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Identity, Interests and Indian Foreign Policy[1]

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Introduction and Conceptual Issues

This paper argues that India's foreign economic policies were shaped to a substantial extent by developmental ideas within the Indian state and by the international context of the Cold War. Individuals mattered, but the preferences of leaders like Jawaharlal Nehru, Indira Gandhi, Rajiv Gandhi, P V Narasimha Rao, Atal Behari Vajpayee and Manmohan Singh were filtered through Indian politics and political economy. This involved engagements between the Indian state and economic actors. It was the interaction of the Indian state navigating state-society relations between domestic social constraints and international political constraints that generated different types of economic policies and external

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engagement for India.[3] I lay out the major conceptual issues in this section. This will help to run an analytic narrative in the next one.

The next section will delineate the variables and reveal how their interaction produced different types of engagements with the global economy for India. I have divided India's economic history into four phases.[4] The first one, from 1947 till 1967, is a phase of limited globalisation when the Indian state engaged the Cold War to earn the support of both the United States of America (USA) and the Union of Soviet Socialist Republics (USSR) to finance an inward-oriented import-substitution model of industrialisation. India was interested in building domestic industrial capacity and economic self-sufficiency, rather than promoting exports at this time. The second phase, from 1967till1974, is the anti-globalisation phase. This was a time when India and the USSR became close economic and strategic partners. The third phase, from 1975 till 1990, was a time of halting globalisation when the dominant ideas within the state became critical of import-substitution, but domestic and international political constraints stood in the way. The final phase from 1991 is one where India went for thoroughgoing globalisation and deregulation. Later on, in this section, I will explain why this mode of globalisation resembles what John Ruggie aptly described as "embedded autonomy". (Ruggie 1982: 379-415).

Any explanation that gives primacy to the state must deal with ideas. State-centred arguments suggest that the state has a mind of its own that cannot be derived from the interests of a particular class or other vested interests. This implies that the state's interest must be derived from a certain body of ideas that shape what is considered to be, in the long term, interests of the state and society (Skocpol 1985: 4-37; Krasner 1978). For example: it can be argued that when the Indian state was bowled over by the idea that a closed economy was best for development in a post-colonial country, the state reposed substantial faith in that idea from independence till about the mid-1970s. Singapore's first Prime Minister Lee Kuan Yew, on the other hand, took precisely the opposite route, impressed by the powerful argument of the Harvard don Raymond Vernon (Lee 2000). When the Indian state was disillusioned with import-substitution based on India's developmental experience from 1947 till 1975, it began questioning old ideas, and embarked on a model of globalisation and export-led growth from 1991. In these cases, while the Indian and Singapore states have placed great value on

[3] For the importance of the state and international politics with reference to foreign policy, see (Waltz 1959; Wolfers 1962: 3-24). For the state at the intersection of domestic and international politics, see Evans (1993).

[4] I employ a similar characterisation in Mukherji, 2014a, chapter 3.

economic growth, the desired path to economic growth has varied between the countries and during different times. That path depended on economic ideas that came to capture the state.

How the state thinks is therefore, very important. Does that imply that the state in India can impose whatever it likes on an unwilling society? We find that while there are foundational moments for powerful economic ideas, over time these ideas acquire favourable constituencies and social actors who derive benefits from these ideas. The Indian state needed to be especially autonomous of powerful social actors during these foundational moments. We find that the state under India's first Prime Minister Jawaharlal Nehru, was fairly autonomous of the industrial class when he laid the foundations of import-substitution in India since the mid-1950s. The Indian state under Prime Minister Narasimha Rao and Finance Minister Manmohan Singh in 1991 was similarly insulated from the dominant interests of the business class when it embarked on a strategy of globalisation.

Do powerful social actors such as industrialists, farmers and professionals not matter at all? We find that class and interest groups constrain the state, but the Indian state, especially in a moment of crisis, is able to articulate its interests quite substantially. Prime Minister Rajiv Gandhi was constrained by powerful social actors who accepted only half-hearted industrial deregulation but not economic globalisation. In more recent times, free trade agreements with Sri Lanka, Singapore and the ASEAN have been obstructed by protectionist Indian businesses.

If powerful social actors obstruct institutional change, what produces change in India? State autonomy with coherent ideas about development can produce policy and institutional change at the time of a crisis. The year 1991 witnessed tectonic shifts in policy and institutional change, not only because ideas within government had come to favour economic globalisation and deregulation, but also because there was a balance-of-payments crisis and consequent dependence on the International Monetary Fund at that time. Devoid of the crisis, ideational change during the 1980s had produced rather insignificant economic globalisation during that decade. The ratio of India's trade to Gross Domestic Product (GDP), which was about 17 per cent between 1980 and 1991, shot to 54.5 per cent in 2011. India's trade-to-GDP ratio was higher than that of the US at 31.7 per cent in 2011.[5]

If the state and the ideas it holds dear matter, how do developmental ideas change within the state? I have argued elsewhere that ideational change within the state is a largely domestic

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5 This data was obtained from the World Bank's World Development Indicators.

activity driven by an understanding of how previous policies failed. How technocrats within the state evaluate past policies when the international demonstration effect of growth-oriented policies elsewhere in the world matters. Interaction between technocrats and political personalities, driven by the need to change the course of policy, shifted the weight of economic ideas from favouring import-substitution towards economic globalisation and deregulation. (Mukherji 2013: 363-89).

Policy and institutional changes favouring economic globalisation and deregulation in India resembled a tipping point model. A tipping point model suggests an earthquake model of economic change. Like in the case of an earthquake, endogenous processes gradually move the system in the direction of change. Change that looks abrupt does not occur primarily for exogenous reasons, because the ideas that undergird change have been internalised quite substantially within the state. In this mode of argumentation, a bridge collapses not because of the last bicycle that went over it, but because of structural characteristics that undermined the bridge consistently over a period of time. Similarly, import-substitution was overtaken by economic deregulation and globalisation because old policies, it seemed to policy makers, had proved incapable of generating either growth or equity, and had rendered the system highly vulnerable to external shocks. (Mukherji 2013: 363-89; Mukherji 2014b; Cappoccia & Kelemen 2007: 314-69).

In the tipping point model discussed above, what moves policies in India are the dominant ideas that capture technocrats and political personalities within the state. India could not be easily coerced under foreign pressure. When the Indian government believed in import-substitution, it did not change course under foreign pressure at the time of a balance-of-payments crisis in 1966. On the other hand, when India needed to change course, owing to the weight of economic ideas within the state having shifted to favour economic deregulation and globalisation in 1991, it exploited the International Monetary Fund (IMF) pressure to deal with domestic opposition to policy change.

The nature of India's globalisation is also affected by what John Ruggie, following Karl Polanyi, called domestic social purpose. Ruggie is known for challenging the literature that rationally sought to derive state interests from hegemonic dominance by suggesting that hegemony produces different kinds of social and economic orders, depending on the state-society relations prevailing at that time. So pre-First World War globalisation was driven by the idea of *laissez faire*, and post-Second World War globalisation was characterised as embedded liberalism. *Laissez faire* was driven, to a much greater extent, by the market than embedded liberalism. Embedded liberalism emerged from discussions between the US negotiator Harry Dexter White and John Maynard Keynes in the aftermath of the Second World War. It respected both a liberal order and domestic autonomy – so that global economic coordination did not impinge on the sovereignty of states. Keynes had argued persuasively that the fiscal concerns of Wall Street were at odds with the needs of counter-cyclical funding needed at the time of a recession. Moreover, he argued persuasively and successfully that war-ravaged Europe was in dire need of counter-cyclical funding. Embedded liberalism stressed international economic coordination with domestic autonomy. (Ruggie 1982: 379-415).

We find that India's global identity is supportive of embedded liberalism in international economic regimes such as negotiations around the G-20 (Group of 20) and on climate change. India is generally supportive of a liberal order which is quite different from conflict-ridden international economic relations that characterised its behaviour in the past. In the past, India was averse to globalisation, except as a way of acquiring resources for pursuing import-substitution.[6] That has changed. In present times, India fights hard to secure its domestic interests but within an overall framework of preserving a global economic order that promotes both domestic economic autonomy and the market.

The next section is an analytic narrative of India's economic history that begins by isolating and describing the factors noted above. It will demonstrate how economic ideas within the state interacted with international and domestic constraints to produce different types of globalisation in India.

Causes and Phases of India's Foreign Economic Policies

Table 1[7]

Factors Affecting India's Economic Globalisation

			Economic Ideas	
		Autarky	Critiquing	Globalisation

[6] This strategy resembles what Steven Krasner called "structural conflict". (Krasner 1985).
[7] This table is taken from Mukherji, 2014a, chapter 3.

			Autarky	
Strategic Setting	Non-trader friends	1. 1967-1974 Anti-globalisation	2. 1975-1990 Halting Globalisation	3. No episode
	Traders & non-traders as friends	4. 1947-1966: Limited globalisation	5. No episode	6. 1991- Globalisation: Embedded Liberalism

The previous section has suggested the following propositions. First, comprehending dominant ideas within the Indian state is important if we are to understand what drives its interests. The Indian state would define its interests very differently if it were a votary of autarkic import-substituting industrialisation than if it favoured economic globalisation. In the former case, it would exploit globalisation to garner resources for import-substitution and resist market-driven international economic regimes. If it believed in globalisation, on the other hand, the state would try to promote a trade-and-investment agenda that would be sympathetic to its domestic concerns. Second, the international context also mattered. The approach to globalisation is likely to be more benign if India had excellent security and economic ties with traders and non-traders alike than if India trusted only non-traders who opposed economic globalisation. Finally, the state has to negotiate both international and domestic politics. Therefore, if globalisation faces stiff domestic resistance from domestic industrialists, workers and farmers, then it would be difficult for a state, in which governments have to face elections, to turn the tide in favour of globalisation.

We divide India's economic history into four discrete phases. In the first phase, from 1947 till 1966, the Indian state was a votary of autarkic industrialisation. During this phase, India maintained cordial relations with both the US and the USSR. The limited globalisation during this phase had a great deal to do with garnering resources for import-substitution from both superpowers. The anti-globalization phase was from 1967 till 1974, when India drew very close to the Soviet Union and signed a Treaty of Peace, Friendship and Cooperation in 1971. Autarkic ideas and anti-Americanism estranged India's relations with trading countries. This led to the most stringent anti-globalisation phase for India. The period from 1975 till 1990 was one where ideas favouring globalisation were consolidated within the Indian state. But the USSR remained the mainstay of Indian foreign policy, and relations with the US and its trading friends and allies did not improve substantially. Domestic and international constraints paved the way for halting globalisation during this period.

Finally, the post-1991 phase is the globalisation and deregulation phase. Autarkic industrialisation as an idea had passed its prime. The balance-of-payments crisis enabled the Indian state to deal with domestic political opposition to globalisation and deregulation. Ideational evolution within the state of the 1980s helped, and so did the end of the Cold War. If there was no Soviet Union, it would have been easier for the US and its trader-friends, especially in Asia, to trust India. The next few sections will describe the various phases of India's globalisation. It will lay greater stress on the post-globalisation phase, which is characterised by embedded liberalism.

Limited Globalisation 1947-66

This was a period when the Indian state evolved ideationally as one that would pursue import-substitution and maintain friendly relations with both superpowers without becoming an ally of either. Import-substitution and nonalignment produced a period of limited globalisation when India's foreign engagement was to largely finance the country's import-substituting industrialisation with the help traders like the US and its allies and non-traders like the Soviet Union.

The idea of import-substitution was firmly embedded within the Indian state. Debates about the extent of state control over the economy engaged pro-private sector advocates like the first Deputy Prime Minister and Home Minister Sardar Vallabhbhai Patel who believed in private initiatives, and socialists like Jayaprakash Narayan and Ram Manohar Lohia who desired extensive public sector intervention. The Industrial Policy Resolution of 1948 was a compromise between the two groups. (Kudaisya 2003).

India's first Prime Minister Jawaharlal Nehru was more inclined towards state intervention and the closed economy than Patel. Nehru's hegemonic political moment came after the death of Patel in 1950. The state as an economic actor became significant, with the adoption of the Industrial Development and Regulation Act (1956), and the formulation of the Second Five-Year Plan (1956-1961). The Act signalled the birth of industrial licensing in India. Sectors such as steel and coal were barred for private companies. And, industrialists would need the permission of government before they could make production decisions. This plan set the tone for India's import-substitution that would enjoy a lasting legacy till the mid-1970s. It articulated a closed economy model of heavy industrialisation where the state would play an important role. Such was the power of this model within the state that when the World Bank tried to push India in the direction of private sector friendliness during a balance-of-payments crisis in 1966, India retreated to temporary liberalisation and devaluation of the Rupee only to pursue the most stringent version of import-substitution after 1967. (Mukherji 2000: 375-92; Frankel 2005).

Indian industrialists were largely subservient to the state during this time. Though the elite industrial class may not have been the author of this economic model, they got accustomed to it for a variety of reasons. Captains of Indian industry like G D Birla were not impressed with Nehru's approach to Indian industry even though they learned to live with it for a variety of reasons. (Kudaisya 2003). First, they needed either to bribe the government or persuade it to garner industrial licenses. Rational industrial direction became subservient to the needs of election funding and became a substantial rent-seeking racket. Rather than invest in innovation, corporations invested in persuading the government. (Kochanek 2007; Patel 1987: 209-31). Second, this model of industrialisation also provided Indian companies substantial protection from competition and international trade. Over a period of time, import-substitution generated an entrenched industrial class. (Bardhan 1984; Rubin 1985: 942-57; Kohli 1989: 305-29).

Capital-intensive industrialisation needed finances. India ran into a balance-of-payments crisis in 1957, just a year after launching the Second Five-Year Plan. The aim of the state therefore, became garnering of resources. (Joshi & Little 1994). Therefore, the objective of economic diplomacy was to garner resources for India's industrialisation, rather than to promote trade.

Third, India was firmly committed to nonalignment during this time. This meant that India would work with both superpowers without becoming any one's camp follower. Nehru was committed to keeping Asia out of the Cold War. This was the primary reason why Nehru organised the Asian Relations Conference in New Delhi in 1947, and supported another pan-Asian conference in Bandung (Indonesia) in 1955. (Mukherji 2008: 160-79; Gupta 1964).

So, how did India's tryst with traders and non-traders pan out? The US was unhappy with India's independent approach to foreign policy but had provided around US$ 500 million in aid between 1950 and 1955. (Cohen 1955: 546-71). The country, after all, had opted for democracy and kept communism at bay.

Thereafter, it was the USSR's interest in supporting India around 1955 that led to a surge in American interest as well. Khrushchev and Bulganin visited India in 1955 and congratulated India on its Second Five-Year Plan. The Soviet Union supported the steel plant in Bhilai when the US was unwilling. Even though aid from the Eastern bloc was only 8 per cent of total aid, Khrushchev asserted that Soviet aid was a form of Western aid, because it made the Americans compete with the Soviets to please India. The US was not willing to lose India to the Soviet camp. (Donaldson 1974; Datar 1972).

US aid to India surged after 1957. The National Security Council opined that a vulnerable India would increase the communist appeal worldwide. MIT economists like Walt Rostow, P N Rodesntein Rodan and Max Millikan provided the intellectual basis for rapid heavy import-substituting industrialisation and praised the Indians for their planning. The aid figure to India surged from US$ 400 million in 1957 to US$ 800 million in 1960. Moreover, cheap wheat exports under the Public Law (PL) 480 programme became critical for India to fill the shortfall in food-grain production, which became a chronic problem arising out of India's import-substitution that emphasised industry over agriculture. (Cullather 2007: 59-90; Kux 1992; Patel 2003).

The US became critical of India's import-substitution after 1962. It coerced India to devalue the Rupee, promote the private sector and spend more on agriculture when India faced a balance-of-payments crisis in 1966. India had suffered a drought in 1966 in the aftermath of wars with China (1962) and Pakistan (1965). The wars and droughts had created an economic situation where India could not buy wheat at market prices and finance its five-year plan. This gave the US the aid-lever to turn India in the direction of trade and private investment. India devalued the Rupee under pressure and took some temporary liberalisation measures in 1966. Moreover, the promised US$ 900-million aid package did not materialise. (Mukherji 2000: 375-92; Denoon 1986; Muirhead 2005: 1-22).

This episode in India's economic history turned the country in the direction of Soviet Union. First, the Indian state was not convinced about globalisation, deregulation and export-orientation. Second, it regarded the US and World Bank pressure as being rather coercive at a time when it was not convinced about that policy line. Where the Indian state agreed with the US on agricultural policy, it took the US advice, invested in agriculture, and sowed the seeds of Green Revolution and self-sufficiency in agriculture. Third, India did not take kindly to the fact that the US was unwilling to accept Indian criticism of the US invasion in Vietnam.

The Anti-Globalisation Phase 1967-1975

The hallmark of the anti-globalisation phase was an abandonment of equal distance from the superpowers and moving substantially closer to the USSR. When the USSR signed a peace treaty with India in 1971, Soviet and Indian security interests converged. Moreover, the two countries had resorted to barter trade, for example, guns for wheat, which saved India precious foreign exchange. US assistance to India dipped from 51 per cent of total assistance between 1951 and 1966 to 1 per cent in 1975. The World Bank, however, continued to engage India. (Rudolph & Rudolph 2008; Singh 1992).

Ideationally the Indian state had moved to a much farther extent in the direction of autarky and state control. The Foreign Exchange Regulation Act (1973) reduced the maximum permissible level of foreign equity from 51 per cent to 40 per cent. This lower level of equity meant that foreign companies now had much less say in management issues. The Monopolies and Restrictive Trade Practices Act (1969) stringently regulated all companies worth Rupees 200 million or more (Panagariya 2008; Ganguly & Mukherji 2011). In addition, sectors such as banks, insurance and wheat production were all nationalised.

A state that was ideationally driven by autarky and state control met with an international setting of the Cold War where it went much closer to the USSR than the US. India’s trade as a proportion of its GDP was 10 per cent in 1961 and dipped further to 8 per cent in 1971 (World Development Indicators, World Bank). Foreign companies and large companies found it much harder to do business in India during this period than in the past.

Halting Globalisation 1975-1990

It is in the context of the anti-globalisation phase that one needs to understand the period of halting globalisation and deregulation in India between 1975 and 1990. The Indian state during this period became quite critical of import-substitution, but domestic and international constraints lay in the path of India’s globalisation. It would be difficult to be the friend of the US in Asia and promote trade as long as India remained a reliable friend of the Soviet Union.

India’s trade as a proportion of its GDP rose gradually from 14 per cent in 1980 to 18 per cent in 1990. But India continued to remain one of the most protected economies in the world in 1990.

There is no denying the fact that the Indian state gradually but steadily shifted towards an understanding that import-substitution had outlived its utility. It consciously began to critique autarky. Various reports of the Government of India since 1979 began criticising past policy. They argued that exports were essential for raising resources for development; that foreign investment was required for accessing technology; that the Indian public sector was too politicised for being commercially viable; and, industries needed to be freed from the clutches of government control (Dagli 1979; Sengupta 1984; Hussain 1984; Narasimham 1985). A few sectors such as pharmaceuticals, information technology (IT), and auto parts were freed from licensing requirements. The Monopolies and Restrictive Trade Practices Act (1969) was diluted to the extent that it now regulated companies worth Rupees 1 billion and above. It had earlier been operational for all companies worth Rupees 200 million or more. There was also some relaxation in import controls for the purpose of export promotion in sectors like IT. Taken together, these measures were hardly revolutionary by the standards of the tectonic policy shifts of 1991 and beyond. This period is therefore coded as a period of halting globalisation (Panagariya 2008; Ganguly & Mukherji 2011).

Domestic political economy was not supportive of government decontrol and globalisation. Industrialists were accustomed to receiving licenses and protection, and did neither want to compete with foreign manufacturers nor multinational companies that could export from India. The bureaucrat and the politician wielded substantial power within a regime of controls. Besides, there was no reason for the worker in India to think that competition would be good. In addition, while changes were taking place within the technocracy in government, the political class, especially within the Congress Party, was still largely in the Nehruvian mould (Bardhan 1984; Rubin 1985: 942-57; Kohli 1989: 305-28).

The international environment did not favour India’s globalisation at a time when India could not renounce its close ties with the Soviet Union. The US had hoped that India would engage with the US after the Congress Party lost elections in 1977. This was the first non-Congress government in power. President Carter of the US visited India in 1977 in the immediate aftermath of the election. But the Janata Party soon realised the critical importance of the Indo-Soviet relationship when the Soviet Foreign Minister Andrei Gromyko offered India

Rupees 2.25 billion credit on rather soft terms. (Nayar 1977: 1185-89; Mehrotra & Lawson, 1979: 1367-92; Kux 1992).

The Cold War situation continued to impede India's economic globalisation when India supported the Soviet invasion of Afghanistan, despite substantial reservations. This clearly reinforced the Cold War. Pakistan became the frontline state, and US could not trust India (Weiner 1979: 49-68).

Relations with the US never picked up substantially in the 1980s. It did not sell sensitive technology to India for fear of it finding its way to the Soviet Union. It was difficult to obtain nuclear fuel for the plant in Tarapur; when India requested the Cray XMP 24 supercomputer it got a substantially inferior machine – the XMP 14. India was threatened with sanctions under the Omnibus Trade and Competitiveness Act (1988). (Kux 1992).

When India sided with the USSR during the Cold War, the growth centres in Asia, especially in Southeast Asia, distanced themselves from India. The US's friends in Southeast Asia worried about India when it supported the Soviet-backed People's Revolutionary Council of Kampuchea in 1979. This meant that visits by Prime Minister Indira Gandhi and Rajiv Gandhi did not yield the desired results. India was not recognised as a dialogue partner of ASEAN during the Cold War (Mukherji 2008; Sridharan 1996).

International and domestic constraints produced halting globalisation, despite the movement of ideas in that direction within the Indian technocracy. India's political economy resisted change and India's strategic relations with the Soviet Union did not augur well for its strategy of globalisation.

Globalisation as Embedded Liberalism: 1991 and Beyond

This section will describe India's globalisation. Why did it occur? What was its nature? And, how does the Indian behaviour at the bilateral and multilateral levels corroborate what we call embedded liberalism, following a term used by John Ruggie, to describe the post-Second World War world?

I have argued elsewhere that 1991 was a tipping point for India's globalisation. The previous section briefly lays out how the Indian government changed its mind – something that is clearly evident from government reports that began criticising past policies and gradual policy changes that provided greater freedoms to the private corporate sector in India. However, there was a dominant coalition of industrialists, farmers and professionals with a stake in import-substitution who successfully slowed down the initiatives of the state. India was at a tipping point in 1991, building over years of cogitation and policy experiments with globalisation and deregulation. The balance-of-payments crisis of 1991 provided a moment of autonomy to a state that had begun to think differently from the past. The state in India exploited the crisis and the consequent dependence on the IMF to chart out a fairly home-grown programme of economic stabilisation and structural adjustment in a manner that would have long-term ramifications for India's foreign economic policies. (Mukherji 2013: 363-89; Mukherji 2014b).

Globalisation and deregulation occurred at the very moment when the Soviet Union had collapsed and India was forced to look for new economic partners that would aid the new path charted out by trade and investment. The collapse of the Soviet Union made available economic possibilities with the US and friends in Asia that were not available before. We noted in the previous section, it would be difficult for India to win the trust of the US as long as the Cold War was on – given India's strategic proximity to the USSR.

This section will highlight two aspects of India's foreign economic engagement. First, while India's relationship with the US and its allies in Asia is an intimate one India has resisted becoming a part of the US strategy of containing China. China continues to be an important economic partner, despite problems on the border. Second, when it comes to India's engagement in multilateral fora like the G20 or Climate Change negotiations, India's strategy has shifted from conflict with the market-driven economic order to one that participates in the economic order without giving up its domestic autonomy. This characteristic of embedded liberalism also finds expression in the bilateral agreements that India signs with various countries.

Let us first examine bilateral relations. India's relationship with the US is the most significant economic partnership. The decline of the USSR rendered economic engagement with the US a policy priority. Moreover, India's globalisation charted out in 1991 would be based on trade with important trading countries. Trade with the US was the principal reason for the rise of Asia. India's total trade with the US was worth US$ 61.3 billion in 2012/13, and with Russia US$ 6.5 billion (World Development Indicators, World Bank). Apart from merchandise trade, the US is the largest consumer of India's famed IT exports. In 2011/12, total trade including service trade was US$ 86 billion and has risen to about US$ 100 billion now.[8]In addition, India's IT and services exports surged from US$ 22 billion in 2008 to US$ 40 billion in 2012. The exports of the IT and business-process outsourcing sector that year was US$ 69 billion.[9]

Economic and security relations are intertwined. The Indo-US security relationship has moved from a situation when the US was not willing to part with its latest computers in the 1980s to one where India has been recognised as a nuclear-weapon state which can procure uranium and construct reactors for peaceful purposes to strengthen the country's energy security (Hagerty 2006: 11-37; Sahni 2006: 173-91). Once geopolitics favoured trade, the Indian diaspora through organisations such as the Indian American Forum for Political Action led by Swadesh Chatterjee played a significant role in drawing the Indian and American business communities to lobby for India within the US Congress and Senate. (Pant 2011; Vickery 2011; Kapur 2010).

India's democratic checks and balances ensured that, for the Indian government, it was neither easy to sign the nuclear deal nor easy to get foreign, especially US investments, in nuclear reactors for generating power. General Electric and Westinghouse have lobbied against the Nuclear Liability Act which makes foreign companies liable in case of a nuclear accident. The Indian Prime Minister has received an opinion from Attorney General Vahanvati suggesting that the Nuclear Power Corporation of India Limited (NPCIL), operating any plant using imported reactors will decide whether it will exploit the "right to recourse" in section 17 of the Civil Liability for Nuclear Damage Act. As such, whether the liability for a catastrophe will kick in or not will be decided by the NPCIL. In 2008, India promised US companies 10,000 megawatts of power generation. Therefore, the government has allowed the NPCIL and Westinghouse to enter into an agreement to set up a plant in MithiVirdi in Gujarat. However, on the eve of the 2014 general election, it was considered unlikely that the political opposition to the government would allow such an interpretation of the nuclear liability law (Venkatesan 2013; Dikshit 2013).

The end of Cold War made a good impact on India's second most important relationship – with China. China's trade with India has grown despite security issues between the two countries. Rajiv Gandhi's 1988 visit is considered historic because it came after a long time

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8 This data was obtained from the Office of the US Trade representative. See: http://www.ustr.gov/countries-regions/south-central-asia/india.

9 This data was obtained from the website of the National Association of Software Companies (NASSCOM). See: http://www.nasscom.in/indian-itbpo-industry. See also: http://www.nasscom.in/it-services.

and it created awareness in both countries to find a mechanism to maintain peace and tranquillity along the disputed border. Over a period of time, and especially after the Cold War, the profile of the visits has become more substantial, and the mechanisms to ensure peace and tranquillity have improved (Ganguly 2004: 103-33; Nayar and Paul 2003; Mansingh 2013: 281-302). Merchandise trade with China at US$ 65.7 billion was greater than India's merchandise trade with the US (2012/13).[10] Moreover, India tolerates a deficit and largely exports raw materials in exchange for manufactured goods. Chinese companies have manufactured 30 to 35 per cent of the Indian power equipment. In addition, the Chinese garnered 35 per cent of the wireless infrastructure market. Indian companies like Mahindras serviced 9 per cent of the tractor market, second only to John Deere, and the National Institute of Information Technology (NIIT) had 205 centres in China in 2012. The Tata's are a big player, with Landrover and Jaguar, having entered into a joint venture with Chinese company, Chery (Jaishankar 2012).

Interdependence is helping keep the peace because differences over the border have not been overcome. In April-May 2013, there was a stand-off between Indian and Chinese troops when 50 Chinese troops camped in a place called Daulat Beg Oldie in Ladakh. It was only after the Indian side placed a similar camp a short distance away that Indian and Chinese troops withdrew from a disputed part of the India-China border. The withdrawal took place on the eve of the then Indian Foreign Minister Salman Khurshid's visit, which would have been cancelled had the troops not withdrawn. (Bhardwaj 2013: 12-15). Subsequently, India flew the C-130 J "Super Hercules" transport aircraft to a rudimentary airstrip in the same region (Pandit, August 20 2013).

China and India are both convinced that they need trade and investment with each other in order to grow. This imperative will restrain them from going to war. The million-dollar question is: how long will interdependence keep the peace?

While India would like engage with China on its own terms, its economic growth and resources are substantially less than China's. Any Chinese behaviour that is deemed to be threatening will drive India towards keeping its deterrent options open with the US and Japan. Even though India has strategic relations with China and the US, its strategic relationships with the US and Japan, respectively, are far more comprehensive. Japan is actively lobbying for India to become a member of nuclear regulatory groups such as the

[10] This data was obtained from the website of the Department of Commerce, Government of India.

Missile Technology Control Regime and the Nuclear Suppliers Group. As both countries worry about the prospect of Chinese hegemony in the region, their economic relations have warmed up considerably. (Chand 2013a: 32-37).

Japan's trade with India, at US$ 18.5 billion (2012/13), was substantially below potential.[11]Of greater significance is that India was the largest recipient of Japanese overseas development assistance during the last decade. The country has invested US$ 4.5 billion in the Golden Quadrilateral – a road network that will connect Delhi to Mumbai. The US$75-billion project in infrastructure development could be a game changer. (Chand 2013a: 32-7). In August-September 2013, when the US dollar seemed to be dangerously appreciating with respect to the Indian Rupee, Japan pledged a US$ 50-billion access to hard currency. Negotiations between the Indian and Japanese commerce ministers on the regulatory infrastructure will facilitate Japanese foreign investment in India (Venu 2013).

India's relations with Southeast Asia, especially with Singapore, are important. Trade with Singapore in 2012/13 was $21 billion – a figure that exceeds India's trade with all South Asian countries. Relations with Singapore and Southeast Asia as a whole demonstrate the importance of the relationship between economic and security cooperation. The trade with ASEAN was around US$ 75 billion. The Cold War was a period when India tried but failed to engage with Southeast Asia because ASEAN was an anti-communist group and India had close ties with Soviet Union and Vietnam. No sooner had the Cold War ended India was accorded the status of an ASEAN sectoral dialogue partner (1992), then a dialogue partner (1995) and was subsequently invited as a full-fledged member of the ASEAN Regional Forum (1996). ASEAN is one of the few regions in the world that accepted India's nuclear tests without hesitation. India has a Comprehensive Economic Cooperation Agreement with Singapore and with ASEAN. Singapore played a critical role in inviting India to the East Asia Summit (2005). (Mukherji 2008: 160-79; Yogaananthan 2013).

India's economic relations with South Korea are significant as well. What is more important than the US$ 20-billion trade is the ability of Korean investors to penetrate the Indian market. Brands like Hyundai, Samsung and LG are better-known than the country itself. In addition, the US$12-billion investment in a steel plant in Odisha is an ambitious investment plan where democratic politics poses all manner of hurdles for investors. The end of the Cold War was

[11] Wherever it is not mentioned, the figures are from the website of the Department of Commerce, Government of India.

absolutely essential for this relationship to take off, and Pakistan's special relationship with North Korea would have helped too.

India's economic relations within South Asia have improved but have not made a significant impact on trade. Its trade within the region is less than 5 per cent of its total trade. The end of Cold War has not lowered the antagonism over Kashmir, but there is an understanding within the Pakistani elite that trade with India is the only rational way for the country to deal with its economic problems. It is more expensive to smuggle Indian products into Pakistan or buy them from Dubai than through direct trade. Moreover, most goods procured from other countries are more expensive – given the relationship between geography and trade. The US$ 2.6-billion India-Pakistan trade, though an improvement from the past, is hardly consequential for India.

The end of the Cold War, Rajiv Gandhi's assassination, India's embrace of globalisation all improved the possibility of Indo-Sri Lanka economic ties. Moreover, India's globalisation was affected by the Asian financial crisis and by trade sanctions over nuclear tests during the latter half of the 1990s. All these factors pushed India to negotiate a reasonable free-trade agreement, –one that boosted Sri Lanka's exports even though the balance of trade remained favourable for India. Commercial and security relations with Sri Lanka have invariably taken a dip at times when India worries about the treatment of the Tamil minority community in that country. (Mukherji 2011: 301-28).

India's trade with Sri Lanka at US$ 4.6 billion was overtaken by its trade with Bangladesh (US$ 5.7 billion). Trade relations have been overtaken by the development assistance for the 300,000 displaced Tamils. This is India's largest financial assistance programme at a time when relations between the Indian and Sri Lankan governments were not at their warmest level. India had pledged US$ 270 million for the construction of 50,000 houses in the Northern, Eastern and Central provinces. In addition, the Indian government has helped in a variety of ways, providing fishing boats, agricultural equipment, small-scale business development, vocational training and railroads construction (Chand 2013b: 38-40). The situation in Sri Lanka, if it produces conflict between the Tamil and Sinhala communities will not augur well for Indo-Sri Lankan trade and security relations. Sri Lanka is increasingly engaged with China in the area of economic cooperation.

India's trade and investment relations with Bangladesh have improved, especially because Sheikh Hasina has made excellent gestures on the political and security front. Bangladesh now has a secular constitution and the government has clamped down on terror groups that used Bangladesh as a base to operate in India. Bangladesh's globally competitive readymade garments industry has led to a surge in Indian investment in the country. Indian companies like Craft, TCNS, Pearl and Gokuldas Images have had a presence in Bangladesh (Dhume 2010; Lewis 2011). But West Bengal Chief Minister Mamata Banerjee's intransigence over delivering a fair share of river waters in the higher riparian, despite former Prime Minister Manmohan Singh's promise to Bangladesh Prime Minister, hurt relations on both sides. India needs Bangladesh's support to control terror and for its Look East Policy. A transit route through Bangladesh to Northeast India and Southeast Asia would augur well for India. Similarly, freer Indo-Bangla trade and investment would also be welcomed in Bangladesh. But if India were to fail to deliver on water-sharing, this may have a negative political impact on a friendly political regime and set India's globalisation clock backwards. The Bangladesh Prime Minister is unable to visit India to promote ties in the absence of an agreement on water-sharing. (Davar 2013).

India's aid diplomacy has become quite significant in recent years as the country seeks to play an important role in the global governance of funding. It is characterised by embedded liberalism because it respects domestic concerns to a much greater extent than the developed countries. India's aid to Africa saw a compounded average growth rate of 22 per cent for a decade beyond 1998/99. Sub-Saharan Africa, North Africa and West Africa are substantial Indian-aid recipients and they welcome it. In 2004, India loaned US$ 400 million to Brazil, Burundi and Indonesia under IMF transactions. The country is involved with the Development Cooperation Fund under the United Nation's (UN) Economic and Social Council (Chanana 2009).

The Pan African E-network, for example, brings together initiatives such as e-learning and e-healthcare from India to Africa through a virtual platform. The India-Africa Virtual University, which is part of this network, will bring learning to Africa with the help of the Indira Gandhi National Open University. India will spend US$ 3.5 million to educate 10,000 students in Africa. The E-network also brings together Indian super-specialty private hospitals and their doctors to attend to African patients. (Duclos 2012: 209-25).

India's respect for embedded liberalism is quite pronounced in its positions at the G20. Participation in the Group of 20 countries in the aftermath of the global financial crisis in 2008 offers India the opportunity to reflect its identity and views in the governance of the global economy. This is consistent with India's own behaviour with respect to the powerful multilateral organisations like the IMF and the World Bank, and more powerful countries like the US and China. India is famous for asserting its autonomy wherever possible, without undermining the liberal economic order. Let me explain this peculiar characteristic of Indian diplomacy with examples (Mukherji 2014c).

India is averse to severe austerity and respects home-grown adjustment as the developed world deals with the global financial crisis. It provided US$ 10 billion for global recovery and has argued that structural adjustment should not be front loaded. It supports the Macroeconomic Policy Mechanism of the IMF as a way to provide technical assistance to the affected countries instead of it being a prescriptive organisation that stipulates strict conditions. India understands that economic adjustments need to be made but these have to be home-grown. This is precisely what India fought for during the balance-of-payments crisis in 1991. It continues to fund its welfare expenditure and the current account deficit with inflows of foreign investment, while it realises that it is important to drastically reduce this deficit. India is also a front-runner among countries that seeks to adjust IMF quotas with the weight of developing countries in the world economy (Ahluwalia 2011; Singh 2012).

We find a similar dynamic at work in climate change negotiations. India opposes unilateral expensive technology adjustments for averting climate change. Energy consumption is highly correlated with economic growth. India is a poor country where electricity consumption is just 22 per cent of the global average. The country's per capita emission of carbon dioxide is 1.1 tons when the comparable figures are 20 and 10 tons, respectively, for the US and EU. India and China therefore argue for containing per capita emissions rather than total emissions. India has also agreed to reduce the energy intensity of a unit of GDP growth by 2020, compared to the same figure in 2005. India and China want technology-rich countries to provide technology. While India is not averse to adjusting to climate change, its pace should be determined by the imperatives of development. Independent of foreign pressure, India has eight national missions in areas such as energy efficiency and solar energy that address the issue of climate change. India subsidises wind power and the Indian company Suzlon is the world's fifth-largest turbine manufacturer, with operations that generate 21,500 megawatts of power outside India (Bodansky & Rajamani 2013; Ganguly & Panda 2009).

In Sum

This snapshot of India's economic history reveals that a combination of ideas within the state and the geopolitical context both mattered for India's tryst with globalisation. When the state believed in import-substitution (autarky), foreign pressure in 1966 could not bend the state towards export promotion. India pursued import-substitution till 1975 of its own volition. However the geopolitical context mattered as well. India pursued a policy of limited globalisation till 1966, when it used its relations with both the Cold Warriors to garner resources for import-substitution. When relations with the US dipped after 1966, leaving it with only non-traders like the USSR as strategic partners, India opted for the most autarkic regime in its economic history from 1967-1974.

Ideas within the state mattered when India opted for halting globalisation after 1975. Ideational change had begun to favour export promotion, but both domestic and international politics were hostile to it. India's relations with the US could not take off as long as it had close security and economic ties with the USSR. 1991 is the tipping point when the state in India led by the team, comprising the prime minister, finance minister and technocrats, shook the foundations of India's economic policies, building on ideational changes in the 1980s. They exploited a balance-of-payments crisis to deal with internal political opposition to deregulation and globalisation after the end of the Cold War. This time, the US, IMF and World Bank were all supportive of India's efforts at globalisation and deregulation.

India's globalisation can best be described as "embedded liberalism" following the concept received from John Ruggie. "Embedded liberalism" connotes a liberal economic order that respects the domestic imperatives of sovereign states. India does not oppose the market in bilateral or multilateral relations but asserts its independence. It has a close strategic relationship with the US without becoming a camp follower. It also enjoys a significant economic relationship with China and the rest of Asia. Its economic relations within South Asia have improved but are not commercially significant. The strategic relationship between India, US and Japan is likely to grow, especially if China were to be hostile to India's understanding of what constitutes the Sino-Indian border. This is a security relationship imbued with substantial commercial potential. In all manner of negotiations from the G20 to those dealing with climate change, India seeks a liberal order that respects its domestic economic and political imperatives. Additionally, India's aid diplomacy is less intrusive than development funding from the developed world.

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