1 How global rules and markets are shaping India's rise to power

"Self Reliance Means Trade, Not Aid" — Manmohan Singh[1]

That India marches to its own tune in world politics "is a familiar platitude that happens to be true."[2] For much of its history, India has acted as a "reclusive porcupine," slow-footed, defensive, and prickly in its interactions with the global world.[3] It has shown a remarkable ability to resist global pressures and integration imperatives.[4] Many scholars and policymakers would concur with Joseph M. Grieco, who said: "India possesses [in the 1970s] one of the world's most restrictive, cumbersome, and 'assertive' regimes regulating foreign direct investments" (Grieco 1984, 16). Consequently, India's export share of world trade declined from 2.42 percent in 1948 to 0.41 percent in 1979; this was at a time when the newly industrializing countries in East Asia (Japan and South Korea, for example) were increasing their world market penetration (Wolf 1982, 18). As late as 1991, India's commerce minister, the Harvard-trained Dr. Subramanian Swamy, said: "India does not need GATT [the General Agreement on Trade and Tariffs, a global trade agreement] because of its large size."[5] By 1991, India's share of world trade was dismally low, a mere 0.51 percent (Gangopadhyay 1998, 46). This insular attitude was mirrored in a self-driven industrialization drive, "export pessimism"

1 Manmohan Singh, India's prime minister from 2004 to 2014, in an interview with PBS (USA), 2001, accessed December 11, 2015, http://tinyurl.com/zt98dk4.
2 In his famous book, *Social Origins of Dictatorship and Democracy*, Barrington Moore started the chapter on India with the following words: "That India lives in two worlds is a familiar platitude that happens to be true" (Moore 1966, 314).
3 This metaphor is from Mohan (2003, 260).
4 This is a widely held view: Nayar and Paul (2003, 10), for example, note that India has been less integrated in the global system than one would expect given its size and potential capabilities: "India remains less integrated in the international order than most other major actors of similar power capabilities at comparable stages of their development. . . . India's own policies and strategic choices, especially in the economic arena, have been part of the reason for it lack of integration" (2003, 10). Scholars who hold this view are Nayar (2001), Srinivasan (2000, 2002), Lal (1999), and Panagariya (2004).
5 "India Took Firm Stance: Swamy," *Indian Express*, December 11, 1990; "Swamy: Make No Trade Concessions," *Hindustan Times*, July 28, 1991.

(Bhagwati and Srinivasan 1984), and suspicion of global alliances. India's embrace of economic reforms and global integration occurred much later, starting only in the 1990s, by which time other countries – China, Chile, Brazil, and Mexico, for example – had already implemented numerous reforms (Draper, Alves, and Sally 2009). This delay continues to haunt the trajectory of India's reforms, manifesting in a weakness of the Indian currency and a lack of foreign investment as well as key weaknesses in infrastructural development.[6]

Despite this delayed start and intermittent crises, many Indian actors have embraced globalization and transformed India into a more open economy and an active participant in global alliances, all in a remarkably short span of time. In 2005 Manmohan Singh, India's prime minister, declared: "Being an open democratic polity and an open economy empowers India."[7] Analogously, an Indian official in India's foreign ministry said to me: "In the earlier era India was a free rider; now it is a negotiator."[8] The Bharatiya Janata Party's (BJP) leader and the then prime minister, Atal Bihari Vajpayee, likened India's success in information technology (IT) to the new temples of modern India[9]: "I see a happy confluence of Saraswati, Lakshmi and Shakti. The new economy is driven by knowledge. It is a producer of wealth and prosperity. . . . However going beyond being a miracle of the mind and the market, information technology is also a source of great strength for our nation."[10] The India of 2016 is a different world from that of 1990. Indra Nooyi, CEO of PepsiCo, recently said: "The country I go back to is not the same country I left. It is somehow the same and yet changed beyond all recognition."[11]

[6] James Crabtree, "'Hot Money' Stays Sticky in India as Rupee Crisis Looks Over," *Financial Times*, September 17, 2013, www.ft.com/intl/cms/s/0/7fc7bbf2–1f92–11e3–8861–00144feab7de.html#axzz2kpwEkhkh.

[7] Manmohan Singh, "Open Democracy and Open Economy," *India Abroad*, vol. VI, no. 12, August 26, 2005, p. 8, North America edition. Interestingly, Manmohan Singh's view of the global system was much more pessimistic a few years earlier. In an interview in 2001, he viewed the global trading system as imposing restrictions on India. He said: "It [globalization] offers opportunities, but problem areas remain. . . . For example, we are part of the world trading system. There are opportunities, but also the introduction of a large number of extraneous elements into Uruguay [the 1986–1994 Uruguay Round]. For example, the TRIPS [the International Property Council of the WTO] legislation has created burdens in terms of the prices of essential drugs. The TRIPS legislation is a negative [agreement for India]" (interview, February 6, 2001, available at www.pbs.org/wgbh/commandingheights/shared/minitextlo/int_manmohansingh.html#5).

[8] Interview with author, Washington, DC, September 1, 2005.

[9] A parallel to Nehru's, India's first prime minister, statement that dams were the temples of modern India.

[10] "IT Parks Are the New Temples of Modern India, Says Vajpayee," *Rediff*, January 19, 2001, www.rediff.com/money/2001/jan/19pm.htm.

[11] Indra Nooyi, "Interview," *India Abroad*, vol. XXXVII, no. 38, June 20, 2008, p. 1.

This change in orientation had a definite impact on the extent of India's external integration. After declining and stagnating for decades, India's share of world trade started to climb after 1993 and then accelerated after 2004.[12] In 2014, India's share of world merchandise trade stood at 2.6 percent, rising fivefold from a low of 0.51 percent in 1991.[13] By 2014, its share of world commercial services trade rose to 4.1 percent from a nonexistent level in the 1990s.[14] In comparative terms this may sound miniscule, but it is a very rapid change in a short amount of time. By 2013, foreign trade in goods and services constituted more than half of GDP (53.2 percent), a remarkable trend for an erstwhile insular economy like India.[15] Strikingly, in 2012, 2013, and 2014 India's trade to GDP ratio was higher than China's.[16]

India has also seen a whole range of changes in its trade regime, encompassing institutions, interests, and strategies, pointing to a deeper impact that reaches beyond tariffs or trade policies.[17] The whole architecture of India's trading state has been radically reformed, enhancing India's capacity to deal with outside forces and organizations (Sinha 2007). India negotiates strongly at the global level, as is evident in a number of recent negotiating successes.[18] Kohli suggested that a new state–capital alliance forges India's reform agenda (2007). India's firms have restructured and globalized, seeking new markets, alliances, and technology outside its borders (D'Costa 2012; Naseemullah 2016; Parthasarathi and Joseph 2004; Ramamurti and Singh 2009; Saez and Chang 2009; Sauvant and Pradhan 2010).[19] Some Indian firms have

[12] As late as 2000 India's world market share was merely 0.7 percent (Srinivasan and Tendulkar 2003, 102).
[13] Calculated by author from WTO (International Trade Statistics 2015).
[14] WTO (International Trade Statistics 2015).
[15] World Bank (2013). In 2014, trade as a share of GDP was 49.6 percent as a result of the global slowdown (World Bank 2015).
[16] China's trade to GDP ratio was 51.8 percent for 2012 and 50.2 percent for 2013, while India's was 54.7 percent (2012) and 53.2 percent (2013). I thank John Echeverri-Gent for alerting me to this interesting fact. This is on account of a severe contraction in China's trade sector after 2008. In 2014, China's trade as a share of GDP was 41.5 percent, while India's was 49.6 percent.
[17] Interestingly, economists have found that the impact of trade liberalization on profit margins of firms works through such behavioral mechanisms as research and development expenditure, focus on exports, and other strategic variables rather than through pure price effects (Kambhampati and Parikh 2007).
[18] In July 2014, India's trade officials negotiated for protecting India's food stocks by delaying India's acceptance of the Trade Facilitation Agreement at the WTO. This is one of the few cases of a cross-linkage across agreements made by a developing country and an example of the dexterity with which India has learned to pursue its interests in global trade negotiations.
[19] Also see Chapters 4, 6, and 7 of this book for evidence about Indian firms' global activities.

become multinationals, seeking global presence in both developing and developed markets (Sauvant and Pradhan 2010). As a result, a stronger India seeks global integration but on its own terms.

India's recent global integration and trade openness forms the first puzzle addressed in this book. This puzzle generates a research question: *How did India turn toward the global world in such a short span of time?* While many scholars and public commentators have observed India's changing interaction with the outside world,[20] we still don't know enough about the deeper sources for this surprising shift.[21] This puzzle urges us to revisit the conventional ways in which India is viewed in comparative politics and comparative political economy.

Comparatively, India's rapid global integration is anomalous, given its delayed start and late entry into the global system. Most studies of India have rested on the assumption that the Indian model of capitalist development is organized within its national borders, thereby suggesting that the national economy should be the unit of analysis.[22] Most of the scholarship on India's economic reforms, including my previous work, adopts such a domestic-oriented lens (Bardhan 1984, 2010; Corbridge and Harriss 2003; Jenkins 1999; Kale 2014; Kohli 2012; Mukherji 2014; Nooruddin 2011; Ruparelia et al. 2011; Sinha 2005a).[23] In contrast, this book places India's developmental trajectory within a broader global context, urging the need to go beyond "methodological nationalism"[24] and pay attention to how global factors *jointly interact* with powerful domestic imperatives within India. Globalization has erased the usual distinctions between the domestic and the global levels; therefore the interplay of domestic and international factors is foregrounded in this book.[25] I offer a *Global Design-in-Motion* (GDM) framework that starts with diverse domestic actors, interests, and institutions but finds that international markets and rules have disrupted the coalition of interests that supported an inward-oriented policy and pushed them toward a more globally proactive trade and economic agenda.[26] In international

[20] Nayar (1999), Purfield and Schiff (2006), Winters and Yusuf (2007), Panagariya (2008), Nayar and Paul (2003), Jaffrelot (2009), Mahbubani (2008), Subramanian (2008), Baru (2006), and Friedman (2005).
[21] For a few exceptions, see Alamgir (2009) and Mukherji (2014).
[22] Three exceptions are Kapur (2010), Ye (2014), and Alamgir (2009). Naseemullah (2016) adopts a firm-level analysis that also examines local and global strategies of firms.
[23] Some early studies of the 1991 reforms did emphasize the role of external constraints, but the global level was seen as pressure or a constraint in these studies.
[24] Callaghan (2010).
[25] For an important work in this genre, see Garrett and Lange (1996).
[26] See Lake (2009) for a discussion on open-economy politics framework, which focuses on domestic interests but in an open framework. The Global Design-in-Motion framework I propose offers a dynamic element and greater role for interdependence to change domestic interests and coalitions (see Chapter 2).

relations this is referred to as "outside-in" or second-image reversed analysis (Gourvetich 1978).

Once old vested interests were disrupted, new reform actors, whom I call *woodwork reformers*, seemingly emerged out of the woodwork, slowly in the late 1990s but more surely after 2000s. This group of reformers consisted of bureaucrats, technocrats, diverse business actors, exporters, revamped business associations, diasporic intellectuals, and key political actors.[27] These woodwork reformers together with the trading state saw the opportunity to craft a distinct Indian response to external changes. Indian firms initiated diverse global alliances and became supporters of freer trade as well as diverse protections at home. State actors became more proactive, seeking new markets as well as challenging the dominance of United States and European Union in global trade negotiations.

These findings have strong implications for our analysis of India's political economy. The distribution of domestic interests was not exogenous or static but changed in this period, giving sustainability to India's reforms. Counterintuitively, though, the strength of Indian firms overseas is not the cause but an effect of state policies and global forces. Yet, global forces are not uniform or autonomous, nor are they deterministic. They shape and are shaped by states that negotiate the terms of global engagement. The interactions between India and global forces (supply chains, markets, and global rules of the game) are reciprocal, dynamic, and strategic. Indian actors, policies, and institutions have been changed by the interaction with external forces, and they, in turn, reshape the global trading order, creating an endogenous dynamic that contributed to greater trade integration of India's economy.

To understand India's interactions with the outside world, we must analyze globalization. In common parlance, globalization is equated with global markets, global prices, and supply chains. Many treat it as an undifferentiated exogenous context for the actions of domestic actors. In most open-economy politics arguments as well as scholarship on India, the global level is treated as "a blackbox that generates problems which unitary states then solve through traditional means of negotiation" (Farrell and Newman 2014). In marked contrast, Kapur suggests that studies of globalization expand their attention to migration and how the transfer of people across borders affects Indian policies and interests (2010). In a parallel vein, this book argues that a global trading

[27] The idea of *woodwork reformers* has not been used in political economy analysis. I draw this concept from an analogous one used to analyze the emergence of the women's movement in the United States. Jo Freeman (1975) first used this idea to refer to feminists who were placed inside institutions and were somewhat invisible yet effective in mobilizing for the women's cause in the 1960s in the United States.

order – comprising global *agreements* such as the Agreement on Trade Related Intellectual Property Rights (TRIPS), *rules* articulated by international organizations like the World Trade Organization (WTO) (such as nondiscrimination or Most Favored Nation status), and *features* such as ministerial meetings and country trade policy review – is as important as global markets. In fact, the movement of goods, services, and people – globalization – is undergirded by new rules, governance structures, and constraining standards, both voluntary and involuntary.[28] These are the invisible *threads* that hold the economic and social transactions of globalization together, and their effect must be analyzed separately and independently of global markets. This view is the new emerging consensus in the field of global political economy. As Goldstein and Steinberg note, "International trade transactions are among the most regulated activities in the world. Indeed, the history of international trade since the seventeenth century cannot be understood without accounting for the changing ways by which public authority has interacted with, and influenced, private transactions" (Goldstein and Steinberg 2009, 211).

In 1995, a new global trading order, represented by the World Trade Organization (WTO), became a focus of debate for both the defenders of free trade and its opponents. Economists and globalizers saw in it a bulwark against rising protectionist sentiments. Peasants in poor developing countries, as well as affluent activists in the Western world, railed against its power to change lives and livelihoods, a power that reached even to remote corners of the globe. Both sides claim that it has remarkable power to shape national policy as well as change trade patterns and production profiles of countries. Yet, the WTO, compared to the World Bank and International Monetary Fund (IMF), is a small body, with scant resources.[29] Paradoxically, its power to extract compliance has risen precisely when it has become *less* controlled by hegemonic powers such as the European Union and the United States. Compared to GATT, the WTO has presided over remarkable trade liberalization, somewhat at odds with assumptions of domestic distributive politics, its organizational strength, and its budget.

This raises a second puzzle: *How do international organizations and agreements unleash changes in state behavior without substantial coercive and*

[28] The WTO is more than an organization as it encompasses new procedures, rules, and legal processes. This book uses the name, the WTO, in this more expansive sense to include agreements, rules, standards, and practices.

[29] The WTO's secretariat has 668 staff members compared to 6,800 of the World Bank (IBRD) and 2,400 of the IMF. Even the Asian Development Bank (ADB), a regional organization, has a staff of 2,400 (professional staff plus support staff). Similarly, the WTO's budget is Swiss Franc 189 million compared to 1,375 million USD of the World Bank and 845 million USD of the IMF (Yearbook of International Organizations 2012–2013).

enforcement capacity?[30] Strong nationalist countries, such as India, China, Brazil, and other emerging powers, pose a special challenge to theories of international effects, as they have strong domestic responses to international rules. Are such international organizations able to transform trade politics in such self-reliant countries? *If so, what are the mechanisms through which international organizations shape and affect domestic political economy?* These two puzzling developments – global integration of India and the emergent power of global regimes, such as the WTO, to reorient state priorities and create new interests – are positioned together in this book. Resolving these twin puzzles is crucial to understanding why and how international institutions matter and in outlining the interaction between domestic and global levels in India. Building on a significant corpus of international relations and comparative politics literature, this book offers a conceptual and empirical framework with which to analyze multiple dimensions of globalization (markets and supply chains but also rules of the game) and the responses by domestic actors within specific countries such as India.

1.1 The puzzle: trade reform and institutional change in India

The interaction of domestic and international politics is the central theme of this book. The specific empirical puzzle, however, is India's recent and surprising global integration. An Indian Rip van Winkle who went to sleep in late 1980s or early 1990s and woke up in the 2000s would have been astonished by the huge change in a short amount of time. The India of 2016 is a different world from that of 1990 in terms of both trade policy and multilateral global engagement. India views the world very differently today, but even more so, the world regards India in very different ways.[31]

Until recently, India, an autarkic yet democratic country, was weakly internationalized. India's trade policy was inward looking and characterized by "export pessimism" (Bhagwati and Srinivasan 1984; Narayana 2001). This tendency toward export pessimism was strengthened by its long-established democratic institutions, which encouraged strong interest groups to resist trade liberalization. These tendencies were mirrored in India's multilateral policies. Although an original member of GATT, India successfully resisted any trade liberalization for decades. Through much of its history, India's trade policy was defensive and reclusive, seeking to avoid the impact of GATT on its domestic industry and

[30] The power of weak international institutions is emphasized by Dai (2007).
[31] Friedman (2005) and Prestowitz (2005).

trade policy (Narlikar 2006). About 65 percent of all imports and 90 percent of manufacturing imports were subject to nontariff barriers in 1990. While the import-weighted average tariff was 87 percent and the unweighted average tariff was 128 percent, the highest tariff rate was 355 percent, one of the highest in the world (Dijck and Rao 1994; Panagariya 2004; Srinivasan 2000, 33–34).[32] Between 1989 and 1994, 99 percent of India's trade with the outside world was subject to very high nontariff barriers, which only declined to 93.8 percent between 1995 and 1998.[33] Quantitative restrictions, combined with high tariffs, meant that Indian borders for the inflow of goods and services were effectively closed. At the same time, tariff revenue constituted a large part of government revenue.[34] India exported a small basket of primary and low value-added products: agriculture goods, cotton cloth and jute products, minerals such as coal, mica, and manganese, and gems and jewellery.

Trade liberalization began in the mid-1980s, but the progress was nonlinear – slowly moving forward but then sliding backwards. An opening appeared in the mid-1980s when Rajiv Gandhi, then prime minister, took a tentative step toward the West. After some reversals, domestic liberalization was formally initiated in 1991 when Manmohan Singh, then finance minister, was forced to take an IMF loan. He used this as a reason to initiate regulatory reforms at both external and domestic levels.[35] India reduced its peak applied tariff rate, which was 355 percent in 1990, to about 87 percent; average tariff rates went to 40 percent in 2000; and by 2007 they were 12 percent, reduced to 7.2 percent by 2014.[36] In the 1990s, only 6 percent of Indian tariff lines were bound,

[32] As late as 1985, the mean tariff for intermediate goods was 146 percent and for capital goods 107 percent. Import quotas protected Indian industry through a plethora of licensing mechanisms. In April 1990, there were 153 capital goods on the restricted import list and 927 items of raw materials and consumer goods under the restricted and limited permissible list (Goswami 1998, 127).

[33] Parikh (2007, 11).

[34] Tariff revenue as a proportion of imports went up from 20 percent in 1980–1981 to 44 percent in 1989–1990 (World Bank 2013).

[35] As noted by a scholar of the 1991 reforms, "Most fundamental corporate sector reforms of the last five years occurred in the first two" (1991–1992) (Goswami 1998, 115). In June 1991, two sharp devaluations (July 1 and 3, 1991) "brought an overvalued exchange rate in line." This was followed by a "dismantling of the industrial licensing regime," de-reservation of some public sector monopolies, liberalization of the Foreign Exchange Regulation (FERA) Act to encourage FDI and portfolio investment, reduction of import quotas, and a fall in the peak tariff rate from over 300 percent to 50 percent in 1994–1995, liberalization of capital markets, banking sector reforms, and encouragement for FDI (Goswami 1998, 115).

[36] See Sharan and Mukherji (2001, 28). Also see the 2005 budget speech of Indian Finance Minister P. Chidambaram, Speech, *Indian Budget*, February 28, 2005, http://indiabudget.nic.in/ub2005–06/bs/speecha.htm.

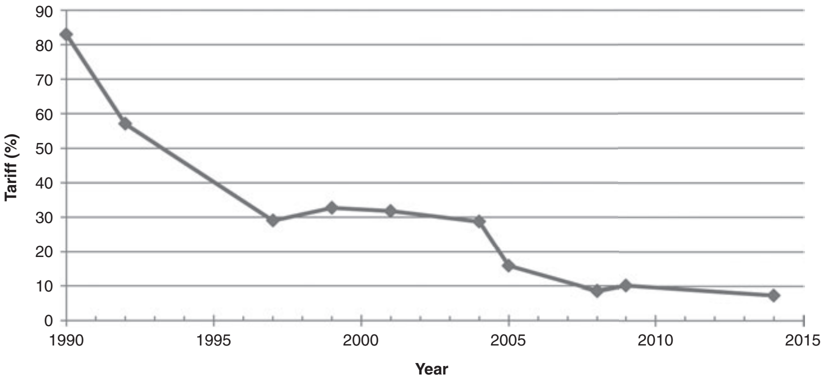

Figure 1.1 India's average tariff rates over time
WTO (2013).

allowing India to raise tariffs across the majority of products when needed. While an average tariff of 7.2 percent still compares unfavorably with those of India's Southeast and East Asian neighbors, the movement, over a span of a decade, was significant – a decline of 95 percent.[37] Despite significant trade liberalization in the early 1990s, policy reversed its course – moving toward higher tariff rates in the mid-1990s.[38] India's import-weighted average tariff rate rose to 32 percent in 1999–2000.[39] Moreover, the effective rate of protection remained high during the 1990s, even after significant liberalization had been initiated in 1991 (Banga and Das 2012; Das 2003; Gang and Pandey 1998). Figure 1.1 shows this reversal in tariff rates in the mid-1990s. The trade policy process retained its insular, ineffective character in the 1990s, and India was on the verge of being ignored and isolated in global trade negotiations.[40] Trade reform was not followed by institutional reform in the early to mid-1990s, ensuring a lack of sustained trade reform and unsuccessful negotiation outcomes.

Between 1980 and 1995, India possessed a large market but low levels of economic interdependence, an isolationist ideology that balked at US pressure, and strong pressure groups within a highly fragmented political

[37] In this context, see editorial, "Open or Closed: The Case Against India is Over-Stated," *Financial Express*, March 16, 2004, p. 6.
[38] Montek Ahluwalia's (an architect of the reforms of 1991) comments about the 1990s confirm this pattern of reversal in trade policies in the mid-1990s (Ahluwalia 2006).
[39] In 1990–1991 it was 87 percent. In 1994–1995 it declined from 33 to percent 27.2 but again rose to percent 29.7 in 1998–1999 and to 38.5 percent in 2001–2002 (WTO 2013).
[40] Sen (2003), Narayan (2005), and author's interview with Indian trade negotiators.

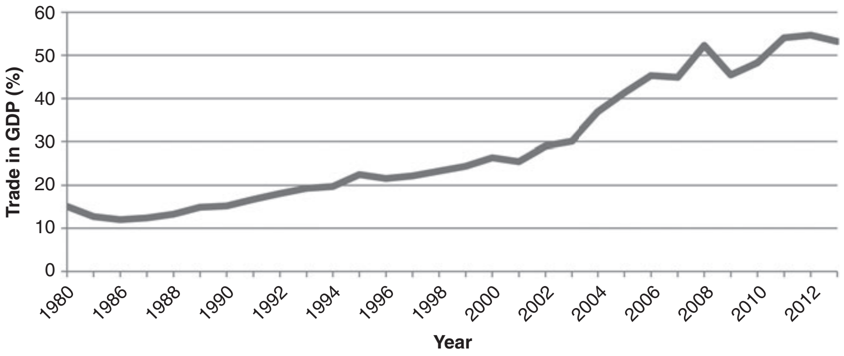

Figure 1.2 Trade in goods and services as percentage of GDP
World Bank (2013).

process.[41] Consequently, India's trade strategy seemed unlikely to respond to the constraints and opportunities presented by global markets and regimes.[42] This may explain why the 1985 reforms were reversed by 1989 and the 1991 reforms faced a reversal and increasing tariffs between 1995 and 1998.

Yet, the late 1990s saw the beginning of a number of changes in India's trade strategies that resulted in genuine trade liberalization. Quantitative restrictions were abolished on April 1, 2001, after India lost a WTO case that forced it to dismantle its system of quotas and quantitative restrictions. Average tariffs declined from 24 percent in 2001 to 7 percent in 2009 (Banga and Das 2011). Recently, India's exports of goods and services have grown faster than world exports; India's share in world export of goods and services, which had declined from 2 percent to 0.5 percent by the mid-1980s, rose back to 2.31 percent by 2013 (Panagariya 2004, 13; WTO 2015).[43] In 1999, its trade (exports plus imports) ratio to GDP was a mere 24.4 percent, up from a low of 12.7 percent in 1985 (see Figure 1.2). This rose to 52.3 percent by 2008 (World Bank, WDI 2014) and 53.2 percent by 2013 (World Bank, WDI 2014). By 2015, India had

[41] Most of India's industries were in import-competing sectors and lobbied extensively to protect high tariff walls. India continued to have coalition governments with multiple veto points and interests in the 1990s.

[42] David Lake characterizes American trade strategy in a similar way (Lake 1988, 3). The similarities between the United States between 1887 and 1939 and India between 1991 and 2016 are striking.

[43] India's share of world trade in commodities has risen significantly – from a low of 0.5 percent in 1983 to 0.8 percent in 2004 to 2.6 percent in 2014 (WTO 2015).