for National Economic Regimes* (Dublin: Economic and Social Research Institute, 1993); David Levy and John Dunning, "International Production and Sourcing: Trends and Issues," *STI Review* no. 13 (1993): 13-60; Dani Rodrik, *Has Globalization Gone Too Far?* (Washington, DC: Institute for International Economics, 1997). For statistics, see Paul Hirst and Grahame Thompson, *Globalization in Question* (Cambridge, UK: Polity Press, 1996), along with World Trade and Investment Report for recent years, published by UNCTAD.

essence of power at both national and supranational levels.<sup>43</sup> Significant transformations like these are taking place, no doubt, but what still remains unchanged is competition as an inherent feature common to both world systems, economic and political. The world political system remains rooted in competitive anarchy as the ordering principle. In the world economic system, material needs and scarcity, by and large, is still satisfied through means of competition. In short, the stimulus that causes states to compete with one another remains fundamentally unaffected by the systemic changes that scholars have identified recently. In fact such changes may have introduced new arenas as well as means of competition, elevating the intensity of competitive pressures.<sup>44</sup>

The historical struggle for prosperity, evidently, remains a national phenomenon, even a national obsession, still defined, if not entirely practiced, with reference to a set territory.<sup>45</sup> As Hirst and Thompson noted, “[m]arkets may or may not be international, but wealth and economic prosperity are still essentially national phenomena. They

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<sup>43</sup> Such views have been present at least since the early seventies. Among others, see Seyom Brown’s prognosis, “The Changing Essence of Power,” *Foreign Affairs*, January 1973. Donald Puchala and Stuart Fagan find that actors at four levels undermine the state-centric notion of power: subnational, national, transnational, and supranational. See Puchala and Fagan, “International Politics in the 1970s: The Search for A Perspective,” *International Organization* 28 (2), 1974; For other views on changes in the nature of state power see Richard Mansbach, Yale Ferguson, and Donald Lampert, *The Web of World Politics: Non-State Actors in the Global System* (Englewood Cliffs, NJ: Prentice-Hall, 1976); Susan Strange, *The Retreat of the State: The Diffusion of Power in the World Economy* (Cambridge, UK: Cambridge University Press, 1996); the essays in Ryan Henry and C. Edward Peartree, eds., *The Information Revolution and International Security* (Washington, DC: Center for Strategic and International Studies, 1998); H. Richard Friman and Peter Andreas, eds., *The Illicit Global Economy and State Power* (Lanham, Md.: Rowman and Littlefield, 1999).

<sup>44</sup> See Raphael Kaplinsky, “Globalisation, Industrialisation, and Sustainable Growth: The Pursuit of the Nth Rent,” IDS Discussion Paper 365 (Brighton: Institute of Development Studies, University of Sussex, 1998).

<sup>45</sup> Robert Wade, “Globalization and Its Limits: Reports of the Death of the National Economy Are Greatly Exaggerated,” in Suzanne Berger and Ronald Dore, eds., *National Diversity and Global Capitalism* (Ithaca, NY: Cornell University Press, 1996).



depend upon how well national economic actors can work together to secure certain key supply-side outcomes.”<sup>46</sup> A similar perspective on economic development shows that although state policies have swung time to time from being protectionist to being open, from Import Substitution Industrialization to Export-Led Growth, over the long-term the modern state seems preoccupied with enhancing rather than constraining national economic activity and prosperity. Situated at the center of a national economy, the state’s goal to strengthen itself against its competitors still persists.

Competitive behavior among states is illuminated most usefully by the paradigm of realism. In a sense the synergic nature of the world economic and political systems is rooted in competitive, rational behavior by economic and political actors. The basic consensus in the literature, from both realist and liberal institutionalist perspectives, is that occasional exceptions aside, states do not make policies randomly; they make decisions from a basket of possible options on the basis of some form of cost-benefit analysis in an effort to at least protect and possibly maximize individual entitlement and security.<sup>47</sup> In other words, behavior is not instinctive; a rational process of decisionmaking precedes state behavior. Analysis of decision-making, therefore, is crucial to analyzing behavior, insofar as behavior can be assumed to be action undertaken by agents rather than pre-determined by a certain structure of relationships.

The paradigm of realism is useful for it can dramatically simplify the logic of

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<sup>46</sup> Hirst and Thompson, *Globalization in Question*, p. 146.

<sup>47</sup> Kenneth J. Arrow, ed., *The Rational Foundations of Economic Behavior* (New York: St. Martin’s Press, 1996).

international politics by postulating (a) the conflictive nature of inter-state politics over scarce resources, (b) the primacy of security and survival, and (c) the pursuit of relative gains in capabilities as a state's foremost material objective.<sup>48</sup> But it has proven quite difficult to come up with a general theory that can illuminate the options to attain the objectives theorized by realism. Although the various possibilities of behavior by a complex actor such as the state cannot be confidently rank-ordered or predicted by assuming a prior rational choice framework, the assumption of rational choice, combined with a realist perspective, can be useful to analyze behavior particularly in *competitive situations*.

The fundamental objectives of state behavior, according to a realist paradigm, boil down to competitive survival and the maximization of utility. For realism, this objective is 'fixed', in the sense that most state behavior under competitive conditions can be hypothesized to emanate from the objective of pursuing power and plenty through enhancing relative material capabilities against external competitors.

Following this line of argument, a realist perspective will expect that India's foreign policies, both economic and political, are motivated considerably by the need to achieve relative gains vis-à-vis its closest competitor states in order to maintain and enhance its security. Major policy shifts in India, or any other state for that matter, are

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<sup>48</sup> For a succinct overview of realism, see Joseph M. Grieco, "Realist International Theory and the Study of World Politics," in Michael W. Doyle and G. John Ikenberry, eds., *New Thinking in International Relations Theory* (Boulder, Colo.: Westview Press, 1997) and Robert O. Keohane, "Realism, Neorealism, and the Study of World Politics," in Robert O. Keohane, ed., *Neorealism and Its Critics* (New York: Columbia University Press, 1986). A more comprehensive treatment as well as a historical review of the major works in realism is in Stefano Guzzini, *Realism in International Relations and International Political Economy* (London: Routledge, 1998).

potentially risky, and can be continued and firmly established only if they ultimately enhance the Indian state's position against its economic and political competitors.

## CHAPTER FIVE

### India's Pattern of Imitative Policymaking

India's economic development must harness the opportunities provided by international trade, modern technology, and world capital markets. China has shown how \$30-\$40 billion a year of foreign investment can be effectively harnessed for economic development.

- Ministry of Finance, Government of India  
*Economic Survey 1995-96*

This chapter begins the empirical part of the dissertation by discussing how India's economy has opened up. I trace India's path toward globalization in five arenas of external economic policy: tariff rates, exchange rate, export promotion, foreign direct investment, and foreign portfolio investment. I compare India's policies to China's, and identify a pattern of substantive, and sometimes imitative, policy correspondence. I begin by detailing tariff rates, which shows the closest correspondence in policy change between the two countries. I then discuss export promotion and exchange rate policy changes. Changes in a country's exchange rate are closely linked to export promotion policies, for exchange rate determines to a large extent the foreign price of domestic products.<sup>1</sup> Finally I touch upon the resemblance in foreign direct investment and portfolio investment policies. The next two chapters provide an explanation for the imitative pattern of policymaking that has sustained India's continuity of openness.

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<sup>1</sup> The other major determinant is interest rate, which I do not examine here.

### Methodological Considerations

The first obstacle in comparing India's globalization process to China's seems to be the time lag in policy implementation between the two countries. Whereas China has been opening up its economy gradually since 1978, India embarked on a definitive path toward globalization in 1991, thirteen years later. For our purposes, this lag appears to be less of a problem. First of all, it concerns mostly those who compare initiation of change. This project aims to examine continuity of liberalization in the two countries and to highlight substantive imitation, not policy convergence.

Second, this study explores the role of strategic rivalry in sustaining globalization. It is concerned about not when a rival's policies begin per se, but when and how a rival's policies become strategically relevant. As the next chapter will show, China did not emerge as India's primary competitor until the late eighties and early nineties, when Indian policymakers began to take stock of China's progress and to analyze seriously what such progress might mean for India's prospects for security and leadership. It was only after such realization had become entrenched in the mindset of Indian policymakers that they began to respond strategically to changes in Chinese policies. A comparison that covers policies in both countries since the early nineties would be able to capture this strategic dynamic even if it disregarded the early liberalization years (1978-1991) in China.

Finally, China's path toward external liberalization in those early years (1978-1990) was not only slow-paced and piecemeal, but much more inconsistent than it has been in the nineties. Such inconsistencies were caused partly by the struggles between the

old guard and the reformists and partly by frequent adjustment to trade fluctuations. The reforms began “as a series of localised experiments.”<sup>2</sup> An official program for the reforms was formulated first by the Central Committee of the Chinese Communist Party in 1984, six years after those “experiments” began. Billed under the slogan “delegate power and relinquish revenues,” the initial locus of the reforms was the domestic economy, and the objective was to give local authorities more power for economic decisionmaking.<sup>3</sup>

Foreign economic relations were brought under the ambit of these reforms generally from 1980. The central government’s controls on China’s trade were loosened and re-imposed several times in succession, most notably in 1984 and 1985. In 1987 and 1988, local authorities were given greater leeway over foreign exchange retention for local purposes, a freedom that was withdrawn twice later, in 1989 and 1990. The central government decreased tariffs gradually in the early 1980s, and then increased them again in 1987 to abate the volume of imports. In 1990, 1,300 previously authorized foreign trade corporations were disbanded, which was a blow to domestic private entrepreneurs eyeing the lucrative trade sector for business.<sup>4</sup> Given such gradualism and inconsistency in China’s external liberalization, Indian policymakers were able to institute within two years much of the pro-globalization policy regime that China had taken 13 years to establish. For continuing globalization further, what became important for India to

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<sup>2</sup> Yun Wing-Sung and Thomas M. H. Chan, “China’s Economic Reforms: The Debates in China,” *Australian Journal of Chinese Affairs*, 17, 1987, p. 29.

<sup>3</sup> Jinglian Wu and Bruce L. Reynolds, “Choosing a Strategy for China’s Economic Reform,” *American Economic Review* 78 (2), 1988, pp. 461-466.

<sup>4</sup> Economist Intelligence Unit, *China: Country Profile 1991-92* (London: EIU, 1992), pp. 55-56.

emulate are Chinese policies after 1991, rather than the those during 1978-1991. Accordingly, this rest of this chapter compares the evolution of a policy regime toward globalization in both countries between 1991 and 1998, instead of looking at India's policy regime during 1991-1998 and China's policy regime during 1978-1998.

### **Pattern of Tariff Liberalization in China and India**

"Tariff reforms," wrote Isher Ahluwalia, "have held the center-stage in the process of opening up the Indian economy."<sup>5</sup> Before liberalization was announced in 1991, Indian peak tariff rate was 300 percent, the highest in the developing world.<sup>6</sup> Chinese peak tariff rate at that time was 150 percent. The first major step toward tariff reduction in India was in July, 1991. The government announced a new budget and lowered peak tariff to 150 percent. With that move, India's import-weighted average tariff came down to 87 percent, still the highest among developing countries.<sup>7</sup> The Chinese average tariff at that time was half: 43 percent, the third highest among developing countries (after India and Pakistan). Next January, China reduced tariffs on 225 items, and more importantly, adopted the harmonized system to classify tradable goods and categorize tariffs. In April, India lowered its peak tariff to 110 percent and also adopted the harmonized system. Another major round of tariff reductions in China took place

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<sup>5</sup> Isher Judge Ahluwalia, "India's Opening Up to Trade and Investment," in Charles Oman, ed., *Policy Reform in India* (Paris: Development Centre of the OECD, 1996), p. 24.

<sup>6</sup> World Bank, *India: Five Years of Stabilization and Reform and the Challenge Ahead* (Washington, DC: World Bank, 1996), p. 24.

<sup>7</sup> Ahluwalia, "India's Opening Up to Trade and Investment," p. 24.

between December 1992 and January 1993 when tariffs were reduced on more than 3000 items and the peak rate was lowered to 85 percent. Within four months, India too decreased its peak rate to 85 percent. Next January, China reduced tariffs on 2898 items, bringing down the average tariff rate to 36.4 percent. With a number of incremental policy moves, India caught up by May, 1995, having in place an average tariff rate of 33 percent. In April, 1996, China again cut tariff rates covering almost 5000 items, bringing the average down to 24 percent. India followed suit next month, lowering the average rate to 22.4 percent. By the end of 1997 China and India had competitively lowered their average tariffs to 20.1 percent and 20.3 percent respectively.<sup>8</sup>

### Exchange Rate Adjustments and Export Promotion

The inaugural step toward what was to become a steady commitment to globalization in India was an adjustment in the rupee's exchange rate on July 1, 1991. The Reserve Bank of India (RBI) devalued the currency by 8.76 percent against the pound sterling, and by correspondence, 8.5 percent against the dollar, 9.4 percent against the Deutsche mark, and 8.8 percent against the yen. The devaluation was done "quietly" by the central bank. The Finance Ministry did not present a formal announcement or

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<sup>8</sup> The data in this section comes from a number of sources: Government of India publications, including, Ministry of Finance, *Economic Survey* (various years), Ministry of Finance, *Annual Budget Speech* (various years), Ministry of Commerce, *Annual Report* (various years), Reserve Bank of India, *Annual Report* (various years); China Statistical Information and Consultancy Service Centre; The Economist Intelligence Unit, *Country Reports* (various issues); World Bank, *World Development Report* (various years); IMF, *International Financial Statistics* (various issues); United States Trade Representative; and periodicals: *Business Line*, *Economic Times*, *India Today*, *Beijing Review*, *Far Eastern Economic Review*, *Asiaweek*, *South China Morning Post*, *China News Digest*.



justification, but conceded, when provoked by the press, that the rate of devaluation was “unprecedented.”<sup>9</sup> The first significant announcement from the ministry came after the second round of devaluation two days later, when the rupee was devalued by a further 11.83 percent against the pound, making the total devaluation close to 20 percent. In a formal announcement this time, the Finance Minister, Dr. Manmohan Singh, justified the devaluation by pointing to competitive pressures from China in the export market.<sup>10</sup> The Governor of RBI, S. Venkitaramanan, also asserted that the devaluation was implemented to ensure export competitiveness.<sup>11</sup>

The next day, the Commerce Minister, P. Chidambaram, announced “sweeping reforms” in trade policy, geared toward export promotion.<sup>12</sup> He stated that he is working closely with the Finance Minister to lower India’s tariff barriers (which I review later). The new policy liberalized the export earning retention system. Exporters were now allowed to retain a higher proportion of their foreign currency earnings instead of surrendering all to the central bank for conversion at a fixed rate. The government abolished state subsidies for exports, allowed 100 percent ownership in Export Processing Zones, and gave tax incentives for exports with local content.<sup>13</sup>

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<sup>9</sup> “Rupee Devalued by 8.76 p.c. Against the Pound,” *The Hindu*, 2 July 1991, p. 1.

<sup>10</sup> “Rupee Again Devalued by 11.83 p.c. Against the Pound,” *The Hindu*, 4 July 1991, p. 1. The pound sterling was the Indian government’s foreign exchange intervention currency at the time, and therefore, the benchmark currency to measure devaluation rate.

<sup>11</sup> “Further Steep Devaluation to Make Exports Competitive,” *The Hindu*, 4 July 1991, p. 7.

<sup>12</sup> “‘You Cannot Import If You Do Not Export’: Aggressive Policy to Boost Production and Growth,” *The Hindu*, 5 July 1991, p. 1.

<sup>13</sup> For more on these early export promotion policies, as well as a comparison with those in the 70s and 80s, see C. N. Purushothaman Nair, ed., *Export Promotion in India* (New Delhi: Discovery Publishing, 1992).

This initial set of policies bears resemblance to policies undertaken in China during the previous two years. China began to liberalize its foreign exchange retention quotas in a piecemeal fashion back in 1988-89.<sup>14</sup> It made the renminbi partially convertible to exporters after a 21 percent devaluation in 1990. In January 1991, China abolished mandatory export planning, giving private business greater leeway for decisionmaking about what and to whom they can export. The government also abolished export subsidies and declared that exports with domestic content are exempt from commercial taxes. Enterprises located in Special Economic Zones, which to a large extent is equivalent to India's Export Processing Zones, were further exempt from paying any export taxes. By the end of 1991, China announced as additional incentive special long-term land lease rates for exporters and widened the coverage of duty-free imports of capital goods for exporters. Export-processing had become the major component of China's industrialization strategy.<sup>15</sup>

In January 1992, India's Commerce Minister declared that exports needed to be boosted even further, in light of stiff competition from Thailand and China in certain sectors such as seafood, gems harvesting and processing, tea, jute, and textiles. Urging that policymakers "will have to think more radically,"<sup>16</sup> he announced greater liberalization, which was implemented in two major steps in March and April of 1992. In March

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<sup>14</sup> Valerie Cerra and Anuradha Dayal-Gulati, "China's Trade Flows: Changing Price Sensitivities and the Reform Process," IMF Working Paper WP/99/1 (Washington, DC: IMF, 1999).

<sup>15</sup> Jeffrey D. Sachs and Wing Thye Woo, "Understanding China's Economic Performance," Harvard Institute for International Development, Development Discussion Paper No. 575, March 1997 (Cambridge, Mass.: HIID, 1997).

<sup>16</sup> "Difficult Days Ahead: Manmohan Singh," *The Hindu*, 4 January 1992, p. 1

eximscris (the export earning retention system) were abolished altogether and the rupee was made partially convertible on the current account. The next month, the government announced the “New Export Import Policy,” which was to remain in effect for five years. This policy document marked a significant turnaround in India’s approach to exports. Traditionally India maintained a “positive” list of items that could be exported or imported. Instead, the new policy declared everything freely exportable or importable, except a “negative” list of sensitive items that were restricted or prohibited. This change effectively eliminated the extensive array of licenses and permits that India had in place. Licenses were no longer necessary to export, since exports were now free. Export-oriented firms were promised automatic approval of business.<sup>17</sup> Private firms were allowed to set up their own Export Processing Zones, with the same benefits as the state-owned EPZs. The next month the government declared special, reduced land-lease rates for export-oriented units and lowered tariffs on capital goods imports to only 15 percent.

In October 1992 Deng Xiao-Ping visited southern China to assess economic conditions and performance. His visit to Shenzhen was a catalyst in altering and institutionalizing the changes toward capitalism without jettisoning Chinese nationalist and “socialistic” economic identity.<sup>18</sup> Deng made a historic call to open up all of China, following the model of the SEZs. He urged other regions to emulate the South’s

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<sup>17</sup> For more, see Vijay Joshi and I. M. D. Little, *India’s Economic Reforms 1991-2001* (Oxford: Clarendon Press, 1996), pp. 64-70; S. S. Mehta, “Globalisation of the Indian Economy: Nature and Consequences,” *Foreign Trade Review* 29 (2-3), 1994, pp. 197-203.

<sup>18</sup> An excellent overview of such changes in China’s economic identity is George T. Crane, “‘Special Things in Special Ways’: National Economic Identity and China’s Special Economic Zones,” *Australian Journal of Chinese Affairs*, 32, 1994, pp. 71-92.

performance of high economic growth led by exports and foreign investment—an announcement that was taken as seriously in the neighboring countries as it was inside China.<sup>19</sup> By December, export decisionmaking was further decentralized, five more border cities were opened up for freer trade, and fourteen additional Special Zones were set up for technology-intensive exports. Firms that exported more than 70 percent of their production were given an additional 10% rebate on their corporate taxes.<sup>20</sup>

Next month, January 1993, the Indian government encouraged its individual states to offer local-level tax incentives to exporters and foreign investors.<sup>21</sup> The government also asked states and regions to set up export-oriented “technology parks.” By March 1993, 146 items were removed from the “negative list” of exports. In one of the most significant moves of its liberalization program, India scrapped its dual exchange rate system, a relic of its import-substitution era, and replaced it with a unified exchange rate.<sup>22</sup> China adopted a unified exchange rate in January 1994, with a 50 percent devaluation of the official rate. It also made public, for the first time, most of its trading

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<sup>19</sup> See for example David Zweig, “China’s New Economic Warlords,” *Asian Wall Street Journal*, 3 August 1992, p. 8; Roderick MacFarquhar, “Deng’s Last Campaign,” *New York Review of Books* 39 (21), 17 December 1992, pp. 22-28. It should be noted that Deng’s announcement was not unprecedented; Zhao Ziyang made a similar call in 1988 to open up all the coastal areas to foreign investment and trade.

<sup>20</sup> For more, see Joseph C. H. Chai, *China’s Transition to a Market Economy* (Oxford: Clarendon, 1997), esp. chapters 8 and 9.

<sup>21</sup> For a case study, see Ramani Kumar and Pranab K. Banerjee, “Role of States in Export Promotion Efforts: A Case Study of Rajasthan,” *Foreign Trade Review* 31 (3), 1996, pp. 53-65.

<sup>22</sup> Government of India, Ministry of Finance, *Economic Survey 1992-1993* and *Economic Survey 1993-1994* (New Delhi: Ministry of Finance, 1993; 1994).

and investment regulations, and promised further bureaucratic transparency in international trade. Later in 1994, China abolished mandatory planning for imports.<sup>23</sup>

In keeping with its announcement the previous year, India introduced the Export Promotion Industrial Park scheme in July, 1994. The scheme allowed the central government to offer subsidies to states to create such parks. Agroexports were also given further tax incentives. The next month India made the current account fully convertible and entered IMF Article VIII status. India's trade increased significantly. Its average trade-to-GDP ratio during 1990-94 was 21 percent, compared to 14 percent during 1975-79.<sup>24</sup> Next January, in a much controversial decision, India joined the World Trade Organization.

In its policies of export promotion and exchange rate adjustment, India repeatedly emphasized the threat of competition from China (Chapter Seven elaborates on this). The two Chinese devaluations that concerned Indian policymakers the most at the time reforms began were a nearly 21 percent devaluation in 1989 and 12-13 percent in 1990.<sup>25</sup> China has followed a deliberate "cheap currency" policy in its critical exports. In the first half on the 1990s, China's Real Effective Exchange Rate depreciated further, though it appreciated somewhat in the second half of the 90s.

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<sup>23</sup> Cerra and Dayal-Gulati, "China's Trade Flows."

<sup>24</sup> Miria Pigato, et al., *South Asia's Integration into the World Economy* (Washington, DC: World Bank, 1997), p. 10, table 1.3.

<sup>25</sup> Chinese devaluation figures should be interpreted carefully, for China at that time maintained a dual exchange rate. The devaluations usually were changes in the official rate to bring the official rates closer to what was called the swap rate, which was determined more by prices settled between individual buyers and sellers. The depreciation data given here reflects depreciation in the official rate.

In the early nineties, India followed China's lead in reforming export promotion policies and adjusting exchange rates. By the mid-1990s, India caught up in creating a policy regime with a set of incentives that closely rivaled those offered by China. India even took a lead by unifying its exchange rate before China did. It made the current account fully convertible in 1994, two years before China did in 1996. The Finance Minister announced in the Parliament that the rupee would be made fully convertible on the capital account during the next term of the government.<sup>26</sup> (The next government did not implement full convertibility on the capital account.) India joined the WTO in 1995; China is still out of the trade organization, due to the opposition of the WTO's powerful members. During 1994 to 1996, the India's Ministry of Commerce undertook a full-fledged international marketing strategy to promote Indian exports, especially in relation to other Asian products. It participated in 33 trade fairs around the world during 1994-1995, and in 39 fairs during 1995-1996.<sup>27</sup> It also continued an array of bilateral trading deals with other major economies.

India's "sweeping" Export-Import policy of 1992 expired in 1997, necessitating a new policy. In April 1997 a new Export Import Policy was declared by a new government, without any lapse in policy effect. The principal objective, as stated in the policy, was "[t]o accelerate the country's transition to a globally oriented vibrant economy with a view to derive maximum benefits from expanding global market

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<sup>26</sup> "Full Rupee Convertibility Next Term: Manmohan," *The Hindu*, 12 March 1996, <<http://www.indiaserver.com/thehindu/1996/03/12/THF01.html>>, accessed 4 August 1999.

<sup>27</sup> Government of India, Ministry of Commerce, *Annual Report 1995-1996* (New Delhi: Ministry of

opportunities.”<sup>28</sup> A major thrust of the policy was the reduction of red tape. In addition, it trimmed substantially the negative list of exports. Now only 10 items were prohibited for export. Six items were “canalised,” i.e., exportable only by the state, and everything else was freely exportable. In October 1997, EOUs that were 100 percent export-oriented were allowed retention of their export earnings up to 70 percent. Others were allowed to retain up to 50 percent of their foreign exchange earnings. By the middle of 1998, export profits were made fully exempt from income tax. Exporters, in addition, paid reduced duties for importing consumer goods, which were otherwise still subject to high tariffs.<sup>29</sup> In April, 1998, the government announced another Export-Import Policy, removing import controls on 340 items, mostly consumer goods, such as watches, camcorders, CD-ROM, etc. The only items that remained prohibited for import were animal tallow, animal fats and oils, animal rennet, wild animals, and ivory. Prohibited exports include only ten items, wildlife, exotic birds, wild plants, beef, human skeletons, animal tallow, animal fat and oils, sandalwood, certain wood products and certain chemicals.<sup>30</sup>

The Asian crisis of 1997-98 occasioned major concern in India, even though the currency was partially shielded, for India did not have capital account convertibility. Earlier, the government had given a strong signal that it was actively considering the

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Commerce, 1996).

<sup>28</sup> Government of India, Ministry of Commerce, *Export and Import Policy 1 April 1997-31 March 2002* (New Delhi: Ministry of Commerce, 1997), p. 2.

<sup>29</sup> The Economist Intelligence Unit Country Briefing, “India Economy: Major Export Incentives,” *EIU ViewsWire*, 16 June 1998, <[http://www.viewswire.com/display\\_article.asp?doc\\_id=E153280](http://www.viewswire.com/display_article.asp?doc_id=E153280)>, accessed 11 August 1999.

<sup>30</sup> The Economist Intelligence Unit, “India: Trade Regulations,” *EIU ViewsWire*, 19 November 1998, <[http://www.viewswire.com/display\\_article.asp?doc\\_id=E163069](http://www.viewswire.com/display_article.asp?doc_id=E163069)>, accessed 11 August 1999.

possibility of making the capital account fully convertible by appointing a Committee on Capital Account Convertibility (popularly known as the Tarapore Committee, named after its Chairman) in February 1997. The Committee submitted its report in May, recommending a gradual, three-stage approach to convertibility by the end of 2000. The plan was to give exporters and joint-venture companies preference in the initial stages, then move on to allowing repatriation and overseas investment for other individuals, with a \$100,000 individual ceiling.<sup>31</sup> The Asian crisis dampened the strength of these suggestions. The export competitiveness of India was eroded by the sharp depreciation of the currencies of East and Southeast Asia. Export growth slowed down, partly due to an appreciation of the REER of the rupee in relation to the other major Asian currencies.<sup>32</sup> The rupee experienced some jolts in the last week of August, 1997, which was a particularly bad week for the other Asian currencies. This triggered some panic reactions and speculative dollar buying to the tune of about \$2 billion between mid-August and mid-September. It also led to the cancellation of planned GDR (Global Depository Receipts) issues by some Indian companies and some withdrawal of portfolio investment funds (approximately \$110 million, a modest sum) in November.<sup>33</sup> The rupee in general depreciated by about 9 percent by March, 1998, compared to its rate a year ago. What Indian policymakers waited for "in much anxiety," was a possible Chinese devaluation,

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<sup>31</sup> A useful summary of the lengthy report is in Reserve Bank of India, *Annual Report 1996-97*. For reactions for and against convertibility, see "Full Convertibility," *Business India*, 16-27 June 1997, pp. 68-73.

<sup>32</sup> Government of India, Ministry of Finance, *Economic Survey 1997-1998*.

<sup>33</sup> For more, see Reserve Bank of India, *Annual Report 1997-1998*.



which would almost certainly necessitate a similar response from India, and contribute to spreading the currency contagion further. According to a study by the Indian Institute of Foreign Trade, possible Chinese devaluation might result in a loss of \$300 million in exports for India over 1998, especially in textiles, clothing, footwear, chemicals, and light engineering goods.<sup>34</sup>

### Foreign Direct and Portfolio Investment Policy Changes

We find a similar globalizing, and simultaneously imitative, pattern in changes in India's foreign investment regime. By the time India began its policy reform, China had established five Special Economic Zones (SEZs) in the coastal cities of Shantou, Shenzhen, Xiamen, Zhuhai, and Hainan. The goal was to give more institutional leeway for economic activity and provide a destination for using foreign investment for export promotion.<sup>35</sup> In addition, 14 coastal cities, 24 inland cities, and 11 provinces were open to foreign investment to various degrees. China signed the Multilateral Investment Guaranty Agency's (MIGA) convention protecting foreign investors from political risk. Foreign portfolio investors were allowed to invest in special B-shares issued by Chinese companies. But the overseas Chinese could own up to 100 percent of equity in companies in China. China had also allowed, on a limited basis, wholly-owned foreign-

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<sup>34</sup> "India May Lose Over \$300 Million Worth Exports," *The Business Standard*, 12 February 1998, <<http://jan-mar98.business-standard.com/98feb12/economy1.htm>>, accessed 4 August 1999.

<sup>35</sup> For a summary of the major preferential policies in China's SEZs, see Nirupam Bajpai, Tianlun Jian, and Jeffrey D. Sachs, "Economic Reforms in China and India: Selected Issues in Industrial Policy," Harvard Institute for International Development, Discussion Paper No. 580 (Cambridge, Mass.: HIID, April 1997), p. 24, table 12.

funded enterprises (FFEs) limited access to its domestic market as well as the opportunity to be located outside the SEZs.<sup>36</sup>

The New Industrial Policy of India, promulgated in 1991, resembled China's successful policies.<sup>37</sup> It allowed up to 51 percent foreign equity in 34 "high-priority" sectors. It also emphasized greater usage of Export Processing Zones (EPZs), and initiated plans to set up more EPZs. Although India had the world's second oldest EPZ, based in Kandla and set up in 1965, the government recognized that EPZs were never utilized to their potential.<sup>38</sup> In the new policy, 100 percent foreign ownership was allowed in the EPZs. In addition, EPZs have no customs duties on raw materials and components; they allow repatriation of capital up to the amount of the original investment and repatriation of profits and dividends. EPZs also offer a tax holiday of five years, exemptions from central excise and sales taxes, no rental fees for two years and subsidized rental for an additional three years.<sup>39</sup> By August, 1991, the government had received an express interest in both export-oriented and domestic investment from a large number of multinational firms, including General Motors, General Electric, Ford, DuPont,

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<sup>36</sup> Cerra and Dayal-Gulati, "China's Trade Flows."

<sup>37</sup> For details see Government of India, Ministry of Industry, *Statement of Industrial Policy*, July 24, 1991 (New Delhi: Ministry of Industry, 1991); Government of India, Ministry of Industry, *Handbook of Industrial Policy and Statistics* (New Delhi: Ministry of Industry, 1996).

<sup>38</sup> The oldest EPZ was set up in 1962 in Mayaguez, Puerto Rico. Prior to the liberalization in the 1990, India had two EPZs, based in Kandla and Santa Cruz. A good early history is found in Rajiv Kumar, *India's Export Processing Zones* (Delhi: Oxford University Press, 1989), esp. pp. 36-58.

<sup>39</sup> Bajpai, Jian, and Sachs, "Economic Reforms in China and India," pp. 25-27.

IBM, Kellogg, Motorola, Asahi Glass, Nippon Electric, Toshiba, Honda, Fujitsu, and Seagram.<sup>40</sup>

In 1992, both China and India promulgated legislation establishing supervisory authority over the capital markets. Early in the year, Manmohan Singh indicated that liberalization was imminent in the finance and capital markets, and asked businesses to brace themselves.<sup>41</sup> The Securities and Exchange Board of India Act was promulgated by the end of January, establishing control over stockbrokers, merchant banks, and the primary capital market in general.<sup>42</sup> India signed the MIGA in April, 1992. It permitted foreign institutional investors a limited scope of portfolio investment. In July 1992, the government permitted overseas Indians to own 100 percent of equity in companies in the high priority sectors.

By the first quarter of 1992, China decided to liberalize the regulations that restricted Chinese companies from raising capital abroad. In December, a first batch of nine state companies were permitted to raise capital in the Hong Kong Stock Exchange.<sup>43</sup> Another important policy move in December was to allow foreign investment in an additional 28 cities and 8 prefectures around the Yangtze River. Local government was given leeway to offer selective incentives for foreign investors. Nationally, investors were

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<sup>40</sup> "Top Foreign Firms Keen on Entering Indian Market," *The Hindu*, 15 August 1991, p. 9.

<sup>41</sup> "Difficult Days Ahead: Manmohan Singh," *The Hindu*, 4 January 1992, p. 1.

<sup>42</sup> The SEBI Act of 1992 and other related legislation is available at <<http://www.sebi.com>>.

<sup>43</sup> Niu Tiehong, "Stock Market Integration in China and Hong Kong," Unpublished paper, Harvard Law School, Program on International Financial Systems, December, 1996.

given a 1 to 3 year tax holiday and an additional 3 years of 50 percent tax rebate, as well as a guarantee of national treatment to selective investors.<sup>44</sup>

In 1993, the Indian government promulgated a set of similar policy measures. It liberalized its restrictions on Indian companies to raise capital in overseas markets. The Merchant Bankers Regulation was passed, enabling merchant banks to operate. Individual states were encouraged to competitively provide incentives for foreign investment. The government guaranteed national treatment to companies with more than 40 percent foreign equity.

By December, China announced more tax incentives, including an exemption from property taxes for foreign investors in SEZs. India reduced capital gains tax on foreign institutional investors. The most important policy moves for both countries was to discard the system of dual exchange rates. China announced plans to adopt a unified exchange rate in 1993, which was officially effected from January, 1994. India adopted a unified exchange rate in March, 1993. The impact of the reforms began to be visible in data, especially in the financial sector. The growth in Indian stock market, for one, has been explosive. In 1980, total market capitalization was only 5 percent of GDP. In 1990, prior to liberalization, it was 13 percent. By the end of 1993, it rose to 60 percent of GDP.<sup>45</sup>

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<sup>44</sup> See Chai, China's *Transition to a Market Economy*, Chapters 8 and 9.

<sup>45</sup> Ajit Singh, "Liberalization, the Stock Market, and the Market for Corporate Control: A Bridge Too Far for the Indian Economy?" in Ahluwalia and Little, ed., *India's Economic Reforms and Development*, p. 170.

1994 and 1995 in general constituted a hiatus in policy reforms for both countries, which corresponded partly with a cyclical slowdown of growth in much of Asia and in the world's leading export markets.<sup>46</sup> A few important measures, nevertheless, were undertaken. Both countries turned attention toward taking stock of the reforms implemented in the first half of the nineties and establishing those reforms more firmly and transparently by enacting specific legislation.<sup>47</sup> China promulgated the Company Law and most made public most of its hitherto scattered trading and investment regulations.<sup>48</sup> It opened up most of its major industrial cities for foreign investment. The government sought investment particularly in energy, infrastructure, mining, tourism, and high-tech industries. Foreign financial institutions were allowed to open branches in ten cities, and foreign insurance companies were allowed in 2 cities. Partly due to similar developmental constraints, India also emphasized foreign investment in mining and energy, especially in power generation. In addition, it opened up basic telecom for overseas investors. In the financial sector, India enacted the Foreign Institutional Investor Regulations. Although foreign banks operate in India, the country has not yet allowed foreign insurance companies. The stock market continued to respond vigorously the government policies. In terms of the number of companies listed, the Indian stock market

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<sup>46</sup> Pigato, et al., *South Asia's Integration*, pp. 17-18.

<sup>47</sup> For more, see Dwight H. Perkins, "Have China's Economic Reforms Stalled?" Harvard Institute for International Development, Development Discussion Paper No. 613, Harvard University, December, 1997.

<sup>48</sup> Most of these post-1994 promulgations are now available on the web. See, for example, "Foreign Trade Law of the People's Republic of China," Adopted at the 7<sup>th</sup> Session of the Standing Committee of the 8<sup>th</sup> National People's Congress, 12 May 1994, <<http://www.chinatoday.com/law/a07.htm>>, accessed 27 March 1999.

became the largest in the world in 1995, representing 7,985 companies, compared to 7,671 in the US. The corresponding growth in financial services has also been explosive.<sup>49</sup> In contrast to other sectors, liberalization in the capital market, of necessity, has been accompanied by fresh regulations.

During 1996-97, China permitted foreign banks to conduct local-currency transactions on a limited basis. It also permitted 38 other companies to be listed on overseas stock exchanges. India liberalized further its regulations on investment by non-resident Indians.<sup>50</sup> The government organized a “Global Summit on Investment Opportunities in India,” in which both the Prime Minister Deve Gowda and Finance Minister P. Chidambaram emphasized the need to “reinforce the positive image of India” through attracting FDI up to \$10 billion per year, so that the country can sustain a 7-8 percent annual GDP growth.<sup>51</sup> The government reconstituted the Foreign Investment Promotion Board (FIPB) to allow easier service for foreign investors. The interest rate on term deposits by overseas Indians was deregulated in September 1997. Overseas capital raising and external commercial borrowing by Indian companies was also made easier. Foreign investors were permitted to own up to 74 percent of equity in 9 high-priority industries and up to 51 percent in an additional 16 priority industries. Foreign institutional investors now could invest up to 10 percent of equity in non-listed

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<sup>49</sup> Ajit Singh, “Liberalization, the Stock Market, and the Market for Corporate Control,” p. 170.

<sup>50</sup> For more, see Government of India, Ministry of Finance, *Economic Survey 1997-1998* (New Delhi: Ministry of Finance, 1998).

<sup>51</sup> “Tapping Foreign Capital,” *The Hindu*, 17 September 1996, <<http://www.indiaserver.com/thehindu/1996/09/16/THE02.html>>, accessed 4 August 1999.

companies as well as in government securities.<sup>52</sup> Portfolio investment in India in 1996 amounted to about \$5.4 billion, roughly 12 percent of the total received by developing countries. India's stock market capitalization reached about \$130 billion. FDI inflow to India in 1996 was about \$2.3 billion, 50 percent of which went into fuel (28 percent), chemical, services, and metal.<sup>53</sup>

In 1997 the Indian government published a Takeover Code stating that the state is not entirely opposed to mergers and takeovers of Indian companies through stock acquisitions in the market.<sup>54</sup> In April, 1997, "authorised dealers" were permitted to invest in overseas money market instruments up to US \$10 million.<sup>55</sup> In October 1997, mutual funds were allowed to invest up to \$500 million in overseas markets. In January, 1998, Foreign Institutional Investors were allowed to invest in Treasury Bills. In a series of announcements throughout 1997-1998, the Securities and Exchange Board (SEBI) amended older regulations on foreign investors in the capital market to allow greater flexibility as well as establish new supervisory authority. A major policy move was in October, 1997, when the government made into law some of the suggestions of the

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<sup>52</sup> The data in this section is culled from B. Bhattacharya, "Foreign Direct Investment in India," *Foreign Trade Review* 28 (4), 1994, pp. 307-329; Government of India publications, including, Ministry of Finance, *Economic Survey* (various years), Ministry of Finance, *Annual Budget Speech* (various years), Ministry of Commerce, *Annual Report* (various years), Reserve Bank of India, *Annual Report* (various years); China Statistical Information and Consultancy Service Centre; The Economist Intelligence Unit, *Country Reports* (various issues); World Bank, *World Development Report* (various years); IMF, *International Financial Statistics* (various issues); United States Trade Representative; and periodicals: *Beijing Review*, *Far Eastern Economic Review*, *Asiaweek*, *South China Morning Post*, *China News Digest*.

<sup>53</sup> Pigato, et al., *South Asia's Integration*, pp. 19, 25, 27.

<sup>54</sup> Ajit Singh, "Liberalization, the Stock Market, and the Market for Corporate Control."

<sup>55</sup> Reserve Bank of India, *Annual Report 1996-1997*.

Capital Account Convertibility Committee by allowing exporters and domestic mutual fund managers greater capacity to invest in foreign funds. Subject to SEBI approval, the overseas investment limit for individual funds was set at \$50 million.

### Conclusions

Changes in pro-globalization policies in India display a pattern of resemblance with Chinese policies of opening up since the early nineties. At the same time, as noted in Chapter Three, India's policies show a steady continuity in spite of strong domestic opposition and five changes in government.

To understand continuity, the next two chapters apply the theoretical framework developed in Chapter Four. I contend that looking at the nexus of India's quest for globalism and its strategic context relative to China would provide an explanation for both the policy resemblance and the continuity. I intend to demonstrate that continuity has resulted from Indian policymakers' concern about the international competitive position of the Indian state. Chapter Six shows the historic evolution of military and political rivalry between India and China, linking it to India's quest for a world role. Chapter Seven extends the narrative to cover economic rivalry.



## CHAPTER SIX

### Competing for Power:

#### Evolution of India's Military and Political Rivalry with China

A great Empire, the future military strength of which no man can foresee, has suddenly appeared on the North-East Frontier of India ... China, in a word, has come to the gates of India, and the fact has to be reckoned with.

- *The Morning Post* (London), 28 October 1910

The fact is, and it is a major fact of the middle of the Twentieth century, that China has become a great power—united and strong. By that I do not imply that because China is a great power, India must be afraid of China or submit to China ... Not at all ... China, which is a great power and which is powerful today, is potentially still more powerful. Leaving these three big countries, the United States of America, the Soviet Union and China, aside for the moment, look at the world. There are many advanced, highly cultured countries. But if you peep into the future and if nothing goes wrong—wars and the like—the obvious fourth country in the world is India.

- Jawaharlal Nehru

Debating foreign affairs in the Lok Sabha, 30 September 1954

Many were surprised by Indian Defense Minister George Fernandes's sharp comments about China right after the Chinese army chief's historic visit to New Delhi and right before India's nuclear tests in May 1998. Intuitively it had seemed that India's tests were targeted against Pakistan. But Fernandes publicly identified China, not Pakistan, as India's "threat number one."<sup>1</sup> China rejected India's threat perception as "ridiculous," though it pointed out that it was "seriously concerned." To ease tensions, critics denounced Fernandes's remarks as hotheaded and shallow. Some claimed that he

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<sup>1</sup> See *The New York Times*, 5 May 1998, 12 May 1998, 15 May 1998. See also Richard Weixing Hu, "India's Nuclear Bomb and Future Sino-Indian Relations," *East Asia: An International Quarterly* 17 (1), 1999, pp. 40-69.

launched his invective without knowing that tests were imminent.<sup>2</sup> In other words, policy doves tried to brush aside the defense minister's comments as idiosyncratic, as an accidental slip rather than a reflection of the government's official sentiments.

I intend to argue otherwise. In this and the following chapter, I intend to show that Fernandes's remarks cannot be brushed aside casually, for Indian strategists' perception of rivalry with China is in fact multidimensional and historical, going as far back as the turn of the century. Incessant attention by academia and the media to the Indo-Pak axis has obscured the importance of competition between India and China for Asian hegemony, a rivalry that is in many ways more fundamental, even geopolitically natural.

The academic neglect of China, at least until Fernandes's announcement, has been partly a result of the tendency to characterize India's traditional stance on foreign policy as "idealist." Especially the first two decades of India's postcolonial history are said to be experiments in idealism, manifested as much in Jawaharlal Nehru's emphasis on non-alignment as it was in Fabian socialist policies and the rhetoric of grassroots democracy. Revisiting history, I argue that the prospects of competition with China has been, time and again, an important reminder to Indian policymakers about the security advantages of *realpolitik*. I trace the roots of the rivalry, describe its various phases of ebb and swell,

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<sup>2</sup> George Perkovich holds this view in *India's Nuclear Bomb: The Impact on Global Proliferation* (Berkeley: University of California Press, 1999). Perkovich contends that Fernandes was "out of the loop" because the government had no integrated strategy about nuclear testing. But it seems unlikely that the defense minister would be out of loop, especially within a unified nationalist party like the BJP. Moreover, it would have been difficult to hide the testing under such tight secrecy in the absence of an integrated strategy.

and ultimately draw a link between India's strategic concerns and its pattern and process of globalization.

### **Facts and Perceptions**

Although geopolitical conditions or the struggle for scarce resources can pit two countries as seemingly natural competitors, rivalry is ultimately a matter of perception. It is difficult, indeed counterproductive, to try to analyze rivalry without discussing how it is socially and politically constructed. The social construction of rivalry is especially evident if one ponders why competitive needs are sometimes met through cooperative arrangements and other times are not, or why rivalry sometimes translates into hostility and sometimes does not. As noted in Chapter Four, social construction of a rival's image and identity (as in "us" versus "them") is endemic to a system that rests upon territory-centric concepts like private ownership and sovereign jurisdiction.

Rivalry between India and China is shaped by material conditions as well as subjective perceptions. Competition for material resources, for power and plenty, combined with geopolitical circumstances, define certain parameters of rivalry between the two countries. But the policy relevance of such competition is interpreted through subjective, historically mutable, lenses. Geopolitically, for instance, India and China (much like the United States and Canada) have shared a long territorial border between them—that much is a material fact. But the importance of that border, and by extension, the importance of territorial competition, has not been historically constant. Similarly, the facts that China's economy grew annually at 10.2 percent between 1980 and 1990 while

India's economy grew at 5.8 percent remain two unrelated pieces of statistics until and unless India perceives China to be a rival. Once rivalry is imagined and constructed, it becomes easy, almost automatic, to interpret from the juxtaposition of these data a relative loss of India's competitive position to China. Such a reading of data encourages the promulgation of appropriate policies to accelerate India's growth rate. In other words, the perception of rivalry determines whether interstate competition and comparative facts or trends of material conditions warrant a policy response. Scanning material conditions alone, without examining the historical dynamics of perception, makes it difficult to theorize imitative, hence globalizing, policy response.

This chapter and the following chapter together present an analytical narrative to show that objective facts and subjective interpretations have combined to construct, from an Indian policymaker's perspective, an image of China as a rival that requires an imitative policy response. The construction of this image has been contingent on three factors. First of all, it is linked to how Indian policymakers have perceived India itself, especially its role in the regional and international order. Second, it has been conditioned by landmark events in India-China relations, most importantly, the 1958-1962 conflict. And third, it is connected to changing economic circumstances that have recently introduced additional arenas of competition between the two countries.

This chapter discusses the first two of these three factors. It documents events that have shaped the military, political, and technological dimensions of rivalry between India and China. The perception of rivalry represents India's perspective. The narrative emphasizes the 1958-62 crisis, which ultimately led to a war and became a turning point

in relations between the two giants. It also points out the significance of China's nuclear tests, the buildup of the army and the navy in the 1980s, and India's nuclear tests in 1974 and 1998. Intertwined with the discussion of these concrete events and facts is a historical narrative on India's self-image, on constructing China as a rival, and the emergence of globalism in Indian policymaking circles. Chapter 7 extends the narrative to cover economic dimensions of rivalry and the emergence of imitative policymaking.

### **“The Gates of India”: Roots of Territorial Rivalry**

China and India are ancient, neighboring civilizations. But rivalry between them is mostly a product of the twentieth century. Until technology permitted aerial traversing of the Himalayas, the mountain range served each country as an impregnable barrier to invasion from the other. In fact, argues historian Dorothy Woodman in her masterful study of the range, the Himalayas had been historically and culturally much less important to China than they were to India, as the mountains were close to the centers of Indian civilization, but far away from the heart of Chinese civilization. For India the Himalayas were the font of cultural myths and spirituality, and perceived to be the provider of security. Early Chinese maps, in contrast, did not even feature the mountains.<sup>3</sup>

In the sixteenth and seventeenth centuries the Mughals expanded farther into the northern fringes of India and the Chinese began to impinge southwards on Tibet. But

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<sup>3</sup> Dorothy Woodman, *Himalayan Frontiers: A Political Review of British, Chinese, Indian and Russian*

severe topography still made territorial competition futile. The mountains were such a buffer that the two countries, though neighbors, hardly shared a common frontier. In historian Neville Maxwell's words, the countries enjoyed "a sovereignty that shaded off into no-man's-land, giving a frontier of separation rather than contact."<sup>4</sup> The ambiguity did not matter much before the mid-nineteenth century, when various tribes, cults, and communities lived isolated in the Himalayas with de facto independence. The area became politically significant as the colonial powers began to clearly divide and demarcate the world among themselves, and as the emerging forces of modern nationalism encouraged the unification of diverse groups and localities under a national banner within a clearly specified territory. Eventually out of the imaginations of imperialism and nationalism,<sup>5</sup> appeared, at least on paper, a boundary between India and China, stretched twenty four hundred miles through mountains, making it the fifth longest border in the world. This is not to say that a formal boundary would never have been created otherwise. But, as Sunil Khilnani wrote in *The Idea of India*: "It was the British interest in determining geographical boundaries that by an Act of Parliament in 1899 converted 'India' from the name of a cultural region into a precise, pink territory."<sup>6</sup> Within a decade colonial policies politically constructed and magnified the importance of the border to the extent that territorial competition seemed inevitable, even natural.

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*Rivalries* (London: Barrie and Rockliff, 1969), chapter I.

<sup>4</sup> Neville Maxwell, *India's China War* (New York: Pantheon, 1970), p. 21.

<sup>5</sup> Imagination of boundaries are common to both imperialist and nationalist movements, as shown by Benedict Anderson in *Imagined Communities* (London: Verso, 1991).

<sup>6</sup> Sunil Khilnani, *The Idea of India* (London: Hamish Hamilton, 1997), p. 155.

Growth of East India Company's trading and political activities into the Himalayan territories in the nineteenth century began to cause apprehension in Russia and China about heightening British influence in central Asia. For China, the Opium Wars had already cast the British East India Company as a group of predatory traders. The suspicion of China and Russia—not far misplaced—that British motives were expansionary precipitated territorial rivalries among the three powers over control of the Himalayas. The British administration responded to perceived threats by practicing balance of power politics and trying to formulate a viable method for retaliation against possible attack. When it felt threatened by czarist expansion around India's northwest frontier, they treated China as an ally. Conversely, when China loomed large over India's northeastern province of Assam, Britain wooed Russia and agreed to respect its sphere of influence in Persia and Afghanistan as quid pro quo for Russia's non-interference in Tibet, which the British treated as their own sphere of influence.<sup>7</sup>

After Russia's defeat in the war against Japan in 1905, Anglo-Russian territorial competition abated, but China emerged as a more imminent threat. For the British strategist, the potential for conflict with China made sense from a geopolitical standpoint, of the kind popularized by Sir Halford Mackinder, who was an influential theorist at that time.<sup>8</sup> A "forward school" formed early in the twentieth century, which advocated

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<sup>7</sup> See John Rowland, *A History of Sino-Indian Relations: Hostile Co-Existence* (Princeton, NJ: D. Van Nostrand, 1967), pp. 25-40.

<sup>8</sup> Incidentally, Mackinder became Britain's ambassador to Russia when Lord Curzon, who was Her Majesty's viceroy to India, became the Secretary of State. Curzon was one of the most committed voices of the "forward school."

engaging China in *realpolitik*, especially between 1900 and 1910, when Manchu dynasty itself adopted a more assertive policy toward Tibet. Lord Hardinge, the British viceroy in India, formulated an engagement strategy around 1910. It specified that in case of a Chinese attack over land, Britain should retaliate over sea because of its naval superiority. It also urged the construction of patrol bases in strategic locations along the border. But financial constraints as well as logistical difficulties in administering the treacherous terrain ultimately prevented the colonial administration from acting concretely on the propositions of the forward school.<sup>9</sup>

The colonial administration, nevertheless, undertook to demarcate the boundary to the extent feasible. The administration's conviction for a clear "linear boundary" strengthened as local insurgents (such as the Dogras), perched in the mountains, began to conduct forays into what was clearly imperial land. After a few abortive attempts at involving Chinese and Tibetan emissaries in diplomatic conferences—the most famous of those being the Simla Conference of 1913—the British concluded secretly an agreement with Tibet to delimit the boundary. That boundary came to be known as McMahon Line, named after Captain McMahon, who represented Britain at the Simla Conference. The line, drawn on two sheets, and sent by mail to the Tibetan plenipotentiary, pushed the existing boundary, which was vague to begin with, about sixty miles northwards, to the advantage of the British. It was an effort "to commit the Chinese to accept the Himalayan crest—India's vital rampart of defense—rather than the Himalayan southern base as the

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<sup>9</sup> Maxwell, *India's China War*, pp. 40-43.



northeast boundary between India and Tibet.”<sup>10</sup> China was not a party to this agreement, and not privy to the creation of the McMahon Line.<sup>11</sup>

At that time the McMahon Line was not very important. In effect, it was forgotten until 1935, when the British undertook to update the imperial gazetteer and official maps to show the Line as the official boundary between India and China.<sup>12</sup> By the Second World War commercial atlases began to conform. When India became independent in 1947, it inherited all the “rights and facilities” that the British enjoyed in Tibet. But technically its proper boundary was with China, for Tibet was not recognized internationally as independent. The colonial administration, however, had concluded the McMahon agreement with Tibet, which they considered a suzerainty of China with de facto independence. Regardless, by 1950 Nehru was asserting in the parliament:

Our maps show that the McMahon Line is our boundary and that is our boundary, map or no map. That fact remains and we stand by that boundary, and we will not let anybody come across that boundary.<sup>13</sup>

But the fact that China never recognized this mountainous border precipitated a series of territorial conflicts, culminating in war in 1962. Before examining the significance of the war, we need to ascertain why India was also becoming increasingly assertive about territorial rights. The assertiveness was rooted in no small part in policymakers’ views on India’s role in Asia and the world.

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<sup>10</sup> Rowland, *A History of Sino-Indian Relations*, p. 41.

<sup>11</sup> This section draws from the definitive, and fascinating, history of the boundary: Alastair Lamb, *The McMahon Line: A Study in the Relations between India, China and Tibet, 1904 to 1914* (London: Routledge and Kegan Paul, 1966), esp. pp. 459-567.

<sup>12</sup> Maxwell, *India’s China War*, p. 54-55.

### “Fate has marked us for big things”: Roots of Globalism

When Jawaharlal Nehru made his famous “tryst with destiny” in 1947, he was foreseeing the emergence, the “awakening,” of a potentially major regional and global power. He proclaimed on the eve of independence: “The achievement we celebrate today is but a step, an opening of opportunity, to the great triumphs and achievements that await us.”<sup>14</sup> Conversely, Great Britain was lamenting a vital economic and strategic setback, as it yielded control of its prized colony. Winston Churchill noted, “[t]he loss of India would be final and fatal to us. It could not fail to be part of a process that would reduce us to the scale of a minor power.”<sup>15</sup> Churchill’s idea of a great loss and Nehru’s impression of a grand awakening are hardly surprising, for India’s potential for economic and political power was already apparent—if not materially, then certainly in the imaginations and convictions of the national elite. It was a vast country, rich in absolute natural and human resources, an ancient civilization occupying a prominent geopolitical space. This notion of grandeur, of being or becoming a great power, was an integral part of the anticolonial nationalist project. In spite of the traumatic consequences of partition, the crushing poverty in the countryside, and all the attendant problems of postcolonial

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<sup>13</sup> Quoted in Maxwell, *India’s China War*, p. 65.

<sup>14</sup> See Nehru’s famous speech given to the Indian Constituent Assembly on the eve of independence, 14 August 1947. It begins, “Long years ago we made a tryst with destiny, and now the time comes when we shall redeem our pledge ... At the stroke of the midnight hour, while the world sleeps, India will awake to life and freedom.”

<sup>15</sup> Churchill, speaking to the House of Commons, February 1931; cited in the opening of Larry Collins and Dominique Lapierre, *Freedom at Midnight* (New York: Avon, 1976; first published by Simon and Schuster, 1975).

development, this belief has remained innate in the Indian policymaking elite. Even India's failings were grand-scale, observed Nehru in his speech.

Nationalism in India confronted a remarkable diversity of race, culture, language, and religion; it was "a quandary—the tantalizing possibility of a principle of unity but its evident empirical lack."<sup>16</sup> The nationalist project has experimented to accommodate several polarities: unification versus diversity, secularism versus religiosity, globalism versus autarky, idealism versus realism. The project was spearheaded by a small elite to whom the British eventually transferred power, and most of whom, through formal Western education, were familiar with post-enlightenment ideas about the modern state and rational organization of domestic and international society. Their exposure to the West, coupled with the ideational and ideological currents in nationalist narratives (literature, art, historiography), made the nationalist elite *globalist* in its outlook. Globalism, as a result, became the least contentious among the divergent currents within Indian nationalism.

Ideationally the nationalist elite viewed India as a great, ancient civilization. In their perspective, reaching out for regional and perhaps global influence was inevitable. Through examining myths, folklore, art, architecture, rituals, and warfare, nationalist historiography imagined an internationally influential civilization, whose religious and cultural marks extended from Persia in the west to Indonesia in the east.<sup>17</sup> Because of

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<sup>16</sup> Khilnani, *The Idea of India*, p. 157.

<sup>17</sup> Nationalist historiography started from repopularizing the *Vedic* and *puranic* myths, and then recasting many of them with a pan-Indian appeal. See Partha Chatterjee, *The Nation and Its Fragments*:

India's size, "commanding position in the Indian Ocean," and geopolitical location between the Near East and the Far East, foreign strategists within the incipient nationalist movement in the late nineteenth century already held the belief and staked the claim "that India must have a say in all developments affecting Asia."<sup>18</sup> They pointed to the early influence of India on kingdoms in Southeast Asia through the spread of Hinduism and Buddhism, and began to talk about a "Greater India," based on civilizational kinship. The emigration of a large number of Indian labor to work in other British colonies in Southeast Asia, Southern and Eastern Africa, the Caribbean, and the Pacific also established for India a concrete presence worldwide.

Isolationism was not a prominent feature of the intellectual environment in which the nationalists lived. Theories of capitalism as well as marxism had begun to highlight, for different reasons, the interconnections among nations. Indian intellectuals espoused cosmopolitan views, even while they advocated a breaching of colonial ties. As Bimla Prasad noted,

The great leaders of Indian thought in the nineteenth and twentieth centuries like Raja Rammohan Roy, Swami Vivekananda and Rabindranath Tagore looked far back to India's past, but stressed the unity of all universe and showed keen interest in the world outside ... Bal Gangadhar Tilak and Mohandas Karamchand Gandhi based their teachings on old Indian currents of thought, but never advocated isolation from the rest of the world.<sup>19</sup>

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*Colonial and Postcolonial Histories* (Princeton, NJ: Princeton University Press, 1993), esp. chapters 4 and 5.

<sup>18</sup> Bimla Prasad, *The Origins of Indian Foreign Policy: Indian National Congress and World Affairs, 1885-1947* (Calcutta: Bookland, 1962), pp. 3-4.

<sup>19</sup> Prasad, *The Origins of Indian Foreign Policy*, p. 6.

Ideologically the nationalist narrative defined itself in opposition to foreign imperialism, and imbued itself with powerful doctrines about peace and nonviolence. Its international ramification therefore included support for self-determination, pacifism, and cooperative means for resolving international conflicts. These were considered indigenous values, to be reflected in foreign relations, and disseminated to counter other more confrontational and imperialist norms.

Nationalist politics of the Indian National Congress reflected these ideational and ideological currents of globalism. From its inception, INC was aware of the increasingly large Indian diaspora, and since the 1890s it began to pass resolutions and lobby the administration for upholding the rights of Indians in other British colonies. INC's foreign policy reflected a distaste for the kind of power politics that was, in its view, western and imperialist. In the 1890s the Seventh National Congress warned the British against expanding farther north, as it "might lead to a clash with China which would disastrously increase India's financial burdens."<sup>20</sup> INC also opposed the rising military expenditure on account of Britain's perceived threat from Russia in the northwest. The Eighth Congress indicated that this rivalry pertains to the great powers of Europe, and India should not be forced to bear most of the financial burden.<sup>21</sup>

Although INC and Gandhi fully supported Britain in World War I, India's contribution to the British effort brought home the realities of power politics in a

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<sup>20</sup> *ibid.*, pp. 37-39.

<sup>21</sup> *ibid.*, pp. 42-47.

poignant way. Its foreign policy afterwards became more normative. Influenced by Wilsonian rhetoric of self-determination, the Congress began to “place the demand for Indian freedom in the context of a world setting and before the whole world, not as heretofore only before the British people.”<sup>22</sup> The more radical leaders of the Congress began to look ahead to India’s emergence as a major recognized power. One of the most influential leaders, Bal Gangadhar Tilak, wrote a letter to the president of the Peace Conference in 1919, urging for India’s admittance in the League of Nations:

With her vast area, enormous resources and a prodigious population she [India] might well aspire to be a leading power in Asia, if not in the world. She could, therefore, be a powerful steward of the League of Nations in the East...<sup>23</sup>

In 1920 Congress adopted *swaraj* (self-government) as its main political goal. In 1929 it redefined *swaraj* as complete independence. Following this move the mainstream of INC began to concur with Tilak’s views, envisioning India’s normative globalism as a powerful force completely independent of realist British foreign policy goals. The nationalist movement by this time had gained full momentum. Thanks to the printing press, narratives extolling India’s glorious past and unified destiny were distributed widely and finding an enthusiastic audience.<sup>24</sup> The wider spread of nationalist concepts also gave rise to increasing debates, and there was tension between isolationism and globalism. In most cases the dominant, conclusive current was globalist. Rabindranath

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<sup>22</sup> *ibid.*, pp. 68-69.

<sup>23</sup> *ibid.*, p. 70.

<sup>24</sup> Chatterjee, *The Nation and Its Fragments*, p. 7.

Tagore, for instance, questioned whether the rising movement of non-cooperation would ultimately mean that India would isolate itself from the rest of the world. Gandhi assured him that to the contrary, it would send messages of pacifism around the world, and that India needed a strong foreign policy to interact with other nations and disseminate such values.<sup>25</sup> Gandhi's ideal was reminiscent of Kantian cosmopolitanism: he anticipated a world federation of interdependent, interacting states.

After the First World War INC began to forge closer links with other anticolonial movements in Africa and Asia. It expressed sympathy and support for Turkey. It interpreted Japan's victory over Russia in 1905 and China's revolution in 1911 as strong indications of the rising power of Asia.<sup>26</sup> It held independent China in high regard, and proclaimed solidarity with Chinese efforts to install social justice and fighting a common enemy. It repeatedly condemned the use of Indian troops in Britain's wars against China, and urged Indians to disobey and not fight the Chinese. Congress leaders as well as Gandhi were urging Asian nations to cooperate based on their common civilizational bonds, especially toward the fight for freedom. In 1928, the Congress officially declared that the Indian struggle was part of a world movement against imperialism, and that India could not afford to remain isolated from developments around the world.<sup>27</sup>

Nehru was at the political center of both the nationalist project and the Congress. He returned from Europe in 1927 with a fresh view about India's position in the world,

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<sup>25</sup> Prasad, *The Origins of Indian Foreign Policy*, p. 73.

<sup>26</sup> J. Bandopadhyaya, *The Making of India's Foreign Policy* (Bombay: Allied Publishers, 1970), pp. 71-72.

and declared in Congress his goal: “independence with full control over the defence forces of the country, the financial and economic policy and the relations with foreign countries.”<sup>28</sup> Instrumental in designing and discharging the foreign policy of the Congress Party in the 1930s and 1940s, he became the virtually uncontested architect of independent India’s international relations. As Michael Brecher noted in his biography of Nehru:

In no other state does one man determine foreign policy as does Nehru in India ... he has impressed his personality and his views with such overpowering effect that foreign policy may properly be termed as a private monopoly ... No one in the Congress or the Government, not even Sardar Patel, ever challenged his control in this field.<sup>29</sup>

The acceptance of globalism over isolation was aided by ideational images of ancient India, ideological values of the nationalist movement, and practical exigencies in the history of the Indian National Congress. But what entrenched globalism in active foreign policymaking was Nehru’s singlehanded dominance of the theory and practice of India’s external relations. Under his leadership the globalist project had become a major objective of the nationalist struggle, and the proclivity continued strongly after independence. As Khilnani noted, “Nehru understood independence as an opportunity to establish India as a presence on the world stage.”<sup>30</sup> He aspired to turn around the image of colonial subjection and despair by transforming India into a prominent actor in

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<sup>27</sup> *ibid.*, p. 85.

<sup>28</sup> Stanley Wolpert, *Nehru: A Tryst with Destiny* (New York: Oxford University Press, 1996), p. 77.

<sup>29</sup> Michael Brecher, *Nehru: A Political Biography* (London: Oxford University Press, 1959), pp. 564-565. See also Bandopadhyaya, *The Making of India’s Foreign Policy*, chapter 5.

<sup>30</sup> Khilnani, *The Idea of India*, p. 178.



international politics with a glorious, cosmopolitan past and an independent voice. Nehru wrote in 1939:

A free India, with her vast resources, can be a great service to the world and to humanity. India will always make a difference to the world; fate has marked us for big things. When we fall, we fall low; when we rise, inevitably we play our part in the world drama.<sup>31</sup>

Over the decade following independence, Nehru and his contemporaries repeatedly revealed in India's potential grandeur, as evident in numerous speeches in the Parliament and in policy statements. In a famous debate on foreign policy in the Constituent Assembly in 1947, he remarked:

India is a great country, great in her resources, great in manpower, great in her potential, in every way. I have little doubt that free India on every plane will play a big part on the world stage, even on the narrowest plane of material power.<sup>32</sup>

Again, in a speech to the Constituent Assembly in 1948, he laid out his firm conviction about India's potential:

India even today counts in world affairs ... we are going to count more ... it is not a question of our viewpoint ... it is merely the fact that we are potentially a great nation, and a big power.<sup>33</sup>

Once again, as he observed in 1949:

[I]n regard to any major problem of a country or a group of countries of Asia, India has to be considered ... She cannot be ignored, because ... her geographic position is a compelling reason. She cannot be ignored also,

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<sup>31</sup> Quoted in Baldev Raj Nayar, "A World Role: The Dialectics of Purpose and Power," in John W. Mellor, ed., *India: A Rising Middle Power* (Boulder, Colo.: Westview Press, 1979), p. 123.

<sup>32</sup> Debating foreign affairs, January 22, 1947; Jawaharlal Nehru, *India's Foreign Policy: Selected Speeches, September 1946-April 1961* (New Delhi: Publicity Division, Ministry of Information and Broadcasting, Government of India, 1961), p. 13.

<sup>33</sup> Nehru, speech in Constituent Assembly, 8 March 1948; in Nehru, *India's Foreign Policy*, p. 36.

because of her actual or potential power and resources. Whatever her actual strength may or may not be, India is potentially a very powerful country...<sup>34</sup>

India's globalism, in short, became a faith. But it contained an important contradiction. On one hand, globalism was the avenue to disseminate around the world what was considered Indian values. It was a means to reproduce the prominent role the subcontinental civilization once played in shaping cultures and religions far beyond its borders. Achieving this idealist enterprise, however, required a practical stance in everyday international relations, so that India would be recognized as a competent player, not a hapless developing country with utopian dreams. How was this paradox resolved?

It was not—not in the Western sense anyway. By my reading, it is factual as well as *normal* that India's globalist policies contained contradictions which were never "resolved." Like its nationalism, India's globalism was fragmented, practiced in multiple domains and pulled to different directions by divergent ideologies. Even with its contradictions, globalism made sense to Indian policymakers. This is akin to Partha Chatterjee's understanding of the fragmented nature of nationalism. Anticolonial nationalism, Chatterjee argues in *The Nation and Its Fragments*, created both a material and "spiritual" domain of sovereignty. In the material domain, it confronted imperialism by asserting sovereignty but replicating Western ideas and institutions, such as a modern state. This was necessary because Western ideas and institutions had proven their superiority in the material realm. The spiritual domain, by contrast, emphasized the

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<sup>34</sup> Jawaharlal Nehru, *Independence and After: A Collection of Speeches, 1946-1949* (New York: John Day,

preservation of culture, and sought to “fashion a ‘modern’ national culture that is nevertheless not Western.”<sup>35</sup> Unlike the material domain, the spiritual domain involved original national imaginations among the marginalized, the subaltern, women, local communities, and ethnic regions. Conventional histories that focus on the centripetal politics of nationalism miss the parallel emergence and practice of these fragmented nationalisms.<sup>36</sup>

The dualism of India’s globalist policies is similar. On one hand, the policymaking elite wanted India’s globalism to be non-Western, exalting a set of values uniquely Indian. For instance, Swami Vivekananda, the influential spiritual leader in the nationalist movement, envisioned “the spiritual conquest of the world by India in order to save humanity.”<sup>37</sup> But contact, and possibly conflict, with other powers would require engaging in diplomacy and politics informed by realism. Instead of picking one over the other in its foreign policy, India pursued both. As Nehru clarified in the Parliament in 1950:

It is in a spirit of realism that I want you to approach the question of our foreign policy ... Idealism alone will not do. What exactly is idealism? Surely it is not something so insubstantial as to elude one’s grasp! Idealism is the realism of tomorrow. It is the capacity to know what is good for the day after tomorrow or for the next year and to fashion yourself accordingly.<sup>38</sup>

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1950), p. 248.

<sup>35</sup> Chatterjee, *The Nation and Its Fragments*, p. 6.

<sup>36</sup> Sunil Khilnani also points to this in *The Idea of India* (p. 153): “a sense of region and nation emerged together, through parallel self-definitions.”

<sup>37</sup> Prasad, *The Origins of Indian Foreign Policy*, p. 11.

<sup>38</sup> Prime Minister’s speech in the Parliament, 7 December 1950, in A. Appadorai, *Select Documents on India’s Foreign Policy and Relations 1947-1972*, vol. 1 (Delhi: Oxford University Press, 1982), doc.

Nehru's vision for India's defense, for instance, incorporated a realist framework with idealist goals. He thought that because of India's geopolitical position and importance, the world powers would not let any single country conquer or dominate India. The conquest of India would give any one power a huge strategic advantage in the world, just as the British had profited from India. So any attempt to dominate India would be balanced by the intervention of other powers. The ideal of nonalignment served this strategic position. It also blended well with India's globalist perception of itself. As Baldev Raj Nayar points out:

It is precisely India's perception of itself as a potential great power--however distant the prospect may seem--combined with the recognition of its present weakness [e.g., developmental problems] that led to the policy of nonalignment in the first place ... Given the perception of India's potential, a satellite role was clearly unacceptable.<sup>39</sup>

This line of thinking, that idealism and realism are complementary for a country with globalist ambitions, continued well after independence, and has been stated explicitly by subsequent foreign ministers.<sup>40</sup> India saw itself unique in pioneering a type of foreign policymaking that promoted normative values. What is important to stress here is that the value-orientation or idealism was not utopian. It was instrumental: it was the means to achieve a distinct, independent position in the world. Like the way India's nationalism, based on non-violent civil disobedience, gave the country respect and renown, its

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19, p. 26.

<sup>39</sup> Nayar, "A World Role," p. 122.

<sup>40</sup> See *ibid.*, p. 122.

globalism, based on pacifism, nonalignment, cooperation, and democratic self-determination, was to propel India into global prominence. Considered timeless, these values could not be shed from policymaking, for they constituted the persona of India's great, ancient civilization.

### The Border War and the Evolution of Strategic Rivalry

The quest for normatively-guided globalism met its greatest challenge around the late 1950s. Asserting that it never recognized the McMahon Line, China began to push southwards into what India considered its own land. Chinese attack on India sowed the seeds of long-term *strategic* rivalry between the two countries.

The evolution of India's perception of China reflects the dual current in India's globalism. While reveling in India's grandeur, Nehru realized the existence of another potential great power to the north. The potential for conflict was inherent in the eyes of the hawkish elements in India's policymaking circle. It is evident in the opening quote of this chapter, in which Nehru identified both China and India as great powers. But he thought that China, as a developing country like India, would be too preoccupied with its internal economic and social problems to aspire to military hegemony.<sup>41</sup> Moreover, both he and his foreign policy advisors, notably Krishna Menon, held fundamentally salubrious perceptions about China, shaped by the official stance of the INC in the thirties and the forties. They envisioned China as an Asian compatriot forging an

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<sup>41</sup> Rowland, *A History of Sino-Indian Relations*, p. 81; Prasad, *The Origins of Indian Foreign Policy*, p.

independent, non-aligned path of the kind India championed. INC held China in admiration, as a partner in solidarity against Western oppression and capitalist exploitation.<sup>42</sup> They also thought that India and China through mutual co-operation can handle the regional affairs of Asia, thus obviating the spread of the Cold War into the continent. Their image, as Michael Brecher noted, “was widely at variance with Peking’s real posture towards India.”<sup>43</sup> This posture, recognized Nehru a bit too late, was aggressive and expansionist.

The first Chinese action that upset India was the invasion of Tibet in October, 1950. Like the British, Indian strategists considered Tibet a necessary buffer zone for India’s defense. After the invasion, China indicated that Tibet was its territory and that it would no longer honor “unequal treaties” imposed on Tibet by “imperialists.”<sup>44</sup> To ease tensions, India sought a treaty with China affirming peace and cooperation. At the same time, the United States was planning to provide military aid to Pakistan, which also might have been a factor in India’s decision to adopt an accommodating attitude toward China. In 1954, the two countries signed a treaty that purported to uphold *Panch Sheel*, or five pillars of coexistence. It emphasized mutual respect for territorial integrity, mutual non-

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<sup>42</sup> For a useful summary, see A. K. Damodaran, “India’s China Policy: A Retrospective Survey,” in Surjit Mansingh, ed., *Indian and Chinese Foreign Policies in Comparative Perspective* (New Delhi: Radiant, 1998), pp. 35-50.

<sup>43</sup> Michael Brecher, *India and World Politics: Krishna Menon’s View of the World* (New York: Praeger, 1968), p. 310.

<sup>44</sup> Rowland, *A History of Sino-Indian Relations*, p. 76.

aggression, and non-interference. Nehru considered it a major foreign policy achievement, but the treaty did not mention anything about the sensitive McMahon Line.<sup>45</sup>

From 1955 Chinese troops began to cross the border—that is, what India considered as the legitimate border—in regular intervals, resulting in a hostile exchange of diplomatic notes between Delhi and Peking. Relations deteriorated after China shelled the Dalai Lama's residence, after which he was given political asylum in India in March 1959. According to the Stanley Wolpert's assessment, "China never forgave Nehru for sheltering the twenty-four-year-old Dalai Lama, contributing to China's invasion of India three years later."<sup>46</sup> Meanwhile tensions along the border increased, centered on Chinese intrusions into Indian territory. Nehru exchanged a series of letters with Chou En Lai, protesting the intrusions, and attesting to the validity of India's existing borders. Premier Chou rejected the border line demarcated by the British, and the official news agencies began to label India as "reactionary" and "expansionist."<sup>47</sup>

China mounted a fullscale invasion along India's northeastern frontier in October 1962. It routed the Indian army and occupied about 14,000 square miles of what used to be Indian territory in the northwestern frontier. Within a week of fighting India had lost more than 5,000 soldiers.<sup>48</sup> China declared a unilateral ceasefire after a month and specified troop withdrawal twenty kilometers behind the line of actual control, as it

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<sup>45</sup> *ibid.*, pp. 78-90.

<sup>46</sup> Wolpert, *Nehru*, p. 471.

<sup>47</sup> See Rowland, *A History of Sino-Indian Relations*; Maxwell, *India's China War*; and T. S. Murty, *India-China Boundary: India's Options* (New Delhi: ABC Publishing, 1987).

<sup>48</sup> For details about the war, consult Steven A. Hoffmann, *India and the China Crisis* (Berkeley:

existed in November 1959. This meant that India still had the McMahon Line as the border in the northeast, but China would hold on to its captured territory in the northwest. The declaration almost coincided with the end of the Cuban Missile Crisis, which proved a double relief for Nehru and much of the world.

The foreign policy circles no longer held any illusion about the need to enhance India's material power. Although his authority had slipped after the war, Nehru remained the major decisionmaker for China-related policy, but he became more open to suggestions from outside.<sup>49</sup> He now firmly believed that China was seeking Asian hegemony at India's expense, if not by physical domination then certainly by forcing "a mental surrender."<sup>50</sup> As he acknowledged after the war:

It was a little naïve to think that the trouble with China was essentially due to a dispute over the same territory. It has a deeper reason. Two of the largest countries in Asia confronted over the vast border. They differed in many ways. The test was whether any one of them could have a more dominating position than the other on the border and in Asia itself.<sup>51</sup>

Such feelings permeated in the wider policy circles as well. Although India lost a large chunk of territory, Indian policymakers did not interpret the loss as a dent on India's potential for great power status. Instead, they began to emphasize the need for

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University of California Press, 1990).

<sup>49</sup> This is not to say that he was closed to outside consultations, but as Wolpert noted in *Nehru*: "Throughout the 1950s Nehru enjoyed unlimited, indeed, virtually unchallenged power" (p. 457). The war was the beginning of his political decline, and it took a heavy emotional toll on him.

<sup>50</sup> Hoffman, *India and the China Crisis*, p. 217.

<sup>51</sup> Quoted in Gopalji Malviya, "The Sino-Indian Security Environment: Inadequate Responses from New Delhi," in Mansingh, ed., *Indian and Chinese Foreign Policies*, p. 130.



realpolitik to engage the other great—and in their view, more aggressive—power, China.<sup>52</sup> In *India and the China Crisis*, a detailed study of decisionmaking during the war, Steven Hoffman contends that the misgivings India had about China becoming an assertive rival were now confirmed and transformed into “a coherent and long-lasting belief system”:

The most important of the now-confirmed Indian beliefs was that China, long hostile to India for ideological and national character reasons, wanted to hold the premier position in Asia ... India had to be reduced to a position of subordination or subservience. Furthermore, the Chinese could gain an edge in an Asian power rivalry by demonstrating India's military weakness. They had therefore acted in 1962 to eclipse India in international standing and prestige.<sup>53</sup>

Policymakers also believed that a major war objective for China was to seriously damage India's economy. The bitter experience therefore exposed the need to institutionalize *strategic* thinking and integrative policymaking about relative gains against potential rivals in both economic and security arenas. It was felt that India needed long-term strategic planning around its vital domestic and regional interests and resources, which was missing in the early days of Indian foreign policy.<sup>54</sup>

The Emergency Committee of the Cabinet, which was formed during the war, became the “key consultative body” in the post-war period: “The Ministries of Defense and Finance now cooperated with each other in supplying information and implementing

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<sup>52</sup> J. N. Dixit, *Across Borders: Fifty Years of India's Foreign Policy* (New Delhi: Picus, 1998), esp., chapter 4.

<sup>53</sup> Hoffman, *India and the China Crisis*, p. 215. See also Yaacov Y. I. Vertzberger, *Misperceptions in Foreign Policymaking: The Sino-Indian Conflict, 1959-1962* (Boulder, Colo.: Westview, 1984).

<sup>54</sup> Baljit Singh, *Indian Foreign Policy: An Analysis* (New York: Asia Publishing, 1975); V. Longer, *The Defense and Foreign Policies of India* (New Delhi: Sterling, 1988), chapters 3 and 4; and Damodoran, “India's China Policy.”

policy.”<sup>55</sup> A major policy objective was to develop an adequate military industrial complex and invest in science and technology. Nehru and his policymakers began to claim that military expenditures actually complemented development policy; that agriculture, transport, energy, education, health were all important sources of military strength. Accordingly Nehru told a meeting of the National Development Council that 85 percent of India’s development program was connected to defense.<sup>56</sup>

Indian strategists obviously assigned China the entire responsibility for the war. They were not swayed much by political historian Neville Maxwell’s conclusion that India was to blame for the war for being intransigent about a border that was never clearly legitimate. To the extent that Maxwell claim is true, India’s globalism is mainly to blame for inflexibility about negotiation. Essentially, as Achin Vanaik put it, the government “readily assumed the mantle of colonial Britain’s subcontinental pretensions.”<sup>57</sup>

Yet in the mindset of the globalist policymakers India’s only major mistake was an oversight about having a strong northern defence. This oversight was unpardonable for a state claiming a great power status. This, Baldev Raj Nayar points out, was the crucial lesson that policymakers drew: “India had obviously behaved irresponsibly as a major power, devoting to defense a mere 2 percent of its gross national product ... For India, the

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<sup>55</sup> Hoffman, *India and the China Crisis*, p. 214.

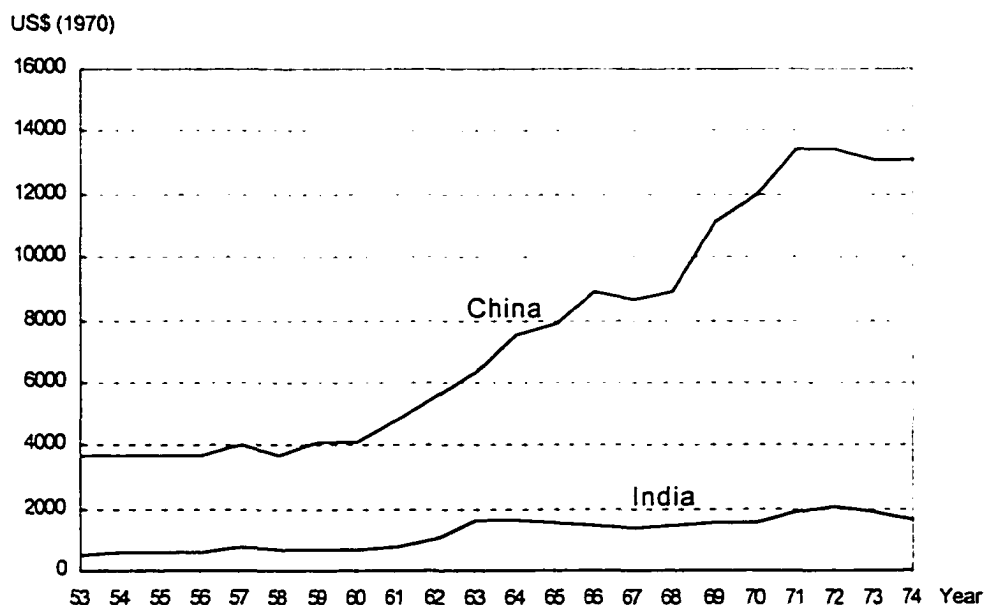
<sup>56</sup> *ibid.*, p. 219.

<sup>57</sup> Maxwell, *India’s China War*; Achin Vanaik, *The Painful Transition: Bourgeois Democracy in India* (London: Verso, 1990), p. 236.

real message of the border conflict was that the country's role pretensions were inconsistent with its capabilities."<sup>58</sup>

*Figure 6.1*  
*Defense Spending in China and India, 1953-1974*

Constant 1970 US\$ millions



Data Source: *SIPRI 1975 Yearbook* (Cambridge, Mass.: MIT Press, 1975), pp. 120-1

India doubled its defense spending in early 1963. The expenses would allow raising six additional mountain divisions, a rapid modernization of defense, and long-term strategic planning. The mountain divisions were raised within seven years. By the late 1960s, five year defense plans were being devised. The parliament was sympathetic with

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<sup>58</sup> Nayar, "A World Role," p. 140-141.

these goals.<sup>59</sup> A large defense allocation was said to be a permanent, expected feature in subsequent Indian budgets,<sup>60</sup> and after the initial raise, defense spending remained at a fairly constant level (in real terms) throughout the sixties, as shown in Figure 6.1.

In short, India's program for a coherent strategic and competitive vision was a direct outgrowth of the war with China. It implanted an acute sense of insecurity about China's expanding sphere of influence as well as its rising military budget. It did not alter India's globalist aspirations, but ensconced the need to aggrandize material power. The war, in addition, shattered any faith India had that other developing countries would share its notions about peaceful international relations. Nehru and other strategists were disappointed at the ambivalence other nonaligned nations.<sup>61</sup> Consequently, as discussed in the next section, Indian realpolitik in the 1970s and 1980s involved greater attention to containing countries in South Asia susceptible to an expanding Chinese ambit of influence. Simultaneously it pursued its program to develop technological and power projection capabilities commensurate with globalist aims, a topic I shall explore toward the end of the chapter.

### **Rivalry and Defensive Regionalism, 1970-1990**

The line of actual control between India and China, established in 1962, has remained to date in an undeclared state of war. India accepted China's ceasefire line as de

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<sup>59</sup> Naheed Murtaza, *Parliament and Foreign Policy: Reflections on India-China Relations* (New Delhi: Cadplan, 1998).

<sup>60</sup> Hoffman, *India and the China Crisis*, pp. 229-230.

facto, not de jure.<sup>62</sup> Because of the uncertainty of the border and insecurity about Chinese ambitions at an era when China was asserting itself in Southeast Asia, territorial competition and security continued to be the centerpiece of India's China strategy through Indira Gandhi's prime-ministership in the seventies.<sup>63</sup> At the same time, Indira Gandhi did not seem to have reflected on India's globalism as thoroughly as did her father.<sup>64</sup> Foreign policy continued along similar ideological lines from the previous era. But Indira adopted a relatively more hard-line approach toward China and "made no bones in her public statements about China being a major destabilizing and subversive factor in Asia."<sup>65</sup> The hard-line was due to Indira's belief in realpolitik, rising insurgency in the border areas, China's support of Pakistan, as well as India's growing defense capabilities.

The India-Pakistan war of 1965 brought India and China close to another conflict, in which China threatened to strike at India along the Himalayan front. It was thwarted by strong opposition from both the United States and the Soviet Union. USSR sponsored a peace settlement in 1966.<sup>66</sup> A major border skirmish took place in 1967, and three

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<sup>61</sup> Hoffman, *India and the China Crisis*, p. 217.

<sup>62</sup> See "Peace on the Border," *The Economist*, 26 August 1995, p. 30; "All Quiet on the Eastern Front," *The Economist*, 7 December 1996, p. 34.

<sup>63</sup> See Shashi Tharoor, *Reasons of State: Political Development and India's Foreign Policy Under Indira Gandhi 1966-1977* (Delhi: Vikas, 1982).

<sup>64</sup> K. Subrahmanyam, "Indira Gandhi's Quest for Security," in Damodaran and Bajpai, eds., *Indian Foreign Policy*, p. 70.

<sup>65</sup> Gargi Dutt, "India-China Relations," in Damodaran and Bajpai, eds., *Indian Foreign Policy*, p. 96.

<sup>66</sup> See Sumit Ganguly, *The Origins of War in South Asia: The Indo-Pakistani Conflicts Since 1947* (Boulder, Colo.: Westview, 1994).

Indian diplomats were beaten up in Beijing that year.<sup>67</sup> China's overt support for Pakistan during Bangladesh's independence war in 1971 was also a cause for concern among Indian policymakers. They were further unnerved by the US stance. Although Americans supported India materially and ideologically in 1962, they warned that they would not come to India's aid should China intervene in Bangladesh.<sup>68</sup>

Importantly, the election manifestoes of all Indian political parties between 1967 and 1972 included an aggressive competitive stance against China, portraying it as a major threat.<sup>69</sup> The dismemberment of Pakistan, India's successful intervention in Bangladesh, and the thawing of US-China relations in the early seventies encouraged a move toward rapprochement in the seventies. There was, however, another round of border battles in 1975. Diplomatic relations that were severed after the 1962 war were finally fully restored in 1976, and Atal Behari Vajpayee, then the Foreign Minister, visited China in 1979. But China launched an attack on Vietnam while he was visiting, and that, needless to say, only enhanced India's general sense of insecurity about being China's neighbor.<sup>70</sup> Both countries undertook to further "normalise" relations during the eighties, especially

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<sup>67</sup> U. S. Bajpai, "Indira Gandhi and India's Neighbours," in A. K. Damodaran and U. S. Bajpai, eds., *Indian Foreign Policy: The Indira Gandhi Years* (New Delhi: Radiant, 1990), p. 129.

<sup>68</sup> Nayar, "A World Role," p. 145.

<sup>69</sup> Tharoor, *Reasons of State*, Table IV.5, pp. 228-229.

<sup>70</sup> Timothy George, "Sino-Indian Relations: Opportunities and Limitations," in Timothy George, Shagram Chubin, and Robert Litwak, eds., *India and the Great Powers* (Aldershot: Gower/IISS, 1984), p. 13.

with Rajiv Gandhi's prime-ministership. Eight rounds of diplomatic talks were held between 1981 and 1987, but territorial disputes remained largely unsolved.<sup>71</sup>

The closest the two countries have come to war since 1962 was during winter 1986 and spring 1987. In December 1986 India declared the Northwest Frontier Agency (the administrative unit along which runs the McMahon Line) a full-fledged state, named Arunachal Pradesh. China protested strongly that the territory is disputed, and demanded territorial concessions. Another war seemed imminent as both countries began to amass troops along the border, with India placing as many as 200,000 soldiers on its side by Spring 1987. A flurry of diplomatic activities ensued to abate the tensions by summer 1987. This border struggle, too, was interpreted by the press as well as some senior American diplomats as hegemonic conflict between India and China for Asian dominance.<sup>72</sup>

Since the war in 1962 India has aggressively modernized its forces and strengthened its defense industries, though it has been careful to keep defense spending fairly constant (see Figure 6.2). By late seventies it was being considered "a rising middle power," an independent center of power preeminent regionally.<sup>73</sup> Strategic thinkers during that era did not lose sight of India's potential for world role, even though Indira and Rajiv were less vocal than either Nehru or the current leaders about India's globalism. Peter Lyon, for instance, asked in 1968: "Is she [i.e., India] the last and least of the great

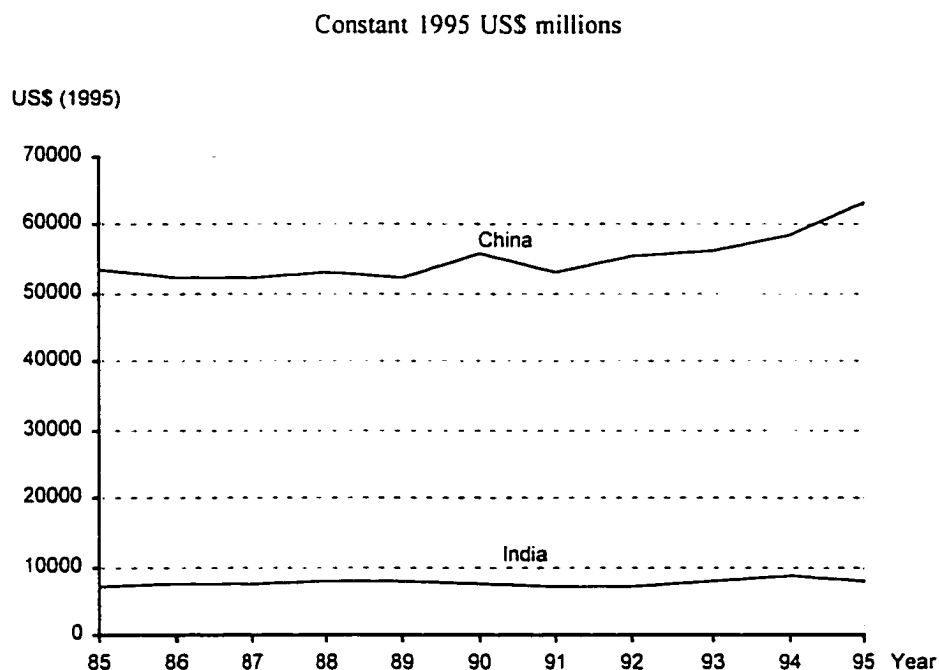
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<sup>71</sup> Bhim Sandhu, *Unresolved Conflict: China and India* (New Delhi: Radiant, 1988); A. Appadorai, *National Interest and India's Foreign Policy* (Delhi: Kalinga, 1992).

<sup>72</sup> Hoffman, *India and the China Crisis*, p. 231-232.

Powers, or is she the first of the lesser Powers?”<sup>74</sup> Baldev Raj Nayar, a leading Indian strategic theorist, answered in an essay written ten years later: “Given its size, population, strategic location, and historical past, India cannot but aspire to a great power role in international politics, however distant in the future.”<sup>75</sup>

*Figure 6.2*  
*Defense Spending in China and India, 1985-1995*



Data source: US Arms Control and Disarmament Agency, *World Military Expenditures and Arms Transfers 1996* (Washington, DC: USACDA, 1997), pp. 65-66, table I.

In trying to determine India's position in the global power hierarchy, strategists since the seventies have emphasized regional hegemony. They contended that containing

<sup>73</sup> See the essays in Mellor, ed., *India: A Rising Middle Power*.

<sup>74</sup> Peter Lyon, “The Foreign Policy of India,” in F. S. Northledge, ed., *The Foreign Policies of the Powers* (New York: Praeger, 1968), cited in Baldev Raj Nayar, “A World Role,” p. 121.

<sup>75</sup> Nayar, “A World Role,” p. 121.



Chinese (as well as US/Pakistani) influence in South Asia was the first logical step toward greater influence in a wider geographic area. With more attention to the regional power game, India, despite professed non-alignment, began to move closer to the Soviet Union for political and strategic co-operation. The Soviet Union, in turn, supported India's bid for regional hegemony, especially since the Sino-Soviet split.<sup>76</sup>

Their informal alliance was fueled also by Pakistan's growing ties with the United States and China. As shown in Table 6.1, China and the US have provided most of the military hardware to Pakistan. Ever since partition, military competition between Pakistan and India has been intense, to say the least. It is beyond the scope of this chapter to provide details on the Indo-Pak military rivalry. But what is important to note is that without committed material help from China to Pakistan, this competition would be far less significant. Pakistan has been China's foremost ally in the subcontinent, even though its relations with the United States has irked China at times. As early as 1963, Zulfikar Ali Bhutto, then the Foreign Minister and later the Prime Minister of Pakistan, could declare: "In event of war with India, Pakistan would not be alone. Pakistan would be helped by the most powerful nation in Asia."<sup>77</sup> Chinese support for Pakistan included nuclear and missile technology, aircraft, warships, submarines, tanks, integrated weapons systems, and communication equipment. Between 1994 and 1998, Pakistan received 20 percent of all its conventional weapons from China, which represented a share larger than

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<sup>76</sup> Hemen Ray, *Sino-Soviet Conflict Over India* (New Delhi: Abhinav Publications, 1986).

<sup>77</sup> Quoted in Rowland, *A History of Sino-Indian Relations*, p. 188.

any other country's.<sup>78</sup> Because of the close ties between Pakistan and China, Indian military strategists have to plan for a two-front war.

*Table 6.1*  
*Share of China and USA in Arms Imports of Pakistan and Bangladesh, 1951-1995*

Figures are percentage of total arms imports for the given period

Period	Pakistan's Imports		Bangladesh's Imports	
	From China	From USA	From China	From USA
1951-55	0	27	-	-
1956-60	0	61	-	-
1961-65	8	87	-	-
1966-70	31	1	-	-
1971-75	58	5	54	0
1976-80	30	15	67	10
1981-85	27	54	76	8
1984-89*	38	51	n.a.	n.a.
1990-95*	57	6	n.a.	n.a.

Note: \*Imports of major conventional weapons

Source: Michael Brzoska and Thomas Ohlson, *Arms Transfers to the Third World, 1971-85* (New York: Oxford University Press, 1987), Appendix 7; Stockholm International Peace Research Institute, *SIPRI Yearbook 1999* (New York: Oxford University Press, 1999), Table 9.2, p. 378.

Indian strategists in addition began to detect growing Chinese influence in Nepal,

Bhutan, and later in Bangladesh and Burma—together completing a full circle of vulnerability around India.<sup>79</sup> Except small arms, the lion's share of military hardware in these countries is of Chinese origin. Table 6.1 shows the source of military hardware for India's two largest South Asian neighbors: Pakistan and Bangladesh. Increasing concern

<sup>78</sup> Calculated from Stockholm International Peace Research Institute, *SIPRI Yearbook 1999: Armaments, Disarmament and International Security* (New York: Oxford University Press, 1999), Table 11.2, p. 426.

<sup>79</sup> See Suchita Ghosh, *China-Bangladesh-India Tangle Today: Towards a Solution?* (New Delhi: Sterling, 1995); Lal Babu Yadav, *Indo-Bhutan Relations and China Interventions* (New Delhi: Anmol, 1996); S. C. Bhatt, *The Triangle India-Nepal-China: A Study of Treaty Relations* (New Delhi: Gyan Publishing, 1996).

with China's influence in the region channeled India's strategic focus as well as resources into strengthening regional defense.

### **“India's Due”: Power Projection, Prestige Weapons, and Assertion of Globalism**

Historically India's bid for global prominence has been based on an assertion of rights, not capabilities. Nehru and most other early strategists claimed great power status because in their view India *deserved* it as a large country, the world's largest democracy, and an ancient civilization. The rhetoric of some of India's allies added fuel to this claim. *Pravda*, for instance, commented in 1955: “India is indeed a great power ... she should be given one of the first places among the great powers of the world.”<sup>80</sup> The tone smacks of idealist romanticism: India was to be “given” that status, rather than wrest it through manifesting its power and capabilities. It was India's due.

Not only features of “giantism,” but moral indignation was also grounds for India's claim to stature: “The fact that the last several hundred years saw India under alien rule only makes aspirations to the restoration of greatness all the more deeply felt.”<sup>81</sup> This is not to say that Nehru and his contemporaries naively thought that such right-based claims would be enough to attain the rank India deserved. They did not—but primarily because of India's economic weaknesses, they chose to pursue a normative, rather than realist, route to globalism.

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<sup>80</sup> *Pravda*, 14 December 1955, quoted in Hemen Ray, *Sino-Soviet Conflict Over India*, p. 39.

<sup>81</sup> Nayar, “A World Role,” p. 122.

Since the seventies India has strengthened its pursuit of globalism by emphasizing a more visible, independent international role. From leadership in the Non-Aligned Movement India moved into organizing developing countries in different international fora, such as UNCTAD, Group of 77, and the New International Economic Order. India has been trying to raise its capacity as a regional donor, creditor, and mediator. It has been keen to obtain permanent membership in the UN Security Council. It pointed out that its population was larger than all the permanent members combined, except China. Moreover, as member it would be a representative of the Third World in global decisionmaking. Indian diplomats also argued that China's inherent status was never questioned by the great powers; only the legitimacy of the regime representing China was periodically under doubt. If China were to have such status, so should India.<sup>82</sup> Overall they have been disappointed for the lack of attention from traditional powers, including the United States—as Martin Sieff wrote, “Everyone in Washington ignores India.”<sup>83</sup> The disappointment grew at a time when US policies began to overlook China's political lapses in consideration of its growing military and economic power. C. Raja Mohan, a strategic columnist, asked in 1995: “Why cannot we be like the Chinese? The effective combination of defiance and dealmaking has been the hallmark of the Chinese approach to the United States.” Raja Mohan urged India to develop economic might as well as declared nuclear capability to the achieve the kind of power China enjoyed.<sup>84</sup>

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<sup>82</sup> *ibid.*, p. 125.

<sup>83</sup> Martin Sieff, “Passage to India,” *National Review* 50 (11), 22 June 1998, p. 38.

<sup>84</sup> Cited in Perkovich, *India's Nuclear Bomb*, p. 363.

So this was the direction to which India was gradually heading since 1962: aspiration for a global role combined with a perception of neglect pushed India into the development of strategic forces capable of power projection and technology-intensive prestige weapons. The desire for power projection evolved historically. British strategy for India during colonial rule in the twentieth century had been defensive, since Britain by that time had become a status quo power interested in preservation rather than expansion. India inherited that strategic temperament.<sup>85</sup> But the need for power projection was increasingly felt from the sixties onwards. Prestige weapons with the capacity to project offensive power, Indian policymakers have reasoned correctly, would concretely demonstrate India's capabilities. The need to develop military technology and heavy industry was felt for a long time to enhance national power, evident as early as the 1938 deliberations of the National Planning Committee of Congress.<sup>86</sup> Nehru himself was a firm believer that high technology can catapult India into greater national power and international visibility. Right after independence, he remarked, speaking about Second World War:

Many things contributed to the winning of the last war, but I think the chief reasons were two, the amazing capacity of American industry and scientific research. It is this which won the war, not so much the soldiers and others.<sup>87</sup>

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<sup>85</sup> George Tanham, *Indian Strategic Thought* (Santa Monica, Calif.: Rand, 1992), chapter 2.

<sup>86</sup> For more on early history see Sunil Sondhi, *Science, Technology and India's Foreign Policy* (Delhi: Anamika Prakashan, 1994), chapter 4.

<sup>87</sup> Cited in *ibid.*, p. 56.

From 1947-1950, in addition to being the prime minister and foreign minister, Nehru was also the minister for scientific research. He went on to finance a large number of scientific laboratories around the country. The Department of Atomic Energy, since its establishment in 1954, remained under his direct control until his death. The other major figure for establishing India's high technology program was Homi Bhaba, who led atomic research under the department set up and commanded by Nehru. In many instances he and the other scientists convinced Nehru to allocate greater funds for strategic technologies. As Bhaba justified it: "No country which wishes to play a leading part in world affairs can afford to neglect pure and long term research."<sup>88</sup> Although developing weapons was not the main goal of India's atomic program when it began, its goal was to acquire "complete technological capability," including competence to produce the bomb.

India's heavy industry strategy also reflected a leaning toward "big science," as befit a rising power. In the first two decades since independence, atomic energy and heavy industry research received the highest priorities in R&D allocation, claiming between them almost 50 percent of the government's R&D expenses in a country that was primarily rural and agricultural. The share of the Indian Council for Agricultural Research, the country's premier scientific agency in that field, dwindled from 16.2 percent in 1958-59 to 9.3 percent in 1965-66.<sup>89</sup> Such bias in budgeting led to some other interesting distortions. By the time of the Sino-Indian war of 1962, noted Sunil Sondhi, "India was

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<sup>88</sup> Cited in *ibid.*, p. 61.

<sup>89</sup> *ibid.*, p. 62-67. See also Perkovich, *India's Nuclear Bomb*, chapter 1.

fairly advanced in the field of nuclear technology but yet to produce its own semi-automatic rifle.”<sup>90</sup>

Like other currents in Indian strategic thought, the program for big science and prestige weaponry has been intertwined with exigencies arising out of rivalry with China and its allies. Just two years after the war, China conducted its first nuclear test at Lop Nor in October, 1964. This immediately raised the stakes for India to develop a deterrent. Minoo Masani expressed the fears of many of India’s political leaders at that time:

The Chinese explosion cannot be ignored; it cannot be written off; it cannot be played down; it is of major significance. We are the country for which it has the most immediate importance.<sup>91</sup>

In the wake of this explosion, Lal Bahadur Shastri, India’s prime minister, tried to obtain security guarantees from other big powers. When that failed, as admitted in the parliament in 1965, he authorized India’s SNEP (subterranean nuclear explosion project) program.<sup>92</sup> The project culminated in India’s so-called “peaceful” explosion of 1974. Since then Indian strategic analysts have been repeatedly urging for the development of not just prototype but proven nuclear capability, especially since the 1980s when it became clearer that China had been transferring to Pakistan technologies related to nuclear weapons development.<sup>93</sup> In fact, argued Indian strategists, China had provided Pakistan

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<sup>90</sup> Sondhi, *Science, Technology and India’s Foreign Policy*, p. 59.

<sup>91</sup> Quoted in Sumit Ganguly, “India’s Pathway to Pokhran II,” *International Security* 23 (4), 1999, pp. 152-153.

<sup>92</sup> An excellent brief history of India’s nuclear program is Ganguly, “India’s Pathway to Pokhran II.” The comprehensive history is Perkovich, *India’s Nuclear Bomb*.

<sup>93</sup> Muchkund Dubey, “Nuclear Options: The Choice Cannot Wait,” *Frontline*, 26 January 1996, pp. 4-11. In *India’s Nuclear Bomb*, George Perkovich holds a dissenting view. He argues that strategic competition does not fully explain India’s nuclear program. Domestic and moral considerations also

with advanced technology capable of assembling weapons weighing only 400 pounds.<sup>94</sup> In June 1996, Pakistan deployed nuclear-capable M-11 missiles it had acquired from China. In April 1998, Pakistan tested an intermediate-range missile, named Ghauri, which was built with Chinese (or North Korean, according to some) technology. This, Sumit Ganguly argues, was the immediate trigger for India's second round of explosions in May.<sup>95</sup>

In view of the long-standing rivalry between India and China, Pratap Mehta remarked after the 1998 tests: "the surprise is not that these [nuclear] tests occurred but that it took so long for them to occur."<sup>96</sup> Following the nuclear tests in May, 1998, India raised its defense budget by 14 percent. It increased spending on atomic research by 61 percent.<sup>97</sup> In August, 1999, Brajesh Mishra, the National Security Advisor, proposed a draft nuclear policy advocating the building of a credible land, air, and sea-based nuclear arsenal.<sup>98</sup> By late 1999, the consensus on having a credible strategic arsenal was widespread, as was the threat perception from China. This perspective of Indian policymakers is evident in most foreign policy documents and analyses.<sup>99</sup> But, at least for

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played a strong part in determining the course of India's nuclear policy.

<sup>94</sup> Perkovich, *India's Nuclear Bomb*, p. 298.

<sup>95</sup> Ganguly, "India's Pathway to Pokhran II," p. 170.

<sup>96</sup> Pratap Bhanu Mehta, "Exploding Myths," *The New Republic* 218 (23), 8 June 1998, p. 17. See also by Mehta, "India: The Nuclear Politics of Self-Esteem," *Current History* 97 (623), 1998, pp. 403-406.

<sup>97</sup> Stan Crock, et al., "Mission Improbable: Declawing the New Nuclear Tigers," *Business Week*, 15 June 1998, p. 63. Defense spending was further raised to \$10.75 billion in the 1999/2000 budget. See "India Raises Defense Spending in 1999/2000," <[http://dailynews.yahoo.com/headlines/wl/story.html?s=v/nm/19990227/wl/india\\_1.html](http://dailynews.yahoo.com/headlines/wl/story.html?s=v/nm/19990227/wl/india_1.html)>, accessed 6 March 1999.

<sup>98</sup> See "Create Credible N-Arsenal," *The Hindu*, 18 August 1999, p. 1.

<sup>99</sup> A. Appadorai, *Select Documents on India's Foreign Policy*; Surjit Mansingh, *India's Search for Power: Indira Gandhi's Foreign Policy, 1966-1982* (New Delhi: Sage, 1984); M. G. Gupta, *Indian Foreign*



now, as George Perkovich argues, the larger gain for India from having nuclear capability is not strategic but symbolic. India does not yet have any reliable means of nuclear delivery against Chinese targets. In the absence of delivery vehicles, the deterrence effect is not credible. But nuclear weapons have worked well for India as symbolic equalizers, a basis to claim a world-power status.<sup>100</sup>

Globalism is also the ultimate reason that India has always wanted to “keep options open” on its international nuclear policy. If it is to be ranked as a great power, reasoned Indian strategists, then it must retain foreign policy independence and the option to develop and possess nuclear weapons. India’s position on the Comprehensive Test Ban Treaty (CTBT) emphasizes two issues: a specific, time-bound disarmament plan to which all nuclear states would be committed, and a comprehensive ban including even laboratory tests.<sup>101</sup> In the absence of such commitments it has rejected the CTBT. Indian strategists were similarly outraged when the Nuclear Non-Proliferation Treaty (NPT) was extended indefinitely in 1995, perpetuating the legal possession of nuclear weapons by the five major powers, and denying it to others. Just four days after the extension, China conducted another nuclear test, which caused great uproar in the Indian press and solidified support for India’s independent position on the CTBT and the NPT.<sup>102</sup> The

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*Policy: Theory and Practice* (Agra: Y K Publishers, 1985); Tanham, *Indian Strategic Thought*; Jasjit Singh, “Future of Sino-Indian Relations,” *Strategic Analysis* 16 (12), 1994, pp. 1507-1518; Sujit Dutta, “India’s Evolving Relations with China,” *Strategic Analysis* 18 (4), 1995, pp. 477-502.

<sup>100</sup> Perkovich, *India’s Nuclear Bomb*, pp. 441-442.

<sup>101</sup> G. Balachandran, “Keeping the Option Open: India’s Nuclear Dilemma,” *Strategic Analysis* 18 (12), 1996, pp. 1579-1588. G. Balachandran, “CTBT and India,” *Strategic Analysis* 19 (3), 1996, pp. 493-506.

<sup>102</sup> Perkovich, *India’s Nuclear Bomb*, p. 362.

resolution of the BJP in 1995 summed up the position: "The BJP is in favour of a nuclear weapon free world, but not for a world in which a few countries possess nuclear weapons and the rest are subject to their hegemony."<sup>103</sup> All governments in India have enjoyed extensive political support on this stance toward international nuclear regimes.<sup>104</sup>

In addition to nuclear weapons, India is advancing missile technology. India's missile program, called the Integrated Guided Missile Development Programme, began in 1983. Under the IGMDP, five missile systems have been developed: Trishul and Akash, both surface-to-air missiles, Nag, an anti-tank missile, and Prithvi and Agni, which are surface-to-surface missiles. Prithvi, targeted at Pakistan, has a range of 250 km. Agni has a range of 2,500 km, "capable of reaching the densely-populated centers and key scientific installations in China."<sup>105</sup> As in nuclear weapons, the government has enjoyed preponderant popular support for its missile program.<sup>106</sup>

India's space program has been going hand in hand with its missile rocketry development. By 1996 it had launched 11 satellites. By the end of 2000 the tally is expected to reach 19.<sup>107</sup> India is also building a blue water navy, keeping in mind China's capability of projecting power. The Far Eastern Naval Command of Indian Navy is being

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<sup>103</sup> Cited in *ibid.*, p. 360.

<sup>104</sup> N. Ram, "Nuclear Policy: What India Must Do," *Frontline*, 26 January 1996, pp. 17-21; Jasjit Singh, "India and the CTBT," *Strategic Analysis* 19 (6), 1996, pp. 835-850.

<sup>105</sup> John Cherian, "Indian Advances," *Frontline*, 11 August 1995, p. 45.

<sup>106</sup> "Preserve India's Options," *The Hindu*, 15 June 1996, <<http://www.indiaserver.com/thehindu/1996/06/15/THE01.html>>, accessed 4 August 1999; "Prithvi and Agni," *The Hindu*, 18 June 1996, <<http://www.indiaserver.com/thehindu/1996/06/18/THE02.html>>, accessed 4 August 1999.

<sup>107</sup> "Satellite Put into Orbit," *The Hindu*, 22 March 1996, <<http://www.indiaserver.com/thehindu/1996/03/22/THF01.html>>, accessed 4 August 1999; "Scaling New Heights," *Frontline* 19 April 1996, pp. 65-71.

strengthened in response to growing Chinese interest in the Indian Ocean.<sup>108</sup> It acquired its first aircraft carrier as early as 1957. Plans are underway to build more in domestic shipyards.<sup>109</sup> It leased a nuclear submarine from the Soviet Union during 1987-1990, and began a well-funded program dubbed ATV, the Advanced Technology Vessel, which is supposed to develop an indigenous nuclear submarine by 2007.<sup>110</sup>

*Table 6.2*  
*R&D Expenditure by India's Government, 1965-1995*

US\$ million in constant 1995 prices and exchange rates

Fiscal Year	Defense <sup>a</sup>	Atomic <sup>b</sup>	Space <sup>c</sup>	Share in R&D (%) <sup>d</sup>
1965/66	41	69	-	50
1970/71	55	73	-	55
1975/76	75	78	53	64
1980/81	110	86	66	51
1985/86	300	110	160	56
1990/91	410	140	200	63
1994/95	510	140	260	68

Notes: <sup>a</sup> R&D by Defense services

<sup>b</sup> Department of Atomic Energy

<sup>c</sup> Department of Space

<sup>d</sup> Share of Defense, Atomic, and Space in total government R&D spending

Source: Stockholm International Peace Research Institute, *SIPRI Yearbook 1999* (New York: Oxford University Press, 1999), Table 9.1, p. 375.

The air force, similarly, is acquiring and developing its own strategic strike aircraft able to project Indian power far beyond its borders.<sup>111</sup> It has already developed a advanced light helicopters and unmanned aircrafts called Nishant and Lakshya.<sup>112</sup>

<sup>108</sup> "Chinese Ocean: India Must Heed Moves in Indian Ocean," *The Statesman*, 18 May 1999, p. 1.

<sup>109</sup> For more, see Jasjit Singh, "Securing Sea Power," *Frontline*, 20 October 1995, pp. 54-55.

<sup>110</sup> "The Nuclear Submarine," *The Hindu*, 12 July 1996, <<http://www.indiaserver.com/thehindu/1996/07/12/THE02.html>>, accessed 4 August 1999.

<sup>111</sup> "Making the IAF More Sophisticated," *The Hindu*, 2 January 1996, <<http://www.indiaserver.com/>

Together the defense department, atomic program, and space program continue to command the bulk of total government funding for research and development, as shown in Table 6.2.

The growing offense capabilities of India has altered the justification and tone for its claim to status. Consider what Foreign Minister M. Solanki said in 1991 with regard to India's bid for permanent membership: "the composition of the Security Council has ceased to reflect a true cross-section of the international community. Nor can it be maintained that the Security Council and its Permanent Members any longer reflect the contemporary power configuration."<sup>113</sup> In other words, India's admittance was due not just because India represented the developing world, as argued previously, but because India has become too powerful to be neglected. Prime Minister Narasimha Rao echoed the same sentiment in 1996 when he averred, "Our voice is being heard internationally and we are being consulted on every major issue. Our defence might is well known."<sup>114</sup>

I hope to have made clear by now that India's bid for prominence has gone through several phases. Lessons learned in realism in 1962 and the regional power game in its aftermath urged the adoption of a long-term strategic perspective and a buildup of India's regional defense capabilities. Lack of international attention, especially compared

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thehindu/1996/01/02/THE01.html>, accessed 4 August 1999.

<sup>112</sup> "A Significant Achievement," *The Hindu*, 27 January 1996, <<http://www.indiaserver.com/thehindu/1996/01/27/THE01.html>>, accessed 4 August 1999; "Debut of the Nishant," *The Hindu*, 27 August 1996, <<http://www.indiaserver.com/thehindu/1996/08/27/THE02.html>>, accessed 4 August 1999.

<sup>113</sup> M. Solanki, Speech on "India's Foreign Policy Perspectives in the 1990s," given at the India International Centre, New Delhi, 13 August 1991.

<sup>114</sup> "We Will Not Close Our Defence Options: PM," *The Hindu*, 26 January 1996, <<http://www.indiaserver.com/thehindu/1996/01/26/THF02.html>>, accessed 4 August 1999.

to China, made India diplomatically more assertive. In addition, Indian strategic vision since the late sixties has increasingly pushed for a concrete demonstration of power by developing prestige weapons and strategic forces.

What is important to note is that these shifts from a normative to a material path to globalism have not altered the sense of destiny and due in Indian strategic thinking. In the changing mindset of Indian policymakers, India's globalism was still deserved historically, but it was to be achieved through a demonstration of capabilities rather than an assertion of rights. It is the sense of India's inherent greatness and her historic due that has fueled and justified expenses that would otherwise seem wasteful for one of the poorest countries in the world. It portrayed as necessities apparent luxuries like atomic weapons, missile technology, aircraft carriers, nuclear submarines, and a comprehensive space program.<sup>115</sup>

### Conclusions

India's pursuit of globalism and its perception of China as a rival have been closely intertwined. Globalism began as part of the nationalist project. India's leaders longed for what Nayar calls "a subject role in international politics."<sup>116</sup> It was envisioned as an objective in both the material and spiritual/ideal domain. A world role for Indian leaders meant not only crude material power but also an ability to influence world politics

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<sup>115</sup> See for example, "Evolution of India's Nuclear Policy," Paper Laid on the Table of the House (Lower House of the Indian Parliament, Lok Sabha), <http://www.meadev.gov.in/govt/evolution.htm>, accessed 28 March 1999.

according to values considered indigenous: peace, democracy, self-determination, and non-alignment. Indian foreign policy, even through its vacillations between idealism and realism, never lost sight of the globalist project. Initially India claimed world status as its historic, normative right, and later moved to claim it on the basis of its increasing capabilities.

The pivot in determining India's concrete policies toward globalism has been China. The roots of rivalry between India and China go back to perceptions and practice of balance of power politics by the British. The 1962 war, subsequent border conflicts, China's growing strategic power, its material and diplomatic support to allies around India, and its higher status as a permanent nuclear state in international regimes—these have all come together in the Indian strategic mindset to elevate the image of China as India's most troublesome military and political rival and the strongest challenge to the bid for global role. As a result India began to assert itself by developing conventional as well as nuclear capabilities, and indicating that it is the major power in Asia that can contain growing Chinese influence. As David Winterford, an analyst at the US Armed Forces Staff College, commented after India's nuclear testing: "The implication ... is that you are going to get a run for your money in terms of Asian leadership."<sup>117</sup>

Fernandes's comment about China, therefore, cannot be readily discounted as shallow. It contains notes of historical perceptions of rivalry. As an editorial in *The*

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<sup>116</sup> Nayar, "A World Role," pp. 132-133.

<sup>117</sup> Quoted in Jonathan S. Landay, "What Nuclear Tests Mean for China and the Rest of Asia," *The Christian Science Monitor*, 15 June 1998, p. 6.

*Business Standard* correctly observed, the comment brought back to public attention “an issue that has so far been raised discreetly only at seminars attended by foreign policy experts and security analysts and during closed door meetings within the government’s security-foreign policy establishment.”<sup>118</sup> Indian strategic calculus in the mid nineties still reflected “deep uncertainty over post-Deng China’s future political and military direction.”<sup>119</sup> As Gopalji Malviya wrote, albeit with a touch of hyperbole: “China may use its military and nuclear power to cut India to size. No Chinese tears would be shed over the political disintegration of the subcontinent.”<sup>120</sup> According to India’s official foreign policy stance, therefore, the main issue with China is still “unity, territorial integrity, and security.”<sup>121</sup> Political and military competition is expected to continue into the future.<sup>122</sup>

This is not to deny the significance of India’s military competition with Pakistan. Pakistan continues to play a major role in Indian strategic thought, but its role should be properly interpreted with two caveats in mind. First, Pakistan would hardly be a threat to India without China’s continuous material, technological, and diplomatic support. Second, even with US and Chinese aid, Pakistan, all in all, is only a military competitor for India. According to my theoretical model, it presents a thin strategic context. China, on the other

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<sup>118</sup> “India’s China Syndrome,” *The Business Standard*, 5 May 1998 <<http://apr-jun98.business-standard.com/98may05/opinion2.htm>>, accessed 4 August 1999.

<sup>119</sup> Sujit Dutta, “India’s Evolving Relations with China.”

<sup>120</sup> Malviya, “The Sino-Indian Security Environment,” p. 137.

<sup>121</sup> Government of India, Ministry of External Affairs, *Annual Report 1996-97* (New Delhi: Ministry of External Affairs, 1997), p. 11.

<sup>122</sup> Jasjit Singh, “Future of Sino-Indian Relations.”

hand, presents India with a thick strategic context, as it is India's foremost rival politically, militarily, technologically, and economically. The next chapter explores the emerging economic rivalry between India and China, and shows how the evolution of India's strategic context from thin to thick can help explain its steady continuity of policies toward globalization.



## CHAPTER SEVEN

### Competing for Plenty: Globalism and the Emergence of Economic Rivalry

India's economic destiny is safe only when India knows how to stand on its own feet, to compete against everyone in the world on an equal footing. That is what we are trying to do.

- Manmohan Singh (Minister of Finance, Government of India)  
Interview with *The Financial Times*, 6 October 1995

I speak for generations of young Indians. We are not happy. We are not proud that smaller countries have outgrown India, but India can become a giant economy in ten years.

- P. Chidambaram (Minister of Commerce, Government of India)  
Interview with *The Toronto Star*, 6 April 1995

If we were proud of the start of cellular services and flaunted the 1.3 million cell phones we purchased this decade [i.e., the 1990s], it was sobering to know that China buys that many in a month.

- Samar Halarnkar  
"The Defining Decade," 3 January 2000

Like its security policies, India's economic policies have been informed by both a globalist vision and rivalry with China. Indian strategists have been aware that aspirations to globalism could not be met only by developing military capabilities. Nationalist literature and historiography highlighted colonial exploitation and asserted the need for rapid development, social justice, and economic strength. Attaining economic strength, naturally, has been the primary goal of Indian policymaking since independence, though the instruments have varied widely.

In their quest for economic strength, Indian policymakers have been increasingly enamored by Southeast Asia's success, and in particular, China's success. Economic competition between India and China is a recent development. The British, for example,

were not as concerned with China's economic threat as they were with its military threat. But Indian strategists in the sixties began to note the military implications of China's rising industrial strength. It became an object of study, and later subject of envy, for Indian policymakers. Strategists in the nineties have, correspondingly, begun to emphasize the need for rapid growth and economic statecraft.

This chapter reviews the evolution of this economic competition, especially observing the relationship between rivalry and globalism. I begin with an overview of India and China's relative positions of material conditions. I go on to review post independence economic trends in India and China, and identify some early studies that pointed to the emerging rivalry between the two. I discuss how rivalry, enmity, and envy all came together to convince Indian policymakers to emulate and imitate the Chinese pattern of opening up. The chapter ends by linking the evolution of India's strategic context to the continuity of its globalization policies.

### **Comparative Overview of Material Conditions**

India and China are giants. By population size China is the largest and India the second largest country in the world, together accounting for almost 40 percent of humanity. At current growth rate India's population is estimated to surpass China's by the first quarter of the next century. They are the two largest countries in Asia in land area, but China is almost three times the size of India. China's economy, at \$1.05 trillion, is also almost three times the size of India's economy. Translated into purchasing power parity, China's economy is the second largest in the world, and India's economy is the

fifth largest. Tables 7.1 and 7.2 provide these and some more basic data about the two countries.

*Table 7.1*  
*India and China, Basic Indicators*

Indicator	India	China
Population (1997, millions)	961	1,227
Land area (000 sq km)	2,973	9,326
Urban population (1997)	27%	32%
GNP (1997, billions US\$)	373.9	1,055.4
GDP/Capita (1997, PPP\$)	\$1,650	\$3,570
Share of world production (1997, %)	1.25%	3.52%
Share of world trade (1996, %)	0.6%	2.7%

*Table 7.2*  
*India and China, Relative Position in the World*

Indicator	India	China
Size of country (1995 rank, by land area)	7	3
Size of country (1997 rank, by population)	2	1
Size of economy (1997 rank, by US\$)	15	7
Size of economy (1997 rank, by PPP\$)	5	2
Per capita income (1997 rank, by US\$)	102	81
Per capita income (1997 rank, by PPP\$)	92	65
Size of armed forces (1995 rank)	4	1
Military expenditures (1995 rank, US\$)	18	3

Both India and China are predominantly rural, developing countries. Only 27 percent of India's population and 32 percent China's population live in urban areas. Although food production in both countries have been increasing, the importance of agriculture is shrinking. Industry plays a greater role in China's economy than in India's, as summarized in Table 7.3. China enjoys a higher savings rate, a higher investment rate, and exports a greater proportion of its GDP.

*Table 7.3*  
*India and China, Structure of Economy 1997*

Indicator	India	China
<u>Value added to GDP (as % of GDP)</u>		
Agriculture	27	20
Industry	30	51
out of which, Manufacturing	19	40
Services	43	29
<u>Demand Structure (as % of GDP)</u>		
Government Consumption	10	11
Exports	12	20
Gross Domestic Savings (% of GDP)	22	40
Gross Domestic Investment (% of GDP)	25	35

*Table 7.4*  
*India and China, Indicators of Openness and Market Attractiveness*

Indicator	India	China
<u>Openness</u>		
Trade/GDP (1996, %)	27	40
Tariff rates (1997-98, average %)	20	17
Foreign direct investment (1996, % of GDP)	0.7	4.9
<u>Attractiveness</u>		
Current account balance (1996, US\$ bill.)	-4.6	7.2
Stock market capitalization (1997, US\$ bill.)	128	206
Number of listed companies (1996)	8,800	540
Bank Credit (1997, % of GDP) <sup>a</sup>	49.3	102.6
<i>Institutional Investor</i> Credit Rating <sup>b</sup>	46.5	57.6
Highest marginal corporate tax rate (1997, %)	40	30

Notes: <sup>a</sup> Domestic credit provided by the banking sector

<sup>b</sup> Higher rating implies more creditworthiness, as of March 1998

Source: World Bank, *World Development Report 1998/99* (New York: Oxford University Press, 1999).

As noted in the previous chapters, India and China, to different extents, have been undergoing a transformation from a planned to a market economy. Table 7.4 provides some comparative data on their export orientation, importance of the stock market, and

international credit rating. These depict some aspects of their attractiveness in the eyes of a potential direct or portfolio investor. China is both more open, and all else equal, more attractive for a potential investor. Its credit rating is higher, market capitalization is higher, number of companies listed is lower (indicating greater number of hi-cap companies in the market), and spread of bank credit is higher. China also offers a lower corporate tax rate, and a lower tariff rate.

In spite of the move toward marketization, a large proportion of the population in both countries live in extreme poverty. According to the UNDP, 52.5 percent of India's population lived on \$1 a day or less (1992 data), compared to 22.2 percent of China's population. This corresponds to over 500 million people in India and about 300 million in China in absolute poverty. As shown in Table 7.5, China on the whole fares better than India in human development (higher life expectancy, higher literacy, lower malnutrition and child mortality), except in indicators of political freedom. As measured by the Gini Coefficient, however, the distribution of income in China is much worse than it is in India.

*Table 7.5*  
*India and China, Human and Social Development Indicators*

Indicator	India	China
GNP/Capita (1997, US\$)	390	860
GDP/Capita (1997, PPP\$)	1,650	3,570
Adult literacy rate (1995, %)	52	81.5
Life expectancy (1996, years)	61.6	69.2
Child malnutrition (1990-96, % under age 5)	66	16
Under 5 mortality rate (1996, per 1000)	39	85
Access to safe water (1995, % of population)	81	90
Inequality (Gini coefficient, 1994-95)	29.7	41.5
Human Development Index	0.451	0.650

Because of their poverty situation, both countries have emphasized achieving high economic growth rates as well as social investment to promote human development. But a significant amount of resources (more in India than China) is channeled to the military. Table 7.6 below compares the central government expenditures of the two countries in different sectors. As shown, even though Indian government collects more revenues from the population than does China's government, it has a higher fiscal deficit.

*Table 7.6*  
*India and China, Sectorwise Public Expenditures*

Indicator	India	China
<u>Fiscal Expenditures</u>		
Education (1995, % of GDP)	2.3	3.5
Health (1995, % of GDP)	2.1	0.7
Military (1998, % of GDP)	2.4	1.8
<u>Fiscal Health</u>		
Government Revenues (1996, % of GDP)	13.7	5.6
Government Surplus (1996, % of GDP)	-5.1	-1.7

Source: World Bank, *World Development Report 1998-99* (New York: Oxford University Press, 1999).

In both India and China a significant proportion of the government's expenses on education goes to support scientific and technical learning. Both countries enjoy a large number of skilled experts, scientists, engineers, and technicians, though China boasts a much higher density. Table 7.7 provides some basic data on the knowledge base in the two countries. Compared to India, China on average seems to enjoy a higher level of technological and scientific penetration in society.

*Table 7.7*  
*India and China, Indicators of Science and Technology*

Indicator	India	China
Scientists and engineers (per million people) <sup>a</sup>	151	537
Number of patent applications (1995) <sup>b</sup>	1,545	10,066
Personal computers (1996, per 1,000 people)	1.5	3
Internet hosts (July 1997, per 10,000 people)	0.05	0.21
High-tech exports (1996, % of mfg. exports)	10	21
Telephone main lines (1996, per 1,000 people)	15	45
Mobile telephones (1996, per 1,000 people)	0	6

Notes: <sup>a</sup> In research and development, 1981-95

<sup>b</sup> Number of patent applications filed by residents

Source: World Bank, *World Development Report*, various years.

### Studying and Perceiving China: From Solidarity to Rivalry 1947-1990

At the outset it is significant to note that comparing China and India, as I have done above, has been for long a common practice for academics and practitioners. Nehru likened the civilizational basis of India and China in his speeches as well as in *The Discovery of India*, his attempt at revisionist history. Essays on India by Tagore and Gandhi, similarly, refer to material conditions in China. More recently, a variety of social scientists have contrasted the socio-economic experiences of the two. In an insightful paper published in the *Quarterly Journal of Economics*, Subramanian Swamy compared the economic history and data of China and India, countries that were considered "highly developed" about one hundred and fifty years ago.<sup>1</sup> The volume of comparative works has increased in the last ten years. In 1992 A. S. Bhalla contrasted the economic development policies and George Rosen compared the industrial policies of the two

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<sup>1</sup> Subramanian Swamy, "The Response to Economic Challenge: A Comparative Economic History of

countries. Two years later T. N. Srinivasan published a study comparing agriculture and trade policies.<sup>2</sup> Even some important studies that focus exclusively on India have set aside space to compare India's economic experience to that of China.<sup>3</sup> As Jean Drèze and Amartya Sen wrote: "Indeed, it is natural to judge Indian successes and failures in comparative terms with China."<sup>4</sup>

Comparisons as such do not necessarily indicate any rivalry between the two. Yet the act of continually juxtaposing and comparing economic statistics is not entirely innocuous, for collectively, it helps construct a sense of relative gains and losses. Once rivalry, because of political motive or historical experience, is perceived and injected into the calculus, the sense of gain and loss can become policy relevant.

The policy relevance of comparing India's material conditions to China's has gone through different phases. During India's anticolonial nationalist struggle, as the last chapter observed, China was held in high regard. Nationalist historians, including Nehru, admired China's independence, even though it was at times only a paper tiger. They found a convergence of interests between India and China, and a parallel between India's effort to distance itself from colonialism-imperialism-capitalism and China's endeavor to forge an indigenous path toward rapid modernization. Although they were uncomfortable

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China and India, 1870-1952," *The Quarterly Journal of Economics* 93 (1), 1979, pp. 25-46.

<sup>2</sup> A. S. Bhalla, *Uneven Development in the Third World: A Study of China and India* (New York: St. Martin's, 1992); George Rosen, *Contrasting Styles of Industrial Reform: China and India in the 1980s* (Chicago: University of Chicago Press, 1992); T. N. Srinivasan, *Agriculture and Trade in China and India: Policies and Performance since 1950* (San Francisco: ICS Press, 1994).

<sup>3</sup> See Achin Vanaik, *The Painful Transition: Bourgeois Democracy in India* (London: Verso, 1990), pp. 47-51; Jean Drèze and Amartya Sen, *India: Economic Development and Social Opportunity* (Delhi: Oxford University Press, 1995), Chapters 3 and 4.



with the authoritarianism and human obliteration that accompanied modernization programs in the Soviet Union and China, they still considered careful emulation of Soviet and Chinese policies to strengthen India's industrial sector. They were especially interested to learn lessons on heavy industrialization, and on the role of the state in the economy.<sup>5</sup> In the eyes of the nationalists, "rapid heavy industrialization was required to ensure India's independence in every sense and to achieve great power status."<sup>6</sup>

The 1962 war and its aftermath cast China in a different light. It left two simultaneous, yet contradictory, imprints on policymakers' perspectives. On one hand, China had convincingly proven its military might, which in turn was dependent on the strength and success of its heavy industries and indigenous technological development. Partly out of that experience, Indian plan allocations for industrialization increased substantially. Whereas the First Plan (1951-56) had allocated only 2.8 percent of development expenditures to industry and minerals, the Second and the Third plans, covering 1956-1966, allocated over 20 percent. Indian R&D and military expenses also increased commensurately, as shown in the previous chapter.

On the other hand, the war had destroyed the bonds of solidarity that Indian leaders had felt toward China. China was now perceived to be an imperialist menace, a

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<sup>4</sup> Drèze and Sen, *India*, p. 57.

<sup>5</sup> Baldev Raj Nayar, "A World Role: The Dialectics of Purpose and Power," in John W. Mellor, ed., *India: A Rising Middle Power* (Boulder, Colo.: Westview, 1979), p. 121.

<sup>6</sup> Paul R. Brass, *The Politics of India Since Independence* (Cambridge, UK: Cambridge University Press, 1995), p. 273.

militaristic expansionist, a pseudo-communist dictatorship.<sup>7</sup> The Chinese model of economic, social, and political organization, therefore, was rejected. It was imperative that India develop its industrial base so that it was capable of serving defense needs, but India was to pursue industrialization independently, according to its own development plans. This is not to say that all outside influence was shunned. But China, even if it was now a concrete military rival, did not fare in the Indian mindset as worthy to be emulated.

For the next decade India pursued an inward-looking regime of import substitution industrialization (ISI), which was also fashionable for the times. Chinese economic advances during that period were mostly neglected in the policymaking circles. To be sure, there were some references to China's economic and industrial strength. In 1966, for example, Indira Gandhi remarked in New York that the real threat from China was not as much military as it was political and economic.<sup>8</sup> But these were passing observations rather than policy recommendations. The government did not take up seriously the study of China's economy, let alone aspects that might be imitated usefully.

Chou En Lai's formidable propaganda machine, which India's government confronted first during the 1958-62 crisis, also damaged the credibility of China's claims about its economic growth in the sixties and seventies. Official Chinese statistics, for example, showed a 5.1 percent annual growth in GNP/capita between 1960 and 1977, compared to India's 1.3 percent over the same period. But upon independent

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<sup>7</sup> See for instance Nehru's speeches during the war years; also Stanley Wolpert, *Nehru: A Tryst with Destiny* (New York: Oxford University Press, 1996), pp. 485-487.

<sup>8</sup> Gargi Dutt, "India China Relations," in A. K. Damodaran and U. S. Bajpai, eds., *Indian Foreign*

investigation China's growth statistics were found to be dubious.<sup>9</sup> As Drèze and Sen point out: "There is much evidence that if the per capita growth rate of GNP in China was higher than that in India in the period up to the reforms of 1979, the gap was not especially large."<sup>10</sup> Indian analysts, correspondingly, did not see or believe that there was much to learn or imitate from China.

But there was something significant going on in China. Although around the 1940s the level of socio-economic development in China was roughly equivalent to India's, during the sixties and seventies China managed to improve its position significantly. It substantially reduced malnutrition, disease prevalence, and infant and child mortality. It also increased food production, longevity, and education levels quite dramatically. By 1982, for instance, literacy rates in China for the 15-19 age group were 96 percent for males and 85 percent for females, compared to 66 and 43 percent in India. Figure 7.1 depicts the relative gains China made in mortality and longevity by the time reforms in India began in 1991. As the chart shows, China's biggest gains were made in the seventies and the eighties, after which India began to catch up. Thus, as Drèze and Sen observe: "China's real achievement in this period lies in what it managed to do *despite* poor economic growth, rather than what it could do *through* high economic growth."<sup>11</sup> While Indian policymakers dismissed China's growth rates, they were oblivious to these

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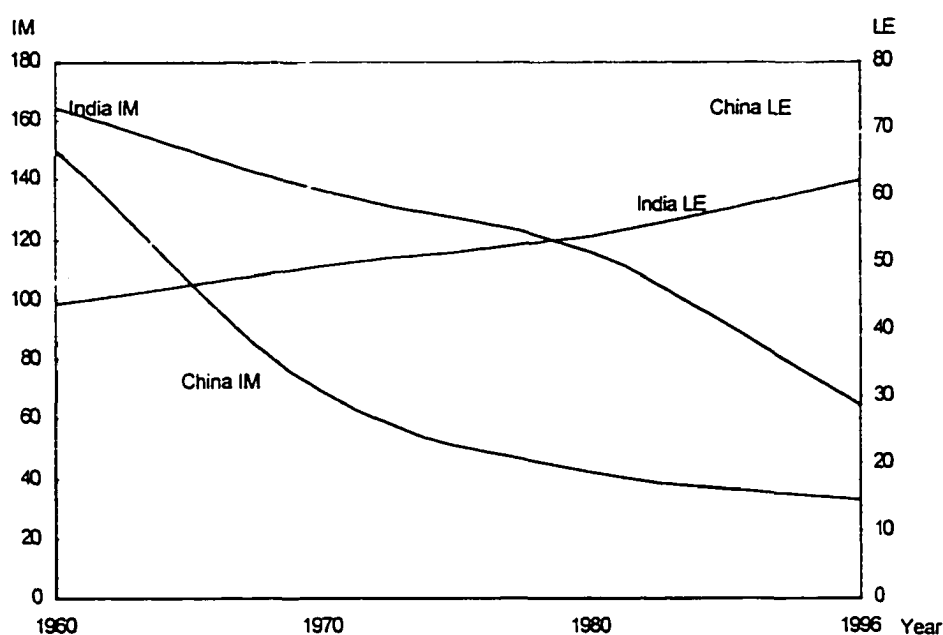
*Policy: The Indira Gandhi Years* (New Delhi: Radiant, 1990), p. 102.

<sup>9</sup> It is still the case, argue some. As Gerald Segal put it, "Few economists trust modern Chinese economic data; even Chinese Prime Minister Zhu Rongji distrusts it." Segal, "Does China Matter?" *Foreign Affairs* 78 (5), 1999, pp. 24-36.

<sup>10</sup> Drèze and Sen, *India*, p. 67.

fundamental changes taking place in China, as they were to the possible implications of human development on economic growth, and later, economic competition. Drèze and Sen conclude from their study of comparative social change in the two countries: “the relative standings had been decisively established *before* the Chinese reforms [of 1979].”<sup>12</sup>

*Figure 7.1*  
*Infant Mortality and Life Expectancy Trends in China and India*



Notes: IM = Infant mortality per 1000 live births; LE = Life expectancy at birth

Data Source: World Bank, *World Development Report* (New York: Oxford University Press, various years).

<sup>11</sup> *ibid.*, p. 67; original italics.

<sup>12</sup> *ibid.*, p. 68; original italics.

*Table 7.8*  
*Export Competition between India and China, 1979-1984*

Product	Country	Exports (US\$ million)*		Market share (%)*	
		1979	1984	1979	1984
Hand tools	India	46.4	27.7	1.3	0.7
	China	22.9	83.3	0.6	2.0
Industrial fasteners	India	16.4	4.1	0.6	0.1
	China	25.2	87.9	1.0	2.9
Cotton fabrics	India	187.7	188.3	3.4	3.2
	China	461.7	965.6	8.4	16.2
Leather footwear	India	25.8	38.4	0.3	0.4
	China	57.9	163.5	0.8	1.7
Cotton garments	India	467.5	563.3	6.5	5.4
	China	281.0	692.8	3.9	6.6
Hand-knotted carpets	India	202.4	208.7	13.4	18.0
	China	115.8	171.0	7.6	14.8

Note: \*The export market here does not refer to the world market but to the combined market of 22 countries, most of them advanced industrial economies.

Source: Adapted from Sanjay Kathuria and Nisha Taneja, *India's Exports: The Challenge from China* (New Delhi: Indian Council for Research in International Economic Relations, 1986), Table A.7, p. 68.

After China began its open-door policies in 1979 and commenced its remarkable strides in increasing economic growth rate through trade, some Indian analysts began to take notice. In 1986 the government-sponsored Indian Council for Research in International Economic Relations (ICRIER) published one of the first studies to detail the consequences of Chinese trade expansion for India. It noted that India during the sixties and seventies had relied on the Soviet market, where its exports had privileged access but China's exports did not. China's trade expansion since 1979 took place in other markets that were themselves growing. Within a span of just five years China had not only gained

a prominent position as a major exporter, but had displaced India's influence in a number of export areas. Table 7.8 summarizes some of the findings of that influential study.<sup>13</sup>

The study by ICRIER was one of the early efforts to bring back the prospect of rivalry with China, this time in the economic arena. It also underscored the need for strategic response to the emerging Chinese challenge. It urged the government to undertake policies to ensure export competitiveness and to engage in aggressive economic diplomacy to open up larger markets. Importantly, it noted that China had been trying to increase its production from observing India's production methods in certain sectors, such as tea. The Indian government, advocated the study, should similarly identify areas of competition and observe Chinese policies to emulate them.

In addition to China's export expansion, observers began to take notice of China's industrial capabilities, and most of all, its high growth rate. India pursued some domestic industrial reforms in the 1980s to open up more space for entrepreneurs. By this time it had been confirmed independently that China indeed was enjoying a higher rate of growth than it had in the sixties and seventies. This was the time that Indian scholars were despairing about India's chronic "Hindu rate of growth" between 3 and 3.5 percent per year. They turned greater attention to the high growth of East Asian NICs: South Korea, Taiwan, Hong Kong, and Singapore. But India's official plans, the Sixth Five Year Plan, 1981-1985 and the Seventh Five Year Plan, 1986-1990, concluded that India's economy

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<sup>13</sup> Sanjay Kathuria and Nisha Taneja, *India's Exports: The Challenge from China* (New Delhi: Indian Council for Research in International Economic Relations, 1986).

was too large and variegated to implement the type of export-oriented industrialization that the NICs pioneered.<sup>14</sup>

Although this was the position of the official government plans, it no longer reflected a consensus. Unlike the sixties and seventies, scholars and analysts were not ready to reject outright the Chinese or the East Asian model as inappropriate. In the late eighties and the early nineties many policymakers read with keen interest scholarly analyses of the NICs, trying to identify policy innovations or experiences that could be duplicated in India. Robert Wade's *Governing the Market*, for instance, was widely read, as moderate policymakers were particularly interested in wedding high growth with an interventionist government.<sup>15</sup> Others, more adventurous, thought that India needed a decisive economic break from the past. But as the economy had been moving at the normally accepted rate of growth and as outside security threats had slackened, there was no concrete reason to undertake any jarring policy change, even with a rising sense of relative loss to China and East Asia.

### **Learning from China: From Rivalry to Imitation, 1991-2000**

It was in this intellectual ambience that an unprecedented balance of payments crisis hit the Indian economy in mid-1991. A new government had come to power in March, and the crisis provided for it the justification to undertake sweeping changes,

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<sup>14</sup> Deepak Nayyar, "The Foreign Trade Sector, Planning and Industrialisation in India," in Terence J. Byres, ed., *The State, Development Planning and Liberalisation in India* (New York: Oxford University Press, 1997), p. 344.

beginning with an almost 20 percent currency devaluation. In separate statements the Finance Minister, Dr. Manmohan Singh, and the Governor of the central bank, R. Venkitaramanan, explained the devaluation by pointing to competitive pressures from China in the export market.<sup>16</sup> A number of studies that came out in the early nineties also identified a loss of India's competitive position to China and other Asian countries.<sup>17</sup> The government repeatedly highlighted throughout the 90s the export threat posed by Chinese industry. Economists were also cognizant of rivalry in other sectors. As Vincent Cable noted, with regard to India's attractiveness to multinational corporations:

India faces particularly strong competition from China, which is a close substitute offering roughly the same mix of opportunities and threats to multinational business: the opportunity of selling into a large, rapidly growing market and the balancing threat of political instability and policy reversal.<sup>18</sup>

A study conducted by the Associated Chambers of Commerce and Industry (Assocham) re-identified the arenas of competition. In addition to the areas distinguished previously, it emphasized emerging competition in shrimp and seafood, and urged for the development of "a strong export culture" like China's.<sup>19</sup>

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<sup>15</sup> This was revealed to me in a number of interviews with policymakers at that time.

<sup>16</sup> "Rupee Again Devalued by 11.83 p.c. Against the Pound," *The Hindu*, 4 July 1991, p. 1; "Further Steep Devaluation to Make Exports Competitive," *The Hindu*, 4 July 1991, p. 7.

<sup>17</sup> See, for instance, Kamla Suri, *India's Economy and the World* (New Delhi: Vikas, 1992); S. Paul, *India's Exports: New Imperatives and Newer Vistas* (New Delhi: Commonwealth Publishers, 1992).

<sup>18</sup> Vincent Cable, "Indian Liberalization and the Private Sector," in Robert Cassen and Vijay Joshi, eds., *India: The Future of Economic Reform* (Delhi: Oxford University Press, 1995), p. 218.

<sup>19</sup> Associated Chambers of Commerce and Industry of India, *Export Perspective for 2000: Priorities and Competitive Advantages* (New Delhi: Assocham, 1995).



*Table 7.9*  
*India's Export Competition: Marjit/Raychaudhuri Findings*

Commodity Group	Strongest Competitors	Emerging Competitors
Leather	Hong Kong	(China data not available)
Textiles: clothing	China, Hong Kong	
Textile products	China, Hong Kong	
Cotton fabrics	China, Hong Kong	
Textile yarn	Hong Kong	China
Non-cotton woven textiles	Hong Kong	
Jute and other fibres		China
Tea	China	Hong Kong
Floor cover, tapestry	China	Hong Kong
Pearl, precious stones	Hong Kong	China
Iron ore concentrates		
Synthetic dye	China, Hong Kong	
Electrical machinery	Hong Kong	China
Non-electrical machinery	Hong Kong	
Non-electrical machine parts	Hong Kong	China

Note: The chart marks whether Hong Kong and China are present among the top three competitors for each export commodity group under study.

Source: Adapted from Sugata Marjit and Ajitava Raychaudhuri, *India's Exports: An Analytical Study* (Delhi: Oxford University Press, 1997), Table 3.1, pp. 34-35.

Another important economic analysis of India's exports came out in 1997, presenting a similar picture, with renewed urgency.<sup>20</sup> It assessed India's competitive position in major export sectors. China had emerged as one of the three main competitors in virtually all of these areas, and was the strongest current competitor in textiles, tea, tapestry, floor coverings, and dyes (see Table 7.9). It was predicted in the future to become the strongest competitor also in textile yarn, jute, gems and precious stones, electrical machinery and non-electrical machine parts. The study, however, treated China and Hong Kong as separate entities. If taken together, the two pose, by far, the strongest

<sup>20</sup> Sugata Marjit and Ajitava Raychaudhuri, *India's Exports: An Analytical Study* (Delhi: Oxford University Press, 1997).

competition for India's exports in virtually every sector where India has a substantial market. The study's conclusions, as summarized in Table 7.9, shows only one major export category (iron ore, where Brazil is the main competitor) in which India does not face strong competition from China or Hong Kong. Table 7.10 provides the share of the top ten export items in India's total exports. The table, combined with Table 7.9, shows that China is a major competitor in most of India's significant export sectors.

*Table 7.10*  
*India's Top 10 Merchandise Exports: 1995-96 breakdown*

Commodity Group	Value (US\$ millions)	Share of total exports (%)	Presence of Strong Chinese competition?
Gems and jewelry	5,273	17	Yes
Textiles	3,829	12	Yes
Garments	3,677	11	Yes
Engineering goods	3,618	11	Yes
Chemicals	2,953	9	Yes
Leather	1,722	5	Yes
Rice	1,361	4	Yes
Seafood	1,011	3	Yes
Iron ore	518	1	No
Coffee	451	1	No

Note: Presence of Chinese competition determined from ICRAER and Marjit/Raychaudhuri studies cited above.

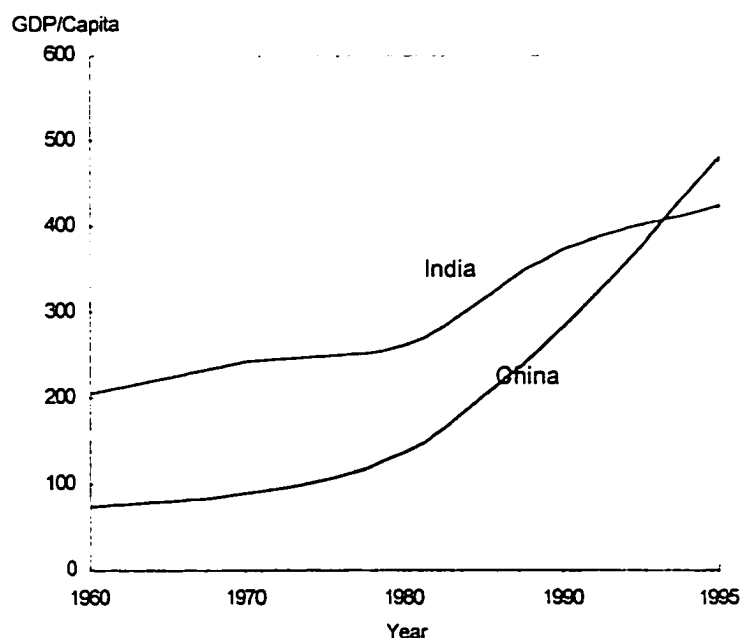
Source: Adapted from World Bank, *India: Sustaining Rapid Economic Growth* (Washington, DC: World Bank, 1997), Table A2.2 (a), p. 70.

In addition to China's strides in trade, its growth figures by the mid-nineties were confirmed to be extraordinary. Indian policymakers could no longer reject China, for it was plainly evident that China had outpaced India by most measures of economic progress, in many cases starting from a base lower than India's. In 1960, for instance, India's per capita GDP was \$206 and China's was only \$75 (in constant 1987 US

dollars). By 1995, China's per capita GDP had grown to \$481 surpassing India's income of \$425 per capita.<sup>21</sup> Figure 7.2 below compares the growth in per capita income in the two countries.

*Figure 7.2*  
*Growth in GDP/Capita in China and India, 1960-1995*

Line smoothed over each 10-year period; expressed in constant 1987 US\$



Source: UNDP, *Human Development Report 1997* (New York: Oxford University Press, 1997)

From 1980 to 1990, the Chinese economy grew at an annual rate of 10.2 percent while the Indian economy grew at 5.8 percent per year. The World Bank estimates that from 1990 to 1997, China's annual GDP growth rate was even higher, 11.9 percent, and India's was just half of that, 5.9 percent.<sup>22</sup>

<sup>21</sup> UNDP, *Human Development Report 1998* (New York: Oxford University Press, 1998).

<sup>22</sup> World Bank, *World Development Report 1998/99* (New York: Oxford University Press, 1999).

It was also evident, from numerous studies, that much of this higher growth in China was a direct consequence of open door policies, which encouraged an unprecedented increase in foreign trade and investment.<sup>23</sup> Currently, foreign companies account for almost half (48 percent) of all Chinese imports and nearly 60 percent of exports.<sup>24</sup> In 1975, India's foreign trade amounted to 14 percent of GDP. China was relatively more closed: its trade was at best 10 percent of GDP. China began its open door policy in 1978, and continued liberalization through the eighties, though there were periodic policy retrenchment. India remained substantially closed during that decade. India's open door policy started in 1991. By 1995, trade in India rose to represent 27 percent of GDP. But by that time China had increased its foreign trade to an impressive 40 percent of GDP.<sup>25</sup> In essence, between 1975 and 1995 China's trade/GDP ratio (often referred to as "openness ratio") grew at an average annual rate of 1.7 percent compared to India's 0.5 percent.<sup>26</sup> Chinese exports increased by 11.5 percent per year, while Indian exports grew at only half that pace, 5.9 percent per year. Consequently, between 1980 and 1996, China had increased its share of world trade threefold, but India managed to raise its share only from 0.5 to 0.6 percent. Table 7.11 summarizes some of these comparative statistics.

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<sup>23</sup> A good historical review is by T. N. Srinivasan, "External Sector Development: China and India, 1950-89," *American Economic Review* 80 (2), May 1990, pp. 113-119.

<sup>24</sup> Françoise Lemoine, "The Reality and Myths of China's Opening," in Michel Fouquin and Françoise Lemoine eds., *The Chinese Economy* (London: Economica, 1998), pp. 70-71 and Table 2.

<sup>25</sup> Calculated from International Monetary Fund (IMF), *International Financial Statistics Yearbook 1998* (Washington, DC: International Monetary Fund, 1998).

<sup>26</sup> Miria Pigato, et al., *South Asia's Integration into the World Economy* (Washington, DC: World Bank, 1997), Table 1.3.

*Table 7.11*  
*India and China: Trends in Economic Openness, 1980-1997*

Indicator	Country	T-1	T-2	T-3
Share of world trade (%) T-1: 1980, T-3: 1996	India	0.5		0.6
	China	1.0		2.7
Exports as % of GDP T-1: 1980, T-3: 1997	India	7		12
	China	6		20
Annual growth rate of exports (%) T-1: 1980-90, T-3: 1990-97	India	5.9		13.7
	China	11.5		15.8
Openness ratio (trade/GDP) T-1: 1975-79, T-2: 1990-94, T-3: 1996	India	14.1	21.0	27.0
	China	10.0	35.8	40.0
Average tariff rates (%) T-1: 1990-91, T-3: 1997-98	India	87.0		20.3
	China	43.1		17.0
FDI as % of GDP T-1: 1980, T-3: 1996	India	0.1		0.7
	China	1.7		4.9

Source: World Bank; IMF; Economist Intelligence Unit.

China's stellar performance in the nineties, coupled with its relative gains over India in crucial markets, began to give policymakers a sense of both enmity and envy. As one policymaker stated in an interview:

China's growth rates put Indian economists to shame. Here was a country that started at the same social and economic level, a country we were boasting we could match in greatness and capabilities. Well, that China just flew past us. We were bystanders.<sup>27</sup>

The Finance Minister, Dr. Manmohan Singh, noted in similar vein, disputing apologists of the slow growth rate of India:

[T]he world-is-in-a-recession attitude has created in our country a disastrous mindset ... If the world is in a recession, why are the Chinese

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<sup>27</sup> Dr. Ashok Lahiri, Economic Advisor, Ministry of Finance, Government of India, author's interview, New Delhi, 16 September 1997.

exports booming? In 1973 our level of exports was the same as that of the Chinese. Where are the Chinese today, and where are the Indians?<sup>28</sup>

Such feeling of relative loss along with despair about India's position as a great power comes across in official government publications as well as in formal and informal interviews of policymakers. As justification of the opening up of India's economy, the government's annual *Economic Survey* pointed out in 1991 the success of East Asia: "Much more rapid growth is possible, as our neighbouring countries further east have demonstrated."<sup>29</sup> In 1996, the *Economic Survey* again emphasized:

India's economic development must harness the opportunities provided by international trade, modern technology, and world capital markets. China has shown how \$30-\$40 billion a year of foreign investment can be effectively harnessed for economic development.<sup>30</sup>

Finance Minister Manmohan Singh noted:

For India to aspire to sustained growth at 7 to 9 percent over the next two decades, we have to be prepared to encourage a rapid increase in foreign direct investment to levels comparable to China's \$30 billion or more per year.<sup>31</sup>

The spate of comparative studies by scholars of all hue added to the urgency, by pointing out, in sometimes heartfelt and other times cynical language, the gains China had made compared to India. Jairam Ramesh noted tersely, "One visit to east Asia is enough

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<sup>28</sup> "'Reforms Will Take a Decade': Manmohan Singh," interview with *India Today*, 31 March 1993, p. 104.

<sup>29</sup> Government of India, Ministry of Finance, *Economic Survey 1991-92* (New Delhi: Government of India, 1992), p. 23.

<sup>30</sup> Government of India, Ministry of Finance, *Economic Survey 1995-96* (New Delhi: Government of India, 1997), p. 21.

<sup>31</sup> Quoted in Frank L. Bartels and Barry H. Pavier, "Enron in India," *Economic and Political Weekly* 32 (8), 22 February 1997, p. M-11.

to show just where India is.”<sup>32</sup> Achin Vanaik, at the other end of the political spectrum, wrote in his marxist analysis of India’s political economy in the eighties:

[T]he Chinese road to socialism, for all its detours, hiatuses, political drawbacks and indeed, its highly ‘unsocialist’ features, has nevertheless had a far more impressive record than the Indian road to capitalism.<sup>33</sup>

In the end China’s performance shattered policymakers’ belief that openness and export-led growth are suited mostly to special cases and hence not easily applicable to India. The growth rates of China not only matched the earlier growth spurts of the NICs but also proved sustainable for a giant country. As Jean Drèze and Amartya Sen pointed out:

China’s choice of market-oriented reform and of a policy of integration with the world economy has given those policies a much wider hearing in India that they could have conceivably had on the basis of what had happened in countries that are much smaller and perceived to be quite dissimilar to India: Hong Kong, Taiwan, Singapore, even South Korea. From revolutionary inspiration to reformist passion, China has got India’s ear again and again.<sup>34</sup>

More recently, China’s successful handling of the Asian crisis also increased Indian policymakers confidence in the Chinese model. Indian policymakers were impressed by the fact that China was not affected as deeply as Japan and Korea, which were thought to be strong Asian countries. China’s successful coping with the Asian crisis had increased its bargaining power vis-a-vis the United States, which was an indication of how economic strength has positive externalities for negotiation in other

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<sup>32</sup> Jairam Ramesh, “Let’s Not Kid Ourselves,” *India Today*, 24 May 1999, p. 40.

<sup>33</sup> Vanaik, *The Painful Transition*, p. 50.

<sup>34</sup> Drèze and Sen, *India*, p. 58.

areas. Some strategic thinkers, like Sanjaya Baru, urged Indian policymakers to study closely how China coped with the crisis and how others faltered, insisting that “India must adopt many of the key elements of the model of development pursued by the big and small economies of the region.”<sup>35</sup> From different fronts the pressure to emulate China was mounting.

It seems that by the mid-nineties, India’s policy circles reached more or less a consensus around three conclusions. First, it was evident that China had outpaced India in most indicators of economic growth and development. Second, the Chinese model of high growth had proven to be fairly sustainable. And third, India must learn from China, and emulate this model to achieve high growth. These conclusions were not affected by domestic political turmoil, especially the enormous backlash against economic liberalization, as detailed in Chapter 3.

### **Globalism and the Thickening of Strategic Context**

The reason that Indian leaders felt compelled to match China’s advances is that the relative gains for China would have adverse consequences for India’s competitive position in the world. The ICRIER and Marjit/Raychaudhuri studies depicted a bleak picture for the export sector. The economic surveys of the government as well as the speeches and interviews of the finance minister confirmed both the envy and the urgency

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<sup>35</sup> Sanjaya Baru, “The Economics of National Security,” *Business Standard*, 4 December 1998 <<http://www.business-standard.com/98dec04/opinion4.htm>>, accessed 4 August 1999.



to catch up in both exports and investment. Academic scholarship, on top, showed how far India had actually fallen behind China and East Asia.

In the calculus of Indian policymakers, the need to wrest export market share back from China or to attract comparably high foreign investment was not just for the sake of promoting Indian exports or feeding the investment-hungry industrial sector. It was the only way India could hope to still reach its globalist aims.

Given these advances China has made, if China continues in that fast-paced direction, India was sure to lose out more market share in exports and investment. We believed that it would hamper our technological progress and there might be no way left to match China's future domination of Asia.<sup>36</sup>

As in the political and military competition with China, economic rivalry too was interpreted through the *interplay* between events or actualities of competition and globalist aims and beliefs. In the first place, globalism added both a sense of shame and urgency for Indian policymakers. The policymaking elite, observed Jagdish Bhagwati,

came to realize that there was a growing dissonance between India's traditional claim to respect and attention, and her shrinking ability to command them as her economic policies and failure became more widely known and a subject of derision ... a superiority complex and inferiority status."<sup>37</sup>

Second, globalism, combined with strategic-historical rivalry with China, helped overcome the ideological compunctions Indian policymakers might have had in switching rapidly from thirty years of inward-looking economic policies into an outward

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<sup>36</sup> Mr. S. Narendra, Principal Information Officer, Government of India, author's interview, New Delhi, 12 October 1997.

<sup>37</sup> Bhagwati p 36.

orientation. In the last chapter we noticed a similar switch in India's security policies since the eighties. A power with globalist aspirations, Indian strategists realized in the early eighties, cannot be defensive and inward-looking; it must be capable of projecting its power well beyond its borders. A similar logic informed India's reformist economic policymakers.

Third, as it did for political and military issues, globalism brought together diverse interests under its ideological and rhetorical orbit. The goal of opening up the economy, the finance minister explained in the parliament, was "building a prosperous India which interacts as an equal with other countries in the world."<sup>38</sup> We can see here a parallel to India's anticolonial nationalist movement. Setting such a goal reflected a firm, deep-rooted conviction in India's potential. It simultaneously served as a politically prudent strategy to market open-door policies to the domestic constituency. In this regard, it is interesting to note the contrast between the marketing of India's globalization strategy and its domestic liberalization strategy. As noted in Chapter 3, India's domestic liberalization policies have not had the level of popularity that its external reform policies have enjoyed. I think there are two reasons. First and most importantly, marketization of the domestic economy involved the withdrawal of state subsidies and price controls; so it inflicted higher material costs for the population. Second, although domestic liberalization, like external liberalization, was a break from the past, it could not be rationalized as well

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<sup>38</sup> Government of India, Ministry of Finance, *Speech of Shri Manmohan Singh Introducing the Budget for the Year 1996-97* (New Delhi: Ministry of Finance, 1996), p. 104.

under either a covering ideology (such as globalism) or a strategic need (such as competition with China).

Globalism, in short, interacted with the perception of strategic rivalry with China to play both *ideological* and *instrumental* roles. But the question is, if the globalism-rivalry nexus is such an important inducement on Indian policymaking, why did the outward orientation begin coherently in 1991, thirteen years after China commenced its open door policies? There are four pieces to the answer. First, Indian policymakers took time to realize that India was falling far behind. Not only did they have to overcome the mentality to reject Chinese policies outright as inapplicable or unworthy, they also had to be certain that China's economic success is sustainable. Although China was already seeking foreign investment in the eighties, especially in its export sector, the Indian state held on to its historically skeptical and restrictive stance on foreign capital. The Industrial Policy of 1985, enacted at the height of India's domestic economic liberalization program, stated: "foreign investment must be accompanied by transfer of technology."<sup>39</sup> As China's success in channeling foreign investment into export production became increasingly apparent, Indian policymakers began to take stock of the consequences of their restrictive policy stance. According to the Political Advisor to India's Finance Minister,

1990 has seen the rediscovery of East Asia by India. In the 80s, the East Asian model was rejected because it was seen as underwritten by the US

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<sup>39</sup> Government of India, Lok Sabha Secretariat, *National Industrial Policy* (New Delhi: Lok Sabha Secretariat, 1985), p. 17.

and Japan. In the 90s it became evident just how wide the gap [between India and East Asia] has become.<sup>40</sup>

Second, the end of the Cold War quelled whatever ideological qualms India, the leader of non-aligned nations, might have had about adopting *laissez faire* and promoting the Western capitalist model of development and economic growth. A leading strategic analyst in India put it in the following way:

In 1978, when China changed policy, few people paid any attention. The success of East Asia became visible only in the mid to late eighties. We needed to catch up. It also helped that by the end of the eighties international capital became free from national identities. The Cold War was over. You no longer needed to depend on any particular country to get funds, you got it from the world market.<sup>41</sup>

Third, the economic crisis of 1991 provided the trigger that could justify a switch in policy. The balance of payments situation became grim by April 1991. Fiscal deficit rose to 8 percent of GDP, double the proportion in the mid-seventies. Current account deficit amounted to 23 percent of GDP, and international reserves dwindled to just 14 days worth of imports. Introducing the reformist policies, the Finance Minister emphasized in his speech to the parliament: "We have been at the edge of a precipice ... we have not experienced anything similar in the history of independent India."<sup>42</sup>

Combined with the sense of falling behind and a cognizance of East Asian success, the government's attitude toward foreign investment took a turn from reluctant

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<sup>40</sup> Mr. Jayram Ramesh, Political Advisor to the Finance Minister, Government of India, author's interview, New Delhi, 11 October 1997.

<sup>41</sup> Mr. C. Raja Mohan, Strategic Affairs Editor, *The Hindu*, author's interview, New Delhi, 11 October 1997.

<sup>42</sup> Government of India, Ministry of Finance, *Speech of Shri Manmohan Singh Presenting Central Government's Budget for 1991-92* (New Delhi: Ministry of Finance, 1991), pp. 1-2.

consideration to active solicitation with the New Industrial Policy promulgated on 24 July, 1991. Foreign investment began to be seen as a key instrument to generate growth rather than a minor means for technology transfer. The reformist government began to term foreign investment “desirable” for it can generate “non-debt-creating inflows [which] will reduce reliance on fixed-interest debt and also bring in new technology, marketing expertise and modern managerial practices ... strengthen our industrial capabilities and contribute to exports.”<sup>43</sup>

Finally, liberalization of trade and investment itself opened up another arena of active competition between India and China, namely, the competition for the world market for exports and investment. Competition with China began to exert an increasingly important influence on subsequent policies. As the Chairman of India’s Foreign Investment Promotion Board explained in an interview:

Crisis was just the trigger. But the need to change policy was felt for a long time, and there was a definite expressed need for catching up. India had to occupy its proper position in the global economy. Economic competition with China became more important after ’91, when we also opened up and started to get investors to come here.<sup>44</sup>

Added to the existing strategic rivalry and the ideal of globalism, this new dimension of competition injected strong incentives to continue an outward-oriented economy. The important point to observe here is the direction of the causal ‘arrow’, so to speak. India did not liberalize because of the increasing influence of the international

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<sup>43</sup> Government of India, Ministry of Finance, *Economic Survey 1991-92*, pp. 13-14.

<sup>44</sup> Mr. A. N. Verma, Chairman, Foreign Investment Promotion Board, Government of India, and Principal Secretary to the Prime Minister (Narasimha Rao), 1991-1996, author’s interview, New Delhi,

market, but the salience of international economic competition heightened after India opened up. Indian policymakers realized that “there’s a common pool of investment resources we’re all competing for.”<sup>45</sup> This perception of competing for scarce resources provided the rationale for strategic policymaking and resulted in continual policy changes geared toward increasing the attractiveness of India’s investment regime relative to the regime in China and other East Asian countries. India’s investment policies began to show an imitative pattern, aimed at achieving relative gains against its competitors.

The relationship between policy imitation and policy continuity is not simple. Even with interview data, it is difficult to assess exactly to what extent and through what process imitation takes place. The following excerpt indicates some of the difficulties in trying to uncover the process of imitation. The interview was with Dr. Arjun Sengupta, one of the major architects of India’s Ninth Plan, which initiated “indicative planning” commensurate with a market economy and outward orientation.<sup>46</sup>

JA: Is India trying to strategically match or imitate Chinese open-door policies?

AS: We respond to what we think will affect our export competitiveness. “But we are not imitating the Chinese in that sense. We are adopting important aspects of their model, certainly, but we are always conscious about how those would serve our national interest.

JA: What do you see as the national interest?

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8 October 1997.

<sup>45</sup> Mr. Montek Singh Ahluwalia, Secretary of Finance, Government of India, author’s interview, New Delhi, 12 September 1997.

<sup>46</sup> Dr. Arjun Sengupta, Member, Planning Commission, Government of India, author’s interview, Dhaka, 17 December 1997. Dr. Sengupta was previously India’s ambassador to the European Commission and Special Advisor to Michel Camdessus, former Managing Director of the International Monetary Fund.

AS: Well, of course, these are the ideals that go back to Gandhiji and other leaders, and they are specified clearly in our constitution: democracy, harmony, social justice, growth of opportunities, and a positive role in world affairs. These are the main pillars.

JA: Does Chinese competition in any way affect those interests?

AS: It would affect particular interests in particular constituencies ... Ultimately part of it must affect our competitive position and bargaining power in the world.

JA: In your policy deliberations do you use concrete examples about China's lead on India?

AS: Yes, it comes up, but not always. We are interested to learn from them because we cannot deny that they have overtaken us economically. We've fallen behind, and everyone knows that we need to catch up with the rest of the world, with Asia, with China and the Southeast Asian countries. You'll hear about that in our meetings. So of course we want to emulate the success of East Asia. We are part of Asia and we cannot afford to stay behind.

JA: Why is China's lead important, from a planner's perspective?

AS: They have a successful model, first of all. And China is our main competitor. It's an economic powerhouse. If we don't catch up and protect our interests here and abroad, we will not be able to deliver what our people deserve.

Obviously, open-ended interviews have problems of reliability, accuracy of expression, and generalizability. But based on this and other interviews, as well as secondary material reviewed above, it is possible to draw some tentative conclusions about whether imitation represents a major current in policy thinking or not, and how it works in practice.

First, Indian policymakers have found the Chinese model imitable for four main reasons: (1) because China and India are similar in many respects; (2) because China, in addition, has emerged as India's main economic rival requiring a strategic response; (3) because China has proven that open-door policies are sustainable for a large, developing country; and (4) because such policies in the end have accorded China a greater role and more advantageous bargaining position in world affairs.

Second, although for analytical purposes I have treated the state as a unified entity making national policies, the actual process of policymaking is more decentralized and haphazard. Policy deliberations seem to include discussions of China's policies, but they are not organized into a coherent, national strategy through a clear-cut process. Usually, various ministries and departments prepare internal analytical reports on competitiveness in different sectors, which are then discussed in the pertinent department, followed by policy response. Although the government, especially the finance ministry, has routine and fairly sophisticated ways of monitoring the economy, the push for policies to enhance competitiveness often comes from outside the government. The three major peak industry organizations, Assocham, Federation of Indian Chambers of Commerce and Industry (FICCI), and Confederation of Indian Industry (CII) regularly meet with government executives, apprise them about needs to enhance India's competitive position, and obtain promises of policy response.<sup>47</sup>

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<sup>47</sup> Ms. Manashi Roy, Deputy Director General, Confederation of Indian Industry, author's interview, New Delhi, 11 September, 1997; Dr. Amit Mitra, Secretary General, Federation of Indian Chambers of Commerce and Industry, author's interview; provided written answers to questionnaire, 10 October 1997.



Third, incentives to imitate have become stronger since the nineties. But the resemblance between Indian and Chinese policies that we have observed in Chapter 5 is not entirely a result of long-term strategy. In important parts, it is an outcome of numerous, and sometime unrelated, tactical policy decisions. Dispersed decisionmaking is partly a consequence of India's giantism, a function of "layers of official hierarchy," as John Lewis would put it.<sup>48</sup> Yet those disparate decisions are taken ultimately in light of a long-term strategic vision centered on globalism, an ideal that is embedded deeply in India's national policy circles. This, in part, provides continuity in India's efforts to open up.

Since 1991 imitative policymaking has been evident especially across sectors that involve international competitiveness: tariff rates, investment policies, export promotion, exchange rate, technological competition. The response time for policies varies. Investment policies are promulgated usually once a year, around the time when national budget is prepared. Changes in tariff rates can be announced several times a year. The exchange rate, on the other hand, is adjusted every morning by the Reserve Bank of India according to the value of a basket of currencies of competitor countries, including China. In other cases, policymaking have been more decentralized, and through efforts at tactical micro-policy responses, an effect of strategic macro-policy response is reached. Individual Indian states have also created their own investor-friendly policy regime. But without additional investigation, it is not possible to determine if decisionmaking in those

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<sup>48</sup> John P. Lewis, "Some Consequences of Giantism: The Case of India," *World Politics* 43 (3), 1991,

states are as conscious of globalism and strategic rivalry as is decisionmaking at the federal level.

If globalism has been one important basis for the continuity of India's economic openness, the other basis has been the thickening of India's strategic context. India's context of rivalry with China has evolved from a thin, primarily military-focused context to a thick context covering military, political, economic, and technological arenas. The competitive arenas between the two countries, in other words, have expanded. Moreover, since globalism requires that India be able to project its power outside its boundaries in all these arenas, Indian policymakers have been trying to prepare the country to be able to compete with China not only over the territory between them or in the South Asian region, but in the wider world market. As a result Indian policymaking has recognized, and is trying to access, India's potential sources of power abroad, particularly Indian multinationals and the Indian diaspora.

Indian multinationals have been expanding operations outside India since the sixties. By the early eighties India emerged as a major source of third world technology.<sup>49</sup> By 1989 there were 193 Indian joint ventures abroad.<sup>50</sup> These ventures created externality effects for both the recipient country and for India itself. But to reap the full benefits of their operations, especially in Southeast Asia and Africa, Indian government needed to keep its economy open. The need became stronger as Indian businesses expanded even

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pp. 367-389.

<sup>49</sup> Dennis J. Encarnation, "The Political Economy of Indian Joint Industrial Ventures Abroad," *International Organization* 36 (1), 1982, pp. 31-59.

more over the nineties and began to compete with other Asian multinationals all over Asia. This provides India an important source of power abroad, as it simultaneously encourages continuity of openness.

A similar power effect is derived from the skilled Indian population abroad. The Indian diaspora, the official term for which is “non-resident Indians” or NRIs, has been especially successful in high-technology industries. A study by Anne Lee Saxenian estimates that 7 percent of the 11,443 high-tech firms in Silicon Valley is run by ethnic Indians. This is just the management picture; it does include the computer scientists, programmers, engineers, and other employees.<sup>51</sup> This high-tech diaspora could potentially provide the state with an important source of both knowledge and material resources. NRIs number at over 20 million currently, and their number has been increasing steadily since 1960, when the size of the diaspora was only 5 million. NRIs own real estate worth more than \$100 billion globally, and include 300 millionaires in Britain alone. Some estimates show that the aggregate income of the non-resident Indians is roughly equal to the GDP of India itself.<sup>52</sup> Incidentally, the Indian diaspora, especially in the high-tech industries, face particularly fierce competition from the overseas Chinese, who total about 55 million.

Indian policymakers have responded to this worldwide arena of technological competition in two ways. First, the Indian state is trying to emulate policies that China

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<sup>50</sup> S. Shiva Ramu, *Globalization: The Indian Scenario* (New Delhi: Wheeler, 1996), p. 50.

<sup>51</sup> Cited from Jayram Ramesh, “US and We,” *India Today*, 19 July 1999, p. 58.

<sup>52</sup> Gurcharan Das, “Lessons from Greater India,” *India Today*, 15 February 1993, p. 165-166.

established previously to successfully tap into resources of the overseas Chinese.<sup>53</sup> Second, government policies in the 1990s have emphasized the development of Indian competitiveness in knowledge based industries linked to the high-tech diaspora.<sup>54</sup> To be able to continuously access and utilize this source of power, policymakers have come to recognize. India must continue to stay open.<sup>55</sup>

Globalism and the expansion of rivalry into a greater number of competitive arenas thus promote the continuity of economic openness. In addition, the thickening of strategic context ensures continuity by creating interlinks among different competitive arenas, particularly between power and plenty. Indian strategists, including Nehru, thought correctly that economics was a bedrock for security. In that mode of thinking, however, the orientation, whether inward or outward, did not matter much as long as the economy could provide industrial strength to support security needs. Since the thickening of India's strategic context, Indian analysts have been keen to explore the security implications of an open market regime. The dominant line of thinking is that security now can be derived out of economic interdependence. As Sanjaya Baru writes:

What India needs today is an outward-looking model of self-reliance that guarantees national security by giving the world a stake in India's stability and prosperity.<sup>56</sup>

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<sup>53</sup> "Calling All Patriots," *The Economist*, 25 July 1998, p. 71.

<sup>54</sup> See the 1999-2000 budget speech by Finance Minister Yashwant Sinha, delivered to the Parliament on February 27, 1999, and available at <<http://www.economictimes.com/budget/speech.htm>>.

<sup>55</sup> Mr. Jayram Ramesh, Political Advisor to the Finance Minister, Government of India, author's interview, New Delhi, 11 October 1997.

<sup>56</sup> Sanjaya Baru, "The Economics of National Security," *Business Standard*, 4 December 1998 <<http://www.business-standard.com/98dec04/opinion4.htm>>, accessed 4 August 1999.

The implication for policy continuity is clear. Baru also argues convincingly that increased openness would give India access to technology, energy security, and emergency finances. Ultimately, it is only through sustained openness, both inward and outward, that India can achieve its globalist aims. Baru sums up:

A more open Indian economy is a necessary condition for acquiring a higher profile in the region. Unless India's economic involvement with the region increases, it is unlikely to match the influence of the three Big Powers in the region, namely, the United States, China and Japan.<sup>57</sup>

### Conclusions

We can identify three phases in India's economic perception of China. The early considerations to emulate China, from the thirties to the late fifties, were tied to India's nationalist project. Qualitatively different from India's present efforts, this type of imitation was based on solidarity and admiration, not on competition and rivalry. Indian policymakers at that time did not feel *compelled* to match China's advances; they were merely interested to learn from a partner in world politics.

As China came to be perceived as a rival since the early sixties, the incentive to imitate mutated. China's economic strength now had security implications for India. Some thinkers started to indicate the need for strategic response to China's advances. Still, such thinking was marginal and subtle: it reflected a passing concern rather than a pro-active engagement. The enmity and bitterness that India felt toward China after the war inclined policymakers toward reflexive criticism of the Chinese model. They condemned China's

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<sup>57</sup> *ibid.*

authoritarianism, expansionism, economic centralism, and social and cultural rigidities, and identified India as distinctly different from China on those accounts. Even though China was a rival, India's tendency at that time was to reject, not to emulate. This period corresponded to India's own experiments in inward-looking industrialization.

The third phase began in the early nineties, as India opened up its external economy. China by this time had far outpaced India in economic growth, was ahead in most indicators of social development, and had emerged as India's major economic and technological competitor around the world. India began to strategically imitate and emulate Chinese policies of opening up in order to compete more effectively as well as get greater visibility and command in the regional and global economy.

Together the policies have been fairly successful in achieving relative gains for India, at least from a regulatory standpoint if not yet in performance. The World Bank observed in 1996 that "India's foreign investment regime is as investor friendly as that of the East Asian countries."<sup>58</sup> India has been trying to advertise its regulatory advantages over China: an English-based legal system, and sophisticated financial and stock markets. According to marketers of India's economy, even its slower growth rate, "offering a safer ride than China's roller-coaster," could be an advantage, depending on the objectives of the investor. A slower growth rate provides a better shield against inflationary losses. As

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<sup>58</sup> World Bank, *India: Five Years of Stabilization*, xx.

a stock analyst's report put it: "India represents the better-safe-than-sorry emerging market, or perhaps the investment tortoise against China's hare."<sup>59</sup>

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<sup>59</sup> Quoted in Alexander Nicoll, "Survey of India," *Financial Times*, 8 November 1994, p. III. See also Ray Heath, "Sound Growth and Established Markets Offer China Alternative: India to be New Investor Target," *South China Morning Post*, 9 August 1993, p. 4.

## CHAPTER EIGHT

### Conclusions, Caveats, Conjectures

India is a great country, great in her resources, great in manpower, great in her potential, in every way. I have little doubt that free India on every plane will play a big part on the world stage, even on the narrowest plane of material power.

- Jawaharlal Nehru  
Debating foreign affairs in the Constituent Assembly, 22 January 1947

India is a leader, a great nation, which by virtue of its size, its achievements and its example has the ability to shape the character of our time. For any of us to claim that mantle and assert that status is to accept first and foremost that our actions have consequences for others beyond our borders.

- Bill Clinton  
Addressing both houses of the Indian parliament, 22 March 2000

The pursuit of globalism is remarkably effective as an ideological instrument. It expresses a nationalist ambition that no savvy politician can afford to repudiate. It supplies rhetorical power to persuade skeptics in a language that appeals to both the elite and the masses. It is able to portray periods of crisis as propitious moments for taking off into higher growth. It can justify any socio-economic or developmental policy as necessary to attain an ultimate, strategic end. Most importantly, it bridges political rifts, and provides momentum for continuity across parties, governments, and even such disparate economic ideologies as import substitution and export promotion.

India's conviction of greatness and pursuit of globalism served all these purposes. India boasts numerous fissiparous political parties, representing virtually all major social ideologies and platforms. Deadlocks in both federal and state legislatures are consequently commonplace. The vibrant civil society has been described as the most politicized in the



world.<sup>1</sup> And as Chapter 3 has shown, popular discontent against open-door policies has been widespread, frequent, and fierce. The fact that as diverse and democratic a country as India has been able to persist with economic openness in spite of its history, factionalism, and egalitarian pressures, indicates an unlikely compromise among key policymakers and leaders. Without consensus across governments, India's pursuit of an open economy would have been fitful at best.

This study described globalism as a strong ideological force that provided the basis of this consensus and continuity. Globalism, which is a normative ambition, and strategic rivalry, which is a perception of material competition, together can provide adequate incentives for maintaining and enhancing economic openness. Globalism, an ideological offshoot of India's cherished nationalist project, linked the past with the future: it justified India's quest for a prominent political and economic role in Asia and beyond as natural for its size and resources, deserved for its ancient power and civilizational influence, and morally good for promoting peace and justice in the world. Outward orientation was deemed congruent with the pursuit of globalism. Just as India's nationalist movement had brought ideological unity across political platforms, so too did its globalist aspirations.

The emergence of close strategic rivalry with China was another development that all parties acknowledged. Interests that were fundamentally at odds over domestic politics would converge easily on the perception of India's economic, technological, and

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<sup>1</sup> See Sunil Khilnani, *The Idea of India* (London: Hamish Hamilton, 1997).

developmental shortfalls relative to China, and on the need to match successful Chinese policies in order to catch up. As the strategic context became thicker, India's loss of competitive position became more urgent and policy relevant, especially because Indian policymakers perceived China as the immediate challenge to India's globalist enterprise.

*Figure 8.1*  
*Policy Continuity in India: Influence of Strategic Context and Globalism*

	Thin Strategic Context	Thick Strategic Context
Non-globalist state	Incentive for imitation: Low Outward orientation: Low Incentive for continuity: Low India until the 1930s. ↓	Incentive for imitation: High Outward orientation: Low Incentive for continuity: Med
Globalist state	Incentive for imitation: Low Outward orientation: High Incentive for continuity: Med India from the 1940s to the 1970s: Globalism enhanced through independence; war with China initiates long-term strategic thinking; domestic politics most important in determining continuity. →	Incentive for imitation: High Outward orientation: High Incentive for continuity: High India gradually since the 1980s: China's lead in economic arena evident; consensus on need to catch up; India's bid for globalism based on capabilities rather than rights; international context increasingly important in determining continuity.

Figure 8.1 summarizes India's path toward globalization. Until about the 1930s India's strategic context was thin, though British strategists were aware of a potential military threat from China. Nationalist ideology at that time was formative, but focused mostly on gaining better rights for Indians within the British colonial administration. Globalism emerged as a strong ideology since the 1930s. It continued to captivate Indian

policymakers after independence, and was promoted especially by Nehru, who was the architect of modern Indian foreign policy.

The war with China in 1962 underscored the importance of India's strategic context, and institutionalized long-term currents of strategic thinking. Wedded with globalist ideology, India's strategic aims began to move from a preoccupation with territorial defense toward regional power projection. Research and development on prestige weapons and high-status strategic programs began to command an increasing share of the budget. But still, India's strategic context was thin. China and Pakistan posed a combined military threat along the northern and western frontier, but they were not prominent economic rivals. India's exports found a captive market in the Soviet Union and preferential access to the European Community. Private and state savings sponsored most of the domestic investment. Imports were controlled tightly to ensure a market for domestic manufacturing. India's international economic competition was dispersed. Though globalism provided ideological incentives toward outward orientation, the strategic context, being thin, did not redouble those incentives. Domestic politics provided the most immediate context for economic decisionmaking. To the extent that policy was continued, it was maintained through the dominance of the Congress party in national affairs, its espousal of planning and import substitution, and a balance of interests among the state, industrial capitalists, and landowners.<sup>2</sup>

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<sup>2</sup> On the balance of interests in Indian polity, see Lloyd I. Rudolph and Susanne Hoeber Rudolph, *In Pursuit of Lakshmi: The Political Economy of the Indian State* (Chicago: University of Chicago Press, 1987).

India's strategic context began to "thicken" after China initiated its open-door policies in 1979. By the mid-eighties policy analysts identified a surge in China's exports and a concomitant displacement of India's market share abroad. By the early nineties China's exemplary economic growth and progress in human development had been documented widely as factual and expected to be sustainable. A payments crisis in 1991 provided the trigger for a change in India's economic orientation. After India started to lower its import barriers, promote exports, and solicit foreign investment, policymakers realized that Chinese competition covered virtually all of India's major export products. China also attracted a commanding share of FDI into Asia. From India's perspective, competition with China therefore required continual strategic response.

By this time Indian leaders had acknowledged that the bid for globalism must be based on capabilities. India began to assert itself increasingly with its missile program, naval and air strike forces, space technology, and nuclear weapons. Envious of how China increased its international bargaining power by virtue of its economic might, Indian leaders also recognized that rapid economic growth was essential to establish the material basis for challenging China's position in the regional order. The thickening of strategic context elevated the importance of China as the singular rival in India's decision-making calculus, and provided incentives for continuity through policy imitation. Together, the exigencies arising out of globalism and strategic rivalry ensured continuity despite the extensive opposition that Indian society generated against openness.

### Scope and Limitations of Interpretation

The dialectic explanation involving globalism and strategic context is meant to shed light on not cause but policy continuity toward openness. The causal factors leading to policy change have been explored in depth in the existing literature. But those narratives do not provide satisfactory explanations for continuity. This study aims to meet that theoretical void.

The two independent variables influence policy continuity in different ways. A thick strategic context provides incentives for policy continuity through strategic imitation, but it does not inherently provide incentives for economic openness. The pull toward openness arises from imitating the policies of a rival that is evidently reaping the benefits of openness. A thick context gives India the incentive to imitate those Chinese policies that have increased China's economic power and stature—and since China's economic success has been predicated on openness, India's strategic response veers toward open-door policies as well.

Globalism does not provide incentives to imitate; on the contrary, it encourages national distinctness in the world. Yet globalism is an inherently outward oriented philosophy. Therefore, when paired with the existence of an economically open rival in a thick context, globalism can provide strong stimulus for the continuity of outward oriented policies.

Like most variables in social science, the two variables in this framework, globalism and strategic context, are not entirely independent: they interact. Globalism provides absolute ideals, an ultimate goal to attain through long-term policymaking. But it

also makes policymakers aware of the state's position relative to its rivals in the interstate system; it recognizes potential challengers along the way, and thereby highlights the importance of strategic decisionmaking. A thick strategic context identifies a singularly outstanding rival that would provide the strongest challenge for a state's bid for a world role. The two variables, thus, might be complementary in the perception of policymakers. But the existence of one does not necessitate the existence of the other. Hence they need to be conceptualized separately, each with a distinct influence on policymaking.

Both globalism and strategic context are constructed and mediated importantly through perception, which makes the framework subjective, yet generalizable. To explain India's continuity of openness this study has adopted the perspective of Indian policymakers. While discussing the 1962 war, I did not explore China's motivations for war or China's perception of India. What was important for our purpose was that Nehru believed India had no responsibility for the war, and that it was purely an act of Chinese aggression.<sup>3</sup> The perception of a similar Chinese threat and aggression in economic, diplomatic, and technological arenas was the catalyst for India's strategic and imitative policy response. Whether projecting such an image was China's intent is inconsequential for this theoretical model, as is China's perception of India.

The concept of imitation should be interpreted with caveats in mind. It is not meant to convey that India is becoming like China. Rather, the strategic response is in substantive imitation. Indian policymakers, for instance, perceive two major "facts" from

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<sup>3</sup> Steven A. Hoffman, *India and the China Crisis* (Berkeley, Calif.: University of California Press, 1990),

increasing Chinese competition in India's exports. First, China's exports can displace India's position in important markets. This requires a strategic response to protect India's interests and enhance export competitiveness, but it does not say anything about which policies India should pursue in order to attain that objective. Information about policy choice comes from the second "fact," that China has pursued certain policies proven to increase its export competitiveness. Those Chinese policies that have been successful seem, from the vantage of Indian policymakers, apt for emulation.

Imitation, therefore, is not an reflexive response arising out of a thick strategic context; it is, importantly, a function of success. Indian policymakers were cognizant of successful policies in other countries as well. They were especially interested in learning about export-oriented industrialization in Southeast Asia. But China's success was more policy relevant, more imperative to imitate, only because the strategic context was thick. The propensity to imitate, by extension of the same argument, does not exist equally across all policy sectors. It is more pressing for sectors immediately germane to international competition, such as export promotion, import control, investment regulations, exchange rate, and financial infrastructure. These, precisely, are the policy areas that are able to spur rapid globalization.

### Linkages and Externalities

By inductive reasoning we can identify a number of linkages and externalities generated out of the nexus between globalism and strategic context. The most important externality<sup>4</sup> is that globalism and strategic context together are able to unify other ideological divisions. Those who condemn Nehruvian foreign policy as unsuccessful in raising India's international import miss the crucial function that Nehru's philosophy served to bridge idealism and realism through a globalist worldview. Deepak Lal, for example, has advocated the pursuit of realpolitik to enhance India's position, urging, "Nehruvian foreign policy should be buried."<sup>5</sup> What Lal does not realize is that realism alone could not have risen above the cleavages in Indian politics and provided stability through continuity, unless ensconced within a higher ideological framework like globalism.

Both globalism and strategic context, therefore, provide issue linkages. The first linkage, as noted above, was between idealism and realism in Indian foreign policy. The second is between security and economics. A rising power cannot pursue either guns or butter, but have to strengthen its position in both. The challenge, in Paul Kennedy's words, is "balancing the short-term security afforded by large defense forces against the longer-term security of rising production and income."<sup>6</sup> India's policy establishment has recognized this need to increase capabilities in both security and economics. As M. Solanki, India's Foreign Minister, stated:

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<sup>4</sup> Externalities are benefits that accrue to third parties without compensation.

<sup>5</sup> Deepak Lal, "The Nuclear Fallout-I," *The Business Standard*, 30 July 1998, <<http://jul-sep98.business-standard.com/98jul30/opinion3.htm>>, accessed 4 August 1999.



[T]he economic dimension of state power is becoming increasingly important in relation to the military dimension. Defence forces are, of course, essential for protecting sovereignty and territorial integrity. But they are blunt and clumsy instruments for influencing the behaviour of other states or for power projection. The market place is the battlefield of the future.<sup>7</sup>

We can accordingly expect to see a more sophisticated blending of foreign policy and economic policies for countries with a thick strategic context.

If strategic rivalry provides one reason for increasing linkages between security and economics, another important reason is that free trade itself generates “security externalities.” Free trade results in increased efficiency in the domestic economy, releasing more resources for military use. Openness and free trade thereby can increase potential military power.<sup>8</sup> This is what *The Economist* had in mind when it cautioned China’s neighbors in the mid-eighties about the future effects of its high economic growth:

10 to 15 years down the line the civilian economy should have picked up enough steam to haul the military sector along more rapidly. That is when China’s army, its neighbors and the big powers will really have something to think about.<sup>9</sup>

A third linkage is between offensive and defensive realism. In India’s case globalism along with increased strategic rivalry prompted a transfer of resources away from defensive forces and toward developing offensive, strategic forces. The economic arena displays a parallel development. Being isolated, inward-looking, or defensive is at

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<sup>6</sup> Paul Kennedy, *The Rise and Fall of the Great Powers* (New York: Random House, 1987), p. 445.

<sup>7</sup> M. Solanki (Minister of External Affairs, Government of India), speech on “India’s Foreign Policy Perspectives in the 1990s,” New Delhi, 13 August 1991.

<sup>8</sup> Joanne Gowa, *Allies, Adversaries, and International Trade* (Princeton, NJ: Princeton University Press, 1994).

variance with globalist ambitions. Economic aggressiveness and an outward orientation seems to be a requisite for a higher economic profile and influence regionally and globally. Induced by China's strides, India has been moving toward policies informed by offensive realism in both security and economic arenas.

### Conjectures and Implications

Generalizability is the primary problem arising out of detailed or immersive case studies. This study offers a generalizable framework that can be used to explain policy continuity for different countries. The model is reproduced in Figure 8.2, placing selected countries in various quadrants, yielding different expectations about policy continuity.

*Figure 8.2*  
*Conjectures on Policy Behavior of Selected Countries*

	Thin Strategic Context	Thick Strategic Context
Non-globalist state	Incentive for imitation: Low Outward orientation: Low Incentive for continuity: Low  Bangladesh, Sri Lanka	Incentive for imitation: High Outward orientation: Low Incentive for continuity: Med  Pakistan
Globalist state	Incentive for imitation: Low Outward orientation: High Incentive for continuity: Med  China	Incentive for imitation: High Outward orientation: High Incentive for continuity: High  India

<sup>9</sup> "A New Long March in China," *The Economist*, 25 January 1986, p. 31.

*Pakistan*

Figure 8.2 places Pakistan in the upper right quadrant, expecting mixed incentives for policy continuity. The reason is that Pakistan probably shares a thick strategic context, perceiving India to be a major rival in all arenas. But it does not have globalist ambitions.

Pakistan's initial experiments with liberalization took place during the tenure of General Zia ul-Haq (1977-1988). But Zia's focus was to privatize some of the nationalized industries in the previous regime under Zulfikar Ali Bhutto. Pakistan's external economy was buoyed by remittances from workers in the middle east, and foreign aid, military and economic, from the United States, Saudi Arabia, and China. Benazir Bhutto undertook external liberalization with IMF financing in the early nineties, but the reforms were piecemeal. The major consistent effort at enacting reforms came during the three-month transitional tenure of Moeen Qureshi, a former World Bank executive. After re-election in 1993 Bhutto's administration implemented a host of unpopular policies between 1993 and 1996. By late 1996, when Nawaz Sharif assumed power for the second time, Pakistan's external balance was once again in shambles, with an annual export growth in a thirty-year low, and trade deficit to the tune of 5 percent of GDP. The economy still has not recovered from distress.<sup>10</sup>

Pakistan's perceived thick context with India has contributed to its budget deficits, as the military consumes between 6 to 7 percent of GDP. But its low level of

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<sup>10</sup> For more see M. Ghaffar Chaudhry, "Economic Liberalization of Pakistan's Economy: Trends and

outward orientation does not provide enough political incentives to forge comprehensive economic links with the outside world. Marvin Weinbaum argues that “misplaced priorities and missed opportunities” characterize Pakistan’s economic trajectory. The process toward liberalization is approached “repeatedly through ad hoc solutions. Reform policies are often described as ‘stop-go’.”<sup>11</sup> Pakistan has been lacking “serious attempts at a long-term policy based on a coherent and internally consistent vision.”<sup>12</sup> Of course there are other reasons that have contributed to Pakistan’s topsy-turvy route to economic openness, such as corruption, patronage, and political instability. But the presence of globalism might have helped reinterpret some of Pakistan’s “priorities,” leading to better economic stability and continuity.

### *Sri Lanka*

Figure 8.2 places Sri Lanka in the upper left quadrant, expecting low incentives for policy continuity arising from a thin context and absence of globalism. Policies are expected to be ad hoc or innovative, rather than imitative and continuous.

In a sense Sri Lanka was the innovator of openness in South Asia. It moved toward opening up its economy in the late seventies, before any other country in the region. The liberalization policies were the most sweeping in South Asia, including a withdrawal of import restrictions, promotion of exports and FDI, and the creation of a

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Repercussions,” *Contemporary South Asia* 4 (2), 1995, pp. 187-192.

<sup>11</sup> See Marvin G. Weinbaum, “Pakistan: Misplaced Priorities, Missed Opportunities,” in Selig H. Harrison, Paul H. Kreisberg, and Dennis Kux, eds., *India and Pakistan: The First Fifty Years* (Cambridge, UK: Cambridge University Press, 1999), p. 99.

free trade zone near Colombo.<sup>13</sup> The initial impetus for openness came from a reformist government that came to power under Julius Jayawardene in 1977. The reformist party, United National Party realized the importance of trade for a small island economy as Sri Lanka, which is a main reason why the country opened up before any of its larger South Asian neighbors. At the same time, policymakers in Sri Lanka were increasingly cognizant of the growing success of East Asian economies, and wanted to emulate the East Asian model of export-led growth in Sri Lanka. Like in India's case, they lamented the fact that Sri Lanka fell behind its more dynamic Asian neighbors.<sup>14</sup>

Although the innovation toward openness came from the domestic polity enamored with East Asian success, the move toward openness slowed in the eighties, and the country became increasingly embroiled in a civil war. Subsequent efforts at policy continuity have been successful when underwritten by loans from the IFIs. Sri Lanka drew SDR 156.17 million from IMF's Structural Adjustment Facility (SAF) in 1988, and SDR 336 million from the Enhanced Structural Adjustment Facility (ESAF) in 1991, under commitments to reduce inflation, import barriers, and maintain export-orientation.

Liberalization reaped fast results for Sri Lanka. Exports grew by 8.6 percent annually during 1980-1985, 11 percent during 1985-1990, and 12 percent during 1990-1995. More telling was its export diversification. In 1975 plantation crops accounted for

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<sup>12</sup> *ibid.*, p. 99.

<sup>13</sup> John Weiss and K. Jayanthakumaram, "Trade Reform and Manufacturing Performance: Evidence of Sri Lanka," *Development Policy Review* 13 (1), 1995, pp. 65-84.

<sup>14</sup> W. D. Lakshman, "Introduction," in W. D. Lakshman, ed., *Dilemmas of Development: Fifty Years of Economic Change in Sri Lanka* (Colombo: Sri Lanka Association of Economists, 1997), esp. pp. 13-15.

almost 76 percent of exports, and manufactured products claimed 6 percent. By 1994 the share of manufactures had risen to 72 percent while that of primary plantation crops decreased to 17 percent.<sup>15</sup> Currently Sri Lanka has the highest trade/GDP ratio in South Asia, and the lowest tariff rates.<sup>16</sup>

Sri Lanka's strategic context is thin. Sri Lankan policymakers consider India as its main economic rival. Its policies toward openness reflect a concern with increasing competition with India,<sup>17</sup> but preliminary evidence indicates that its policy correspondence with India is less than India's policy correspondence with China.<sup>18</sup> Since its rivalry is dispersed, the need to emulate the major rival's successful economic policies is less. Social learning is directed eclectically at emulating aspects from different models, such as Singapore, Thailand, Malaysia, and India. Ultimately the source of policy continuity in Sri Lanka has been mostly domestic, with periodic support from IFIs. Coupled with the eclectic, innovative emulation arising out of dispersed rivalry, policies toward openness in Sri Lanka show less continuity than those in India. As Sirimal Abeyratne concluded from his survey of Sri Lanka's export oriented industrialization: "[t]he dominant feature of the country's industrialisation effort for over three decades since 1960 was its 'experimental' character."<sup>19</sup>

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<sup>15</sup> P. Samararatne, "External Payments: Trends, Problems and Policy Responses," in Lakshman, ed., *Dilemmas of Development*, p. 295, table 9.1.

<sup>16</sup> See Miria Pigato, et al., *South Asia's Integration into the World Economy* (Washington, DC: World Bank, 1997), p. 73, table I.15, and p. 75, table I.18.

<sup>17</sup> See Central Bank of Sri Lanka, *Annual Report 1996-1997* (Colombo: Central Bank, 1997).

<sup>18</sup> This evidence is part of an ongoing research project on Sri Lanka and Bangladesh.

<sup>19</sup> Sirimal Abeyratne, "Trade Strategy and Industrialisation," in Lakshman, ed., *Dilemmas of*

### *Bangladesh*

Bangladesh, the second largest country in South Asia, is a non-globalist state with a thin strategic context, like Sri Lanka. Its incentives for imitation, outward orientation, and policy continuity, therefore, are low, according to the framework. The model would predict that in Bangladesh, too, domestic politics would set the pace and extent of economic openness.

Bangladesh began its path toward openness in the late seventies, but like India and Pakistan, and unlike Sri Lanka, the focus of liberalization was the domestic industrial sector. Foreign investment was allowed in limited capacity. In December 1980, the government obtained its first large loan from IMF's Extended Fund Facility, to the tune of SDR 800 million. But by the termination date, 1983, only SDR 220 million had been drawn, since political exigencies curtailed the reform program.<sup>20</sup>

The military government of Hussein Muhammad Ershad undertook a comprehensive privatization program in the eighties. In 1987 Bangladesh became the first country in South Asia to tap into the SAF, drawing SDR 201.25 million for a three year structural adjustment program. The major concerted effort at opening up was initiated in 1991, under financing from IMF's ESAF and the World Bank's Sectoral Adjustment Loans (SECAL). A team of specialists from the World Bank and the Harvard Institute of

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*Development*, p. 383.

<sup>20</sup> Rehman Sobhan, *The Development of the Private Sector in Bangladesh: A Review of the Evolution and Outcome of State Policy*, BIDS Research Report No. 124 (Dhaka: Bangladesh Institute of Development Studies, 1990).

International Development helped draw up a Trade and Industrial Policy Reform Project.<sup>21</sup>

Prompted by this project, consistent and coherent efforts at sustaining openness began in the early 1990s. The first few years of ESAF and SECAL-financed liberalization yielded impressive results. Foreign reserves rose from about \$500 million in 1989 to almost \$3.5 billion by 1995. The current account deficit fell from 7 percent of GDP in 1989-1990 to less than 2 percent in 1993-1994.<sup>22</sup> Both policy reforms and performance slowed in 1995-1996, as political volatility in the country increased. FDI decreased in 1995-1996 to US\$ 230 million, from a peak of US\$ 424 million in 1993-1994. No significant change in the trade regime was made between 1996 and 1998.<sup>23</sup> Loan coverage from IFIs also decreased since the mid-nineties.

The variation in the pace and extent of opening up in Bangladesh has been described as “a learning-by-doing approach.”<sup>24</sup> On the whole preliminary evidence indicates that policy continuity Bangladesh exhibited increased consistency since the early 1990s, which varied with not only domestic political volatility but the level of external financing available. Though Bangladesh in the nineties has not been as aid-

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<sup>21</sup> Details on this mission and its recommendations are in Richard D. Mallon and Joseph J. Stern, “The Political Economy of Trade and Industrial Policy Reform in Bangladesh,” in Dwight H. Perkins and Michael Romer, eds., *Reforming Economic Systems in Developing Countries* (Cambridge, Mass.: Harvard University Press, 1991).

<sup>22</sup> Wahiduddin Mahmud, “Bangladesh: Structural Adjustment and Beyond,” paper presented at a conference on “Adjustment and Beyond: The Reform Experience in South Asia,” Bangladesh Economic Association and International Economic Association, Dhaka, 30 March 1998.

<sup>23</sup> World Bank and Asian Development Bank, *Bangladesh: Economic Trends and the Policy Agenda* (Dhaka: World Bank and ADB, 1998), pp. 4-5.

<sup>24</sup> Mahmud, “Bangladesh: Structural Adjustment and Beyond,” p. 13.



dependent now as it was previously, it still is one of the poorer countries of South Asia, and the leverage of IFIs on economic policies in Bangladesh is correspondingly higher. The strategic context of rivalry is thin, but economic competition is expected to intensify from other countries in Asia. As a World Bank report on Bangladesh put it:

Economic liberalization in South Asia, particularly in India and Pakistan, is accelerating. This, combined with rapid change in China, in the high-performing East Asian economies, and in emerging competitors such as Vietnam, poses a challenge that Bangladesh must meet ... Bangladesh must strive to offer the same or better enabling business environment for the private sector as these countries.<sup>25</sup>

### *China*

China is a globalist state. Chinese policymakers for the past 150 years “have sought to make China ‘rich and powerful’ (*fuqiang*) and restore its former greatness.”<sup>26</sup> Most of the major programs aimed at reforming China’s economy—the May Fourth Movement, the Great Leap Forward, the Cultural Revolution, and the current toward a Socialist Market Economy—used consistently a rhetoric of globalism. From the vantage point of globalism, the reforms have been unquestionably successful: “China has a greater international presence than at any other time in the twentieth century.”<sup>27</sup> Its permanent seat in the security council and “legal” nuclear arsenal are symbols of its great power status. But, for a variety of reasons, China is a “dissatisfied great power,” which increases

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<sup>25</sup> World Bank, *Bangladesh: From Stabilization to Growth* (Washington, DC: World Bank, 1995), p. 10.

<sup>26</sup> Merle Goldman and Roderick Macfarquhar, “Dynamic Economy, Declining Party-State,” in Goldman and Macfarquhar, eds., *The Paradox of China’s Post-Mao Reforms* (Cambridge, Mass.: Harvard University Press, 1999), p. 3.

<sup>27</sup> *ibid.*, p. 25.

the likelihood that it will continue to assert itself forcefully in international affairs. Like India's globalism, China's great power role and ambition were also shaped in important ways by the evolution of nationalism and self-identity.<sup>28</sup>

The Chinese state, nonetheless, faces a thin strategic context, as there is no single rival that challenges China immediately in all sectors of competition. Russia no longer poses a threat to China, though there are border issues unsolved. Taiwan is a thorn in the pride of Chinese policymakers but China poses more threat to Taiwan than the other way around. India, despite an increasing capability to project power, lags far behind the Chinese in both economic and military strength. The United States is an ideological and political adversary, but increasing economic interconnections and US support for China on critical issues such as admission to the WTO have tempered considerably its potential for direct and consequential confrontation, at least in the medium term.

Still, China's open-door policies have been informed by an awareness of its relative competitive position. The initiation of China's reforms is commonly interpreted as an outcome of Deng Xiao Ping's realization that China had been falling far behind the West.<sup>29</sup> The reformist leadership was also increasingly mindful of the accomplishments of East Asian countries, especially Taiwan and Hong Kong.<sup>30</sup>

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<sup>28</sup> Stuart Harris, "The People's Republic of China's Quest for Great Power Status: A Long and Winding Road," in Hung-mao Tien and Yun-han Chu, eds., *China Under Jiang Zemin* (Boulder, Colo.: Lynne Rienner, 2000).

<sup>29</sup> Joseph C. H. Chai, *China: Transition to a Market Economy* (Oxford: Clarendon, 1997), chapter 1.

<sup>30</sup> Goldman and Macfarquhar, "Dynamic Economy," p. 5.

But China did not exhibit a high degree of policy continuity: its policymaking was ad hoc, unpredictable, and inconsistent—in part a result of conflicts between the old guard and the reformists.<sup>31</sup> It began with agricultural reforms, decollectivizing communes within a few years with the aim of making the family farm an economically productive unit. Reforms then encouraged small light industries based in villages and towns, and finally moved to experiment with trade liberalization. The central government's controls on China's trade were loosened and re-imposed several times in succession, most notably in 1984 and 1985. In 1987 and 1988, local authorities were given greater leeway over foreign exchange retention for local purposes, a freedom that was withdrawn twice later, in 1989 and 1990.<sup>32</sup> The piecemeal nature of China's reforms in the first few years created only "pockets of unregulated and lightly taxed activity within the system."<sup>33</sup>

The contradictions inherent in a "socialist market economy" also ensure that policies remain haphazard. The state still owns more than 50 percent of all industrial assets (1995 data); state-owned enterprises are responsible for about 70 percent of urban employment; collectives still comprise the largest portion of the non-state sector; formal ownership of land is mostly public; the state continues to intervene in the economy in an

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<sup>31</sup> Yun Wing-Sung and Thomas M. H. Chan, "China's Economic Reforms: The Debates in China," *Australian Journal of Chinese Affairs*, 17, 1987; Jinglian Wu and Bruce L. Reynolds, "Choosing a Strategy for China's Economic Reform," *American Economic Review* 78 (2), 1988.

<sup>32</sup> For more on the piecemeal nature of China's reforms, see chapter 5 of this study.

<sup>33</sup> Barry Naughton, "China's Transition in Economic Perspective," in Goldman and Macfarquhar, eds., *The Paradox of China's Post-Mao Reforms*, p. 32.

arbitrary fashion; and within the leadership there is still express commitment to retain public ownership and make further reforms accordingly “pragmatic.”<sup>34</sup>

Overall China’s path toward openness, however successful, has been the outcome of an essentially unpredictable, inventive, and experimental process of policymaking. It did not display the kind of imitation or continuity that appears to be embedded into India’s path toward economic openness. The theoretical model developed in this study would attribute China’s lack of continuity to the absence of a thick strategic context.

### *Conclusions and Caveats*

Tentative judgment from the brief shadow cases above indicates that the theory is flexible for application in different settings. Policy continuity in Sri Lanka and Pakistan, as predicted, have been ad hoc or experimental—a result of dispersed rivalry in Sri Lanka’s case, and absence of globalism in Pakistan’s case. Most of the influence on continuity has originated from the domestic polity. China, with a globalist state but a thin strategic context, also followed a reform path “without a blueprint”<sup>35</sup>: unlike India, China had no outstanding rival to emulate.

But the theory does not purport to explain all cases of policy continuity. As in other models in social science, one should be alert that factors exogenous to the model might, in certain cases, confound the expectations. For instance, it seems reasonable to surmise that policy continuity in aid-dependent and resource-poor developing countries

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<sup>34</sup> Sujian Guo, *Post-Mao China: From Totalitarianism to Authoritarianism?* (Westport, Conn.: Praeger, 2000), pp. 170-192.

in Sub-Saharan Africa would be depend significantly on influence from IFIs, as happened in Bangladesh.

### **Scholarship on Globalization and Policy Continuity: A Research Agenda**

The theory of policy continuity developed in this study is able to yield distinct expectations for the top left quadrant (non-globalist state with a thin context) and the bottom right quadrant (globalist state with a thick context). The other two quadrants in Figure 8.2 predict indeterminate policy behavior, with mixed incentives toward continuity. In addition to exogenous factors, such as the role of IFIs, there may be other possible intervening variables contributing to indeterminate expectations. Further research can illuminate their influence on policy continuity.

To provide more determinacy, it would be fruitful to explore the role of regime type or democracy. The importance of marketing policies to local constituencies or the influence of domestic politics on policy continuity will likely vary if an authoritarian regime were in power instead of a democratic one. Further research may also investigate if other ideologies can substitute for globalism, since it is likely that most states in the world might not have globalist aspirations. Regionalism, meaning the ambition to play a prominent role within a competitive region, might exert for some countries a policy influence comparable to the pursuit of globalism.

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<sup>35</sup> Goldman and Macfarquhar, "Dynamic Economy," p. 5.

The literature on globalization should be able to generate specific theories about continuity of openness. Although immensely diverse, scholarly perspectives on globalization, as Chapter 2 discussed, have neglected to theorize continuity. But conceptually globalization and economic openness are closely connected. Globalization is also linked philosophically to globalism and practically to strategic rivalry. Scholarship on globalization, therefore, is inherently suited to advance knowledge about the continuity of openness.

To generate useful propositions about continuity, I think, future research on globalization needs to recast concepts, variables, and relationships in several ways: dequantify, disaggregate, organize, historicize, and reconstruct. I conclude this chapter by offering some pointers on a fresh research program that can help forge new directions in theorizing policy continuity toward openness.

### *Dequantify*

Much of the globalization literature has placed emphasis on quantification. This has a number of negative ramifications. First of all, scholars have tended to approach globalization and openness as a readily quantifiable phenomenon, without questioning whether such a way of thinking can adequately or appropriately capture what is deemed to be happening around the world. Second, the drive toward quantification has, in most cases, let the exigencies of measurement dictate the definitions and concepts when ideally it should be the other way around. Most concepts of globalization do not seem to have been developed independently and prior to employing evidence; rather, they have been

shaped and *propelled* by the evidence, particularly by dramatic evidence. Third, scholars have postulated cause-effect relationships based on statistical trends rather than on theory. The scope for statistical inference is analytically limited, for its mathematical basis is simply the degree of variability in correlated variables. Causation is established by means of theory, that is, by proposing some abstract axioms, concepts, and leaps of faith that give meaning to relationships that would otherwise seem merely concurrent or sequential.

A lapse in the literature on globalization is that it lacks systematic theories that begin by defining globalization theoretically, then construct cause-effect relationships theoretically, and only afterwards adduce evidence, qualitative or quantitative, to assess how valid the theoretical expectations are empirically. Granted that no definition is perfect, especially one intended to cover grand phenomena on a world-scale, but this still is no reason to neglect conceptualizing globalization *before* coming up with its 'indicators'.

Most damaging of all, thinking about globalization in terms of quantifiable indicators has led social scientists to disregard *novelty*: things, events, and trends that are possibly new and different about the world. Studies of culture—and generally research in the humanities—have been far better at showing and describing novelty. Their particular weakness is that their mode of theorizing globalization is too diffuse to satisfy social scientists: it cannot be related consistently and objectively to what methodological purists would call “observable facts.” Researchers in the social sciences, on the other hand, have measured globalization primarily by such indicators as trade/GDP ratio, export earnings

and growth, and foreign investment and capital flows—the same indicators used decades earlier for measuring economic openness or integration. Skeptics of globalization show that world trade and foreign investment flows are not spread evenly (i.e. globalized) but confined within the *triad* of North America, Western Europe and Japan (i.e. regionalized). They reject globalization based on the same quantitative criteria, vintage variables and methodologies that may well be antiquated for studying a phenomenon imagined to be new and different. As a result neither the proponents nor the opponents of globalization have been able to theorize systematically on the core elements of novelty of the current age.

There *are* novel developments that should interest political economists. Both the doctrinaires and skeptics of globalization ignore an important, qualitative global trend: the unprecedented continuation of openness by a vast number of states. Countries around the world have undergone massive policy overhauls toward establishing a more open economy. Even until a few years ago the communist bloc operated largely, though by no means exclusively, outside the dominant international trade and investment regimes. Prior to the debt-led liberalization, many developing countries also had fewer trade and investment relations with the outside world. This is not to say that they were insulated from world price-shocks—for they certainly were not—but to emphasize that policy reforms have made more countries more exposed to changes in international relative prices.

The political rhetoric and ideological reasons for continuity despite vulnerability has hardly been explored. What is the motive for policy continuity? Is it a rational choice?



Is it a strategic choice? How is it constructed? Is it couched in idealism, like autarky, Fabian socialism, or the varieties of emancipatory policies suggested to the postcolonial world by structural analysts of political economy? What is the political context, both domestic and international? How is it justified and marketed?

### *Disaggregate*

Scholarship on globalization and economic openness will benefit from disaggregating notions with which collective variables and complex phenomenon are conveyed. For theoretical reasons this study has taken the state to be a coherent constant. More nuances would certainly appear once the state is disaggregated.

An example will help make this claim. The literature that surveys crisis response in industrial countries asserts that domestic structures, institutions, groups, and coalitions are the main determinants of a country's response to shifts in the external economic environment.<sup>36</sup> Studies that scan developing countries, however, tend to treat the state as a coherent whole. Consequently, these studies underscore the importance of international rather than domestic constraints in explaining policy response to common crises. The standard argument, to recapitulate, is that balance of payments problems arising out of the oil and debt crises led to economic liberalization. The causal factor is crisis, the result

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<sup>36</sup> Peter J. Katzenstein, ed., *Between Power and Plenty: Foreign Economic Policies of Advanced Industrial States* (Madison: University of Wisconsin Press, 1978); Katzenstein, "The Small European States in the International Economy: Economic Dependence and Corporatist Politics," in J. Gerard Ruggie, ed., *The Antinomies of Interdependence* (New York: Columbia University Press, 1983); Peter Gourevitch, *Politics in Hard Times: Comparative Responses to International Economic Crises* (Ithaca, NY: Cornell University Press, 1986); Ronald Rogowski, *Commerce and Coalitions: How Trade Affects Domestic Political Alignments* (Princeton, NJ: Princeton University Press, 1989).

is economic reform, and the institutions that compose the state are somehow bypassed in the process. In essence, then, scholars highlight choice and policy divergence among OECD countries (in other words, the triad), and constraint, continuity, and policy convergence in the developing world. The reason for this dichotomy in face of supposedly “global” conditions is seldom explained, and could well be a result of preconceived research designs that treat the state, political institutions and organized interests with more importance for an industrial country than a developing country. The fact that many developing countries have been authoritarian states may partly account for this discrimination, for intuitively those states do not seem to be a pluralist arena where decisions are reached from interest articulation by competing groups.

The state is, at least in part, a collection of institutions with vested interests that sometimes conflict with those of other institutions. Some state institutions, presumably, are more adaptive to changes in global circumstances and some have more to gain from continuing openness than others. A disaggregated and adaptive treatment of the state can better assess the motives of its institutions for pursuing and continuing openness and their reaction to globalization.

#### *Examine Continuity in the Developing World*

Examining newer, qualitative changes in the world should underscore the importance of looking outside the triad region for evidence for globalization. Triad countries have been the historic bastion of capitalism and free trade. Save for the protectionist wave in the 1870s and in the interwar period, they have been relatively open

compared to the rest of the world, and so their fluctuation in openness over time will not appear significant.

Moreover, examining economic trends measured at the world level may lead to biased interpretations of openness. World-level statistics obscure a possibly consistent and perhaps unprecedented trend of opening up in not only a larger number of sovereign countries outside the triad, but for a greater part of the world's people. It is easy to compare early twentieth century world-level trade/GDP ratios with late twentieth century ratios to show little or no difference, as opponents of globalization rightly do, but it is fallacious to argue on that basis that globalization is a myth.

The logic of statistical inference cautions us against committing "ecological fallacy": drawing conclusions about individual cases from population trends. We cannot claim that an individual state is "globalized" even if the population, that is, the collective of world's states, as a whole seems "globalized." Considering the world economy as a whole and using trade and investment figures not only magnifies the importance of the triad but cannot yield generalizations about the larger number of individual states that lie outside it.

The real action toward opening up has been going on in non-triad, developing countries, representing the greater part of the world's population and land-area but still not the bulk of world trade and investment. By historical barometer, non-triad countries have been economically closed. Prior to the Second World War, most of them were forced to trade primarily with their colonial metropolises. After decolonization, many imposed high tariffs with overvalued currencies to support import-substitution industrialization.

An examination of such states that have moved, with steady continuity, toward the kind of freer trade that had so far been the hallmark of triad countries should be a crucial step in debating the evidence for globalization.

### *Historicize*

Although continuity is conceptually distinct from change, the novelty of globalization and the continuity of openness cannot be studied without referring to historical change. What, at the system level, has changed in recent times? Which characteristics are new, if any, and which are left unchanged? What pattern of policymaking is new, and what continues?

Save for a few exceptions, social scientists have neglected to historicize globalization. Historicizing includes, but is not limited to analyzing time-series data, and comparing current economic trends against historical benchmarks. More importantly it would involve extricating continuity from cause by inserting a historically sensible, if arbitrary, marker, as well as separating globalization from its conceptual predecessors, which go back to observations by Marx and Engels. Furthermore, even widely cited studies on the relationship between globalization and the state neglect to consider a number of important historical questions: (1) What are the main goals of the modern state? (2) What justifies its historical existence? (2) What have been the fundamental determinant(s) of state behavior internationally? (3) To what degree have the fundamentals changed in connection to globalization? (4) What type of change (or

continuity) in behavior can we expect of states if the theoretical determinants of state behavior are different in a globalized era?

### *Reconstruct*

Research on globalization can break new ground by adopting a constructivist approach, which gives ideas a prominent instrumental role, underscores the importance of subjective perception, and treats concepts in a fluid way, considering how their meanings evolve from time to time to inform us differently about variables, relationships, and “reality.” A constructivist agenda will direct scholarship into examining, in particular, three relatively unexplored topics.

First, we will be able to theorize on the social construction of the meaning and discourses of openness. Many scholars contend that the increasing salience of world economy as a generator of domestic growth makes states vulnerable to international price movements. The argument by itself is cogent. The political significance of “vulnerability,” however, needs to be clarified. While vulnerability implies constraint, it does not necessarily translate into passivity. In fact, economic vulnerability has been used to justify increasing state intervention. The subjective perception of crisis, constraint, and vulnerability is an important catalyst for policy changes,<sup>37</sup> but it can only be discerned by discursive, qualitative, and historical analysis.

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<sup>37</sup> For more, see Robert Jervis, *Perception and Misperception in International Politics* (Princeton, NJ: Princeton University Press, 1976); Peter Hall, *The Political Power of Economic Ideas: Keynesianism Across Nations* (Princeton, NJ: Princeton University Press, 1989); Robert Jervis and Jack Snyder, eds., *Dominoes and Bandwagons: Strategic Beliefs and Great Power Competition in the Eurasian Rimland* (New York: Oxford University Press, 1991); Judith Goldstein and Robert O. Keohane, *Ideas and Foreign Policy: Beliefs, Institutions, and Political Change* (Ithaca, NY: Cornell University Press,

So far, efforts toward a systematic treatment of the construction of economic openness have remained only rudimentary. Peter Evans has taken a step in that direction of research. Although he does not explore the idea concretely, he argues that the belief that globalization erodes the nation-state can become a dangerous self-fulfilling prophecy.<sup>38</sup> In other words, notions about globalization or openness can be socially constructed to serve certain political purposes. Notions of sovereignty, amity, enmity, anarchy, and competition are also subjectively constructed to serve political purposes, as some research has shown.<sup>39</sup> Globalization is linked in different ways with all these concepts, and is probably used more often by politicians and policymakers than any of those. Constructivist studies can elucidate whether globalization or the continuity of openness constrains sovereignty in a straightforward way, or if the meaning of openness and sovereignty (or the state) have changed over time such that the state can adapt and operate with newer meanings of sovereignty, power, and authority without necessarily jeopardizing the essence of its existence in an open, interconnected world.

In sum, a likely agenda of opening new scholarly terrain for exploration will involve emphasizing novelty, reducing dependence on quantitative analysis, placing theories in historical context, disaggregating concepts, and integrating reflective, constructivist approaches for evaluating openness, its meanings, and its politics. Such an

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1993).

<sup>38</sup> Peter Evans, "The Eclipse of the State? Reflections on Stateness in an Era of Globalization," *World Politics* 50 (1), 1997.

<sup>39</sup> See for example, Thomas J. Biersteker and Cynthia Weber, *State Sovereignty as Social Construct* (Cambridge, UK: Cambridge University Press, 1996); Alexander E. Wendt, "Anarchy is What States Make of It," *International Organization* 46 (2), 1992, pp. 391-425.

agenda cannot be carried out strictly within the boundaries of positivist epistemology. It will involve at least epistemological flexibility, so that elements of positivism can be usefully blended with constructivism or other post-positivist nuances.

## APPENDIX

### List of Interviewees

Note: The date of the interview is specified in parentheses.

1. Mr. Montek S. Ahluwalia, Secretary of Finance, Government of India (12 September 1997).
2. Dr. Sanjaya Baru, Senior Consultant, Research and Information System for the Non-Aligned and Other Economies. Formerly Business Editor, *Economic Times* (23 September 1997).
3. Mr. Dilip Bhattacharyya, Secretary of Planning and Development, Government of West Bengal, India (3 October 1997).
4. Ms. Krishna Bose, Member of the Parliament (Lok Sabha), India. Constituency: West Bengal. Party affiliation: Indian National Congress (3 October 1997).
5. Dr. Ashim Kumar Dasgupta, Finance Minister, Government of West Bengal, India. Party Affiliation: Communist Party of India Marxist (3 October 1997).
6. Dr. Ashok Lahiri, Economic Advisor, Ministry of Finance, Government of India. (16 September, 1997).
7. Mr. S. V. Mahapatra, Director General of Foreign Trade, Government of India (23 September 1997).



8. Dr. Amit Mitra, Secretary General, Federation of Indian Chambers of Commerce and Industry (Provided written answers to interview questionnaire (10 October 1997).
9. Dr. C. Raja Mohan, Strategic Affairs Editor, *The Hindu* (11 October 1997).
10. Mr. S. Narendra, Principal Information Officer, Government of India (12 October 1997).
11. Mr. Jayram Ramesh, Political Advisor to the Finance Minister (Mr. P. Chidambaram), Government of India (11 October 1997).
12. Ms. Manashi Roy, Deputy Director General, Confederation of Indian Industry (11 September, 1997).
13. Dr. Arjun Sengupta, Member, Planning Commission, Government of India. Previously Ambassador to the European Commission and Special Advisor to Michel Camdessus, Managing Director of the International Monetary Fund (17 December 1997).
14. Mr. K. Subrahmanyam, Consulting Editor, *The Times of India*. Former Chairman, Joint Intelligence Bureau, former Secretary of Defense, Government of India and Director, Institute of Defense Studies and Analysis (10 October 1997).
15. Mr. A. N. Verma, Chairman, Foreign Investment Promotion Board, Government of India, 1991-1996, and Principal Secretary to the Prime Minister (8 October 1997).

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