

The Indian State Under Globalization: A Research Agenda

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The Indian State and Globalization

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Theoretically grounded empirical work on the impact of globalization on the Indian state has relevance for social science and policy in India. Researchers working on the Indian state under globalization needed to take into account a three-step process. First, how were international rules, norms or standards affecting the policy of the Indian state? Second, how could India engage at the multilateral or regional level to ensure that international, rules, norms or standards, reflected more meaningfully the interests of India and similarly placed countries in the global division of labor. And third, what internal measures did the Indian state need to take to find itself well equipped for engaging with the process of global economic integration?

First, how were international rules affecting the policies made by the Indian state? Many policy measures such as trade liberalization, privatization, the introduction of competition in public and private sectors of the economy, introduction of the new intellectual property protection regime, greater autonomy of the sub-national state, encouragement of foreign investors, were areas where many unwittingly assumed that the state acted in certain ways, because of pressures from international multilateral fora.

An important question for comprehending the political economy of India's development was the extent to which many of these decisions were reached as a result of an internal consensus. Were areas of policy change driven primarily by international donors who were less attentive to the domestic social, political and economic contexts? Did external pressure result in a lack of success in adjusting to a market-oriented order? Were policy arenas where structural changes promoting competition were the result of a homegrown and more gradual evolution more successful, because they reflected an internal consensus?

Second, how were international standards or norms formed? How did they evolve? Bilateral and unilateral approaches were inadequate for ordering a world of increasing flows of transnational capital, goods and people. For example, domestic level approaches to taxation were becoming increasingly ineffective in an era of mobile factors of production. National level approaches to international property protection and environmental pollution, could discourage economic activity and pollute the atmosphere. International coordination in many areas of the global economy have a public good or collective good character, which may not be easy to provide in the absence of legitimate and accountable supra national authority.¹

Once international standard setting was completed, states often had to adjust to these international standards. It was difficult for states to give up even iniquitous standards, because of some gains that may accrue to being a party to a multilateral club. Countries like India and China realized that iniquitous multilateral fora provided them with more bargaining power than the even more predatory bilateral deals struck between rich and poor countries. For example, India accepted the iniquitous intellectual property regime within the World Trade Organization (WTO), and, China paid a heavy price to get back into the WTO. Developing country states needed to play a more pro-active role in international standard formation. If they were able to play such a role, they would be able to provide a voice for

¹ Both public goods and collective goods suffer from the peculiar feature. Unlike private goods, it is impossible to exclude states or persons from benefiting from such goods. The question therefore arises, why should private actors invest in public goods, when those who did not invest could also benefit from them. National defense is an example of such a good. Even the richest person in a country may not invest in national defense because it will eat into its profits but benefit others as well. Similarly, international coordination in areas such as trade, taxation, finance, and environment require investments of a similar nature. Once some countries make these investments, it may be tough to exclude other countries from their benefits.

divergent interests, which were missing from many international economic negotiations in the past.

We needed to ask, how was coordination in various areas of international economic activity achieved? Was it achieved in a manner that reflected the interests of the powerful? Or, did it sometimes reflect the interests of the many, for rational self-interested reasons? Or, were norms constructed because of a collective shared understanding about legitimate social purpose? There may be no unique answers, which explain international norm dynamics. It was important, however, to discern the various causal mechanisms behind international regime formation. An understanding of such causal mechanisms could aid the Indian state gain influence in international fora.

Social science needed to take note of the mechanisms governing standard setting in various areas of global governance. Positions taken by countries like India, which have a certain location in the international division of labor, could reflect the interests of similarly situated countries and help build coalitions. A democratic global order ultimately depended on how some important players learnt to articulate their interests. Such articulation could not be achieved mechanically without a good roadmap of possibilities for such articulation.

Third, in a world of sovereign states, the impact of global economic integration on the state was often felt through international trade and financial flows. As countries became more trade dependent, development began to depend on phenomena that occurred in other states. A global recession sparked off by an oil shock, a decline in the demand for software and services, or a sudden withdrawal of foreign capital as evidenced in East Asia, could hurt jobs in India and China. The paradox of trade dependence was that wealth creation could be

accompanied by increasing social vulnerability. For example, if imports made agricultural goods cheaper, were farmers in India being protected with adequate social protection, infrastructure and marketing facilities that could enable them to compete with farmers in the rest of the world? Such social protection was a responsibility of the Indian state because this activity was uneconomic for private actors.

The welfare state in India needed to tax corporations and citizens, and provide efficient service delivery, in order to reduce social vulnerability. OECD countries that were highly trade dependent had robust welfare states. These welfare states had helped capital by providing for social harmony in an environment of productivity. Developing countries, on the other hand, where the contract between the citizen and the state was of more recent vintage, did not have effective welfare states in place. Would the Indian state, which was embracing global economic integration, be able to rise to the challenge of engendering a facilitating environment for both capital and labor? Would the state invest in rural areas in a manner that would benefit both the rich and the poor farmers alike? How could such functions be designed after taking into account the current pathologies of the state in India?

The state needed to be autonomous of social actors for taxation and for redirecting investments in areas, which could enhance India's competitiveness and reduce social vulnerability. The critical question that needed to be asked, was the Indian state under globalization getting captured by capital or was it able to use capital to promote India's competitiveness, growth and human development. A body of literature on East Asia suggested that the state needed to play an autonomous role and guide capital and labor rather than get captured by it. If it was found that the state in India was increasingly getting

captured by powerful interests like rich farmers and big capital to the detriment of India's development, research needed to focus on how the Indian state's institutions could be designed to earn a greater degree of autonomy from powerful social forces.

This paper will elaborate these issues and argue the case for a research agenda. It will make the case for the need of a janus-faced state that can a) pursue the agenda of democratic global governance; and b) deal with society at the local level so that it can make the tough decisions needed to engage with globalization. The assumption behind this research agenda is that a resilient state is necessary for dealing with uncertainties posed by globalization. The evolving global economy has opportunities for countries like India. A state that can engage both globally and locally may realize these opportunities. One that is unable to engage with undemocratic forces in both the arenas may succumb to predation and fail to become a facilitator of development.

A) **HOW DID GLOBALIZATION AFFECT THE INDIAN STATE?**

Much had changed in India after the balance of payments crisis of 1991. Indian policies became more positive about promoting exports and allowing foreign capital to participate in the process of India's growth. A question that needed to be asked was whether these were induced by the crisis, or ideational changes within the policy elite, or both? Did institutional histories matter in explaining the relative success or failure in converting policy change to institutional changes favoring competition and efficiency in diverse sectors of the Indian economy? An important research agenda to consider was the role of the multilateral institutions, and, technocratic shifts within the Indian policy elite, in explaining the distinct trade oriented shift in the policy trajectory since 1991.

What were these changes? Tariffs were reduced; foreign exchange controls were relaxed; competition was introduced in the traditional public sector dominated infrastructure areas like power, telecommunications, and airlines; industrial licensing was virtually abolished; public sector units were sold to private corporations; foreign investment was welcomed in a variety of sectors; the intellectual property regime changed to favor the cause of protecting intellectual property rather than public health, and, foreign institutional investors began investing heavily in the Indian stock market. There were other areas such as the policy on labor, agriculture, and the continued growth of the fiscal deficit, where Indian policies had not changed substantially, despite India's moves towards global economic integration. The paper will take up these issues in the last section when discussing how the state needed to work on social actors for bringing about development.

Did India execute trade and efficiency oriented policy changes in a manner that reflected its own preferences and political style? It has been argued that gradualism has characterized India's liberalization. In this mode of affecting policy and institutional change, a broad policy vision is provided but the specifics of policy change are not laid out. Such specifics need to take into account the accommodation of interest groups and political opportunism. Gradualism helps to build consensus while at the same time it also delays the process of adjustment to the imperatives of globalization.

To give just one example, private investment was encouraged in the telecom sector, which needed substantial capital for growth. Telecommunications was viewed as being critical for development, especially as an input into India's growing software and services sector. A couple of strategies could have been followed in India. One strategy could be to

make government service providers more efficient before inviting private entry, as was the case with British Telecom. This would have required major institutional changes affecting the work ethic and procurement policy, since much of the slack related with government ownership needed to be removed. Such measures would have required a tremendous amount of insulation from bureaucratic and trade union pressure emanating from India's government owned telecom sector.

Such bold decisions were not possible in India. The Department of Telecom Services could only be corporatised in 2002 even though the entry of private capital in the cellular area was allowed in 1992. The reason for creating the corporatised Bharat Sanchar Nigam Limited (BSNL) was that private capital was exerting so much competitive pressure on the government monopoly that regulatory privileges notwithstanding, the government realized that Department of Telecommunications could only succeed if its corporatised manifestation, the BSNL were allowed to function as a government owned but autonomous corporation. Since India could not meaningfully disinvest or corporatise its inefficient corporations at an early stage, competition was forced through the back door by allowing private players in the business.

Another example of gradualism and muddling through reforms was the way in which regulation was introduced in India's telecom sector. The regulator was to play referee between state and private capital to ensure a level playing field for private capital. Privatization was introduced first in the absence of a regulator because the Department of Telecommunications would not easily give up its regulatory privileges. The early manifestation of the regulator in 1997, and the subsequent strengthening in 2000, was the

result of several crises of investment that unregulated private investment produced in India. The broad guidelines about the need for regulation were available as early as March 1991. The process of regulatory evolution was messy and had to take into account bureaucratic and commercial interests in the presence of technocratic orientation within the Prime Minister's Office, which favored an even playing field for private investment.

The politics of telecom regulation continued to be messy. The telecom regulator needed greater financial independence and policy-making powers. The Department of Telecommunications did not renounce these powers easily. What could be the political dynamics of regulatory evolution in a sector where private players have now replaced government predation with their own version of predatory behavior?

The extent to which India's adjustment to a trade-oriented order was homegrown rather than dictated from above, could be a determinant of success in promoting an efficient economy. The problems facing the telecom sector notwithstanding, regulatory evolution in the telecommunications sector, which was more homegrown, was also more successful. The Electricity Act 2003 tried to incorporate some of the lessons of successful regulation in the telecom sector.

Second, India did not pay heed to the advice of the Washington consensus on capital account convertibility, a policy measure which had brought misery to East Asian countries. Credit must be given to Indian policy-makers for independent economic policy thinking before the advent of the East Asian crisis. What was remarkable about the trade-oriented policies pursued in the aftermath of 1991 crisis was that devaluation, import liberalization,

and rupee convertibility in the current account, boosted India's exports. But capital account restrictions helped to check an easy outflow of precious foreign exchange reserves.

India continued to adjust to emerging international regimes.. It was adjusting to an intellectual property regime popularized by the WTO, where it claimed that enough attention had been paid to public health concerns while providing adequate safeguards for innovators. As the pharmaceutical industry moved from government ownership and control towards private (often multinational) ownership and reduced government participation, the politics of winners, losers and role of developmental ideas, needed clear-minded elaboration.

Second, India had argued a case for freeing textiles from the protectionist quota driven multi-fiber agreement. Is the country fit to meet the challenge from China, as labor abundant countries work hard to position themselves for selling apparel in unrestricted world markets after 2005? India's textile potential declined over decades of import substitution owing largely to the export pessimism engendered by Indian policies. How will policies and institutions promoting competitiveness transform the industrial sector into one that promotes India as a manufacturer of exports? The same question that could be asked for textiles could be asked for enhancing the export potential of other manufacturing sectors and commercial export oriented agriculture.

Are adjustments, which are homegrown and gradual, easier to execute than those that are rapid and imposed from above. Adjustments often need institutional change. Such changes are not easy because they affect organized groups that benefit from the status quo. What then explains the success or failure in bringing about institutional changes favoring efficiency? Do policies and institutions change, when technocratic ideas favoring change have taken a hold

of the policy establishment? Why do these ideas change? Does gradualism and attendant checks and balances nevertheless help to promote consensus and surer movement in the direction of successful adjustment? What are the downsides of political opportunism and rent seeking in an era of gradual adjustment? How can these be minimized?

B) ENGAGING WITH INTERNATIONAL STANDARD SETTING

Research on the Indian state under globalization needed to generate testable propositions on how international standards evolve. International standards have an impact on how wealth creation arising from global economic integration gets distributed among states in the international system. For example, a particular intellectual property regime may change the balance of gains between pharmaceutical companies and public health concerns in poor countries. Changing international corporate tax rules could enhance the taxing power of rich countries. Shifting the arenas of agenda setting away from multilateral institutional settings like the United Nations (UN) and the World Trade Organization (WTO), to regional and bilateral trade agreements, were ridden with distributional consequences.

A globalizing India needed to deal with international standards and rules for international economic coordination to a much greater extent than was the case when economic independence was the guiding principle of India's economic policy. Policy relevant social science in India needed to figure out the causal mechanisms that governed international norm dynamics. Did standards reflect just the global distribution of power; or, some kind of a rational consensus based on positive sum situations that arose in the global economy; or, a legitimate social purpose with accountability embedded in such legitimate authority?

This was an important question because international standards would involve tremendous negotiation costs. Many states would be unwilling to pay these costs, if all could gain at the end of the process. Stated in another way, industrial strikes often failed since the price that was paid by striking workers could lead to benefits that non-striking workers would equally be able to enjoy.

The research puzzle was, how would global governance mechanisms arise in the absence of legitimate supra-national authority? Would they arise due to the asymmetrical benefits of a few powerful states in the world economy; or for realizing positive sum situations where all would benefit; or, because of some logic of appropriateness based on sound argumentation?

Realist Causal Mechanisms

One proposition seeking to explain international coordination could be that rules reflected the global distribution of power. Powerful states in the international system would try to maintain their relative power with respect to other states in the international system. International rules reflected the interests of the powerful rather than any legitimate social purpose.

Realists and neo-realists believed that states in the international system operated in the absence of a legitimate supranational authority, which produced an environment that Hobbes described as anarchy. States could only depend on themselves to survive and would build their economic and military might to defend themselves in a hostile world. They pursued the objective of relative gains with respect to similarly placed states in the international system, and, often converted their economic power to military purposes and vice versa. The

Hobbesian metaphor was a powerful justification of the proposition that international rules reflected the distribution of power.

To give one example, if the power of developing countries was great in some issue area, one would expect the UN to be the venue of deliberations. This was because the one-country-one vote system in the General Assembly accorded greater power to developing countries. If, on the other hand, a few rich countries had great influence, then the venue would most likely shift to the World Bank, the IMF or the WTO. These were organizations where rich countries had greater clout than the UN. Jagdish Bhagwati has argued persuasively that the one-country-one vote system of the WTO makes it relatively more democratic than the World Bank or the IMF.

Might is right in many issues concerning international cooperation. The reason why there was no agreement over the right to transmit radio signals over state boundaries was because the industrialized countries wanted it, and the developing countries could not stop it. Since, industrialized countries got their way without any cooperation, there was no need for cooperation with developing countries.

Another classic example of power driving rules is the international civil aviation regime. The Bermuda regime driven by national control of airline routes, which reinforced monopolies, largely reflected UK's interests in 1946. The UK, which had suffered a loss of competitiveness in the airlines sector in the aftermath of World War II, was not in favor of a competitiveness-based strategy. Subsequently, de-colonization and the availability of jet technology reduced the US's need for landing rights on UK's soil. When Britain would not agree to a more competitive regime, the US successfully threatened it with traffic diversion

to the Netherlands. The British finally acquiesced to a more competitive regime, which reflected American power and interests.

India has suffered because of its inability to comprehend the dynamics of power in the global economy. The Uruguay Round of trade negotiations was an excellent example. India opposed everything from the initiation of the round to the inclusion of services and intellectual property protection in the new round. It stayed out of the negotiations and did not play a constructive role that may have helped to promote its interest within the WTO. The Group of 10 developing countries, which comprised of India, Egypt, and Brazil, among others, disintegrated very quickly, much to India's dismay. India found itself alone without a friend. It finally acquiesced to the deals struck by other trading countries, which had negotiated their interests more meaningfully.

India opposed the negotiations leading to the protection of trade related intellectual property rights (TRIPS). First, India's complete opposition to better protection of its intellectual property rested on the assumption of its lack of trade orientation. This policy position was not based on a sound understanding of its competitive sectors such as software and pharmaceuticals, which would need intellectual property protection. India's National Association of Software and Service Companies (NASSCOM), which emerged as an important lobby within a few years, favored the protection of India's intellectual property. Research and development services, an area of emerging importance where big MNCs like Intel, Du Pont and GE had invested heavily in India, also needed intellectual property protection. Last but not the least, technology and research and development intensive investments were unlikely, if intellectual property was not adequately secured in India.

The intellectual property regime that India acquiesced to without negotiating properly, was heavily tailored towards the interests of the US's pharmaceutical sector. Jagdish Bhagwati argued that the WTO negotiations resulted in overkill in terms of protecting innovators, when the 20-year monopoly over product patents was granted to innovators. Patents needed to protect the right of innovators in order to spur innovation. Bhagwati argued that such exclusive monopoly rights that stifled competition were never been deemed essential for innovation in the history of technological progress. The agenda was hijacked away from the WTO by the World Bank, which was driven more squarely by the interest of the US pharmaceutical lobby. Had India understood its own interests within a trading order, it could have tipped the scales in favor of those countries, which were in favor of more limited intellectual property protection.

Second, India initially opposed any negotiation on the General Agreement on Trade in Services, when its services were poised to be a major source of export earnings. Had India understood this potential, it could have sided with the US in the service negotiations, in return for some concessions in other areas such as intellectual property protection.

India needed to push for freer movement of natural persons within the GATS. Information technology workers who serviced India's exports needed to travel freely to destinations where Indian companies provided software services in foreign locations. Yet, developed country concessions in this area have not been substantial. India needed to be clear about what it could offer other countries in return for securing its interests.

In the multilateral trade world, where new commercial rules were being legislated into domestic laws, India needed to weigh the costs and benefits of making concessions and

gaining benefits. In order for India to play a pro-active role in the global economy, it needed to understand the politics of power interests, and, push towards coalitions of like-minded states in disparate areas of the global economy.

Often times, Indian domestic lobbies needed to make alliances with similarly interested parties in developing countries to achieve this goal. For example, if India's National Association of Software and Service Companies (NASSCOM) was to aid the Indian state to push for curbing legislation against outsourcing in the US, it would have to lobby effectively with financial and industrial interests in the US, whose interests were similar to NASSCOM's. It would have to effectively wage a war against the trade unions in the US. Pushing for India's interests in the global economy accorded an international role to domestic lobbies as well as the state. Social science literature could point to the alignment of interests at the level of the Indian state and domestic coalitions for pursuing a common purpose at the global level.

Sometimes, a particular type of domestic institution enabled greater voice in setting product standards in international trade. The International Standards Organization (ISO) and the International Electro-technical Commission (IEC) are two pertinent examples. According to a well researched paper, European standard setting institutions in the area of setting product related standards, were much better equipped to voice their preferences than American institutions. This was because European standard setting, which was funded by governments, was better institutionalized and hierarchically ordered. Better institutionalization allowed for greater diversity in interest articulation. Hierarchical ordering of interests meant that each national level standard setting organization spoke with one voice.

In the US, the organization of standard setting organizations was more driven by private fragmented interests, in an environment where information was neither shared freely, nor disseminated with one voice. The Americans were losing out on standard setting because of a defective institutional setting.

Product standards can be an important barrier or facilitator of trade. India needed to secure the interests of its export-oriented sector by ensuring that it had some voice in setting international product standards. The political economy of setting the standards for tradable products could throw light on how best to promote India's trade.

Regionalism was becoming an important factor in international economic relations. The European Union had expanded into a large internal market. The US, as a defensive response, retreated to regionalism via the North American Free Trade Agreement. It also kept its options open in Asia through the Asia Pacific Economic Cooperation initiative (APEC). The Free Trade Area of the Americas was also a possibility. In Asia, the Association of South East Asian Nations (ASEAN) was becoming a robust trade area, with expanded integration via ASEAN plus 3, which included China, Japan and South Korea. Much of East Asian regionalism, which was not formalized, occurred through trade supporting investment patterns.

India has begun engaging regionally with the US, EU and the ASEAN. What were the costs and benefits of India's participating in regional rather than multilateral governance mechanisms? Second, what were the political dynamics of India's integration with geographically proximate regions like East Asia? Did business interests and the need for expanding markets facilitate such regional integration, after India turned global?

How could India broker a South Asian solidarity on a number of trade issues of common concern at the multilateral level, such as trade and environment, trade and labor, and, intellectual property concerns? In all these issues, most countries of South Asia being poor and capital scarce were averse to international standards that may be protectionist towards their trade. Were there any other areas of South Asian solidarity within the multilateral system? Could there be a plausible way of working out the politics of South Asian solidarity at the multilateral level?

Last but not least, how could regional or sub-regional cooperation be facilitated within South Asia? The problem facing regional cooperation in South Asia was one that could be understood within the realist paradigm. Small states in South Asia felt scared that the size and diversity of India's economy would make them vulnerable with respect to India, even if it were economic to trade with India. Such vulnerability could cripple these economies in case of sanctions or military conflicts. Could there be reasons beyond anarchy and power that suggested plausible mechanisms for governing commerce between large and small countries in the South Asian region?

International Institutions Based on Rational Self-Interest

A second important proposition in international cooperation concerned how states might realize their interests by evolving certain norms for rational self-interested reasons. Norms such as reciprocity could evolve in international relations, in a manner that would promote everyone's gain. Unlike the realist's world described above, this was an environment of a positive sum game, where institutions could help realize such gains. The absence of international institutions led to sub-optimal outcomes.

Rationality based arguments about international cooperation often drew an analogy from the Prisoner's Dilemma (PD) game. In the PD game, cooperation was inhibited by the fact that the two prisoners had no communication between each other. In this game, the two prisoners were caught for a minor crime, but the police suspected a major crime. If the prisoners squealed or sneaked about the major crime, they would land three years in prison. If both cooperated and did not squeal, they would remain in prison for two years. If one squealed but the other did not, then the one, which cooperated, would get a one-year sentence as reward but the one, which squealed, would be in prison for four years. Lack of communication led to a situation where both prisoners ended up in prison for three years by squealing when they could enjoy a two-year sentence, if both had cooperated.

Robert Axelrod found that communication among prisoners could evolve if the prototypical prisoners were allowed to play the PD game over an infinite number of plays. In computer tournaments organized at the University of Michigan, Axelrod found that the strategy of reciprocity won two successive computer tournaments modeled after the PD game. This strategy was used by beginning the game by cooperating, and thereafter, rewarding a cooperative move with cooperation, and, punishing defection (or squealing) with defection. In this manner, the persistent use of reciprocity led to cooperation. The prisoners ceased to squeal and learned to live with each other by developing the norm of reciprocity.

Axelrod found that real life trench warfare during World War 1 was played as a cooperation game, because soldiers on both sides learned to live with each other over a period of time. The Germans and the French armies learned to fire their shots in the air pretending that they were fighting, lest their commanders figured out that they really were not. In this case, if the soldiers fired in air and the superiors did not learn about it, then the

soldiers could live. If, on the other hand, they kept killing each other, many more soldiers would lose their lives.

What lessons does cooperation in the PD game based on rational self-interest have for students of international cooperation? Institutions can perform two critical functions. They can facilitate the bringing of parties to the bargaining table over and over again, so that reciprocity may evolve as a strategy. In the words of game theory, they can turn a one shot PD game into one that involved an infinite number of plays. Second, they may provide information to the concerned parties about which state was cooperating and which one was defecting. Often international relations were characterized by situations where cooperation could not easily be differentiated from defection. International institutions could monitor the behavior of states and make their responses public for other members of the club. If states knew that they would have to meet at the bargaining table over and over again and they could discern the moves of other states, cooperation could evolve. The unrealized positive sum in the relationship could evolve through the strategy of reciprocity.

The General Agreement on Trade and Tariffs (GATT) succeeded in reducing tariffs over a number of trade rounds. First, repeated rounds of trade negotiations, which were facilitated by the GATT, may have engendered the birth of a more institutionalized World Trade Organization (WTO) by bringing parties to the bargaining table over and over again. Second, institutions like the WTO also served to monitor the behavior of states in a manner that helped other states differentiate cooperation from defection. The positive sum in the trade game was institutionalized over various rounds of trade negotiations. Such mechanisms increased the level of comfort of the weaker players in the world economy. This could be one reason why China preferred the WTO to bilateral trade relations with the US.

Trade principles were enunciated and adjudicatory mechanisms instituted in the shape of a dispute settlement mechanism. The WTO's dispute settlement mechanism came to the aid of Indian shrimp exporters when US lobbies tried the excuse of environmental concern for turtles to block India's shrimp exports. Bowing down to the rules of the WTO's Dispute Settlement Mechanism, the US respected the WTO's verdict and did not threaten Indian shrimp exporters with tariffs. The US has ceased the use of trade sanctions after the birth of the WTO with its attendant dispute settlement mechanism.

WTO law was embedded in domestic national level legislations. Such laws could be used to check the predation of Indian intellectual property in foreign destinations. The legalization of international norms within domestic courts needed to be studied. Employing domestic legalization of intellectual property norms as a handy weapon, Vandana Shiva, Linda Bullard and Magda Alvoet successfully challenged the US Department of Agriculture (USDA) and W. R. Grace at the European Patent Office (May 10, 2000). They showed that USDA and Grace had stolen India's traditional knowledge by patenting the useful applications of the Neem tree. The Basmati patent, which constituted a similar theft of India's traditional intellectual property, also needed to be challenged in a similar way.

Could rational reciprocity based techniques for building trade relations evolve in the case of South Asian regional or sub-regional cooperation? Why did India and Sri Lanka sign a successful free trade agreement after years of skepticism? Why did Nepal have a free trade arrangement with India, when Bangladesh and Pakistan had less cordial relations?

Could the strategy of reciprocity help to improve Indo-Bangla trade relations? India and Bangladesh, like India and Sri Lanka, had tremendous trade potential, which was currently being realized through cross border smuggling of enormous proportions. Bangladesh worried

that trade dependence on India would increase its vulnerability with respect to a large and hegemonic neighbor. Could India do things right to signal the lack of a hegemonic intent and begin a game of reciprocity with respect to Bangladesh? Were there lessons to be learnt from the story of the Indo-Lanka Free Trade Agreement? Did reciprocity-based strategies employed by Prime Minister I K Gujral produce desirable outcomes in South Asian cooperation?

International Norms Driven By a Legitimate Social Purpose

Third, a relatively understudied area, which is fast gaining attention, is the role of norms in international affairs. Could it be that international affairs were driven by something more than rational self-interest? It could be that certain international practices develop a life of their own through persuasion, imitation and internalization. When a norm gains legitimacy, belief in the propriety of the norm is considered good. When a norm is not yet accepted, persuasive arguments need to be made, and, norm entrepreneurs need to propagate such arguments.

Arguments, in favor of sovereign equality, human rights, liberal democracy, women's rights, social justice, social capital and the like, first needed to be heard and then internalized. The process of making arguments, spreading them and then internalizing such arguments, constituted the life cycle of international norm dynamics. In the early stages of argumentation most people would be convinced about the inappropriateness of the norm. Once internalized, most people would think that anything other than norm driven behavior was not warranted.

Sometimes international regimes were born as a result of scientific knowledge that emerged out of the work of scholarly communities. The Plan to clean up the Mediterranean, for example, emerged out of a scientific consensus on the unsustainability of pollution in the

Mediterranean. A report, which was published in 1977, spearheaded the policy change. Expert knowledge got embedded within the bureaucracies that took it upon themselves to clean up the Mediterranean. Similarly, the Montreal Protocol on the Ozone layer was facilitated by a consensus among scientists that ozone-depleting chlorofluorocarbons posed a real threat to the atmosphere's ozone layer, which was absolutely essential for health.

World order theorists have argued the case for a constitutional structure based on ideas that helped to structure international politics. Arguments have been made about the Keynesian compromise of embedded liberalism that was argued to be the spirit behind the multilateral economic institutions resulting from Pax Americana in the aftermath of the Second World War. The spirit of laissez faire that characterized Pax Britannica was replaced by the norm of embedded liberalism. Embedded liberalism was a norm that allowed for market orientation with social democratic exceptions. Many capitalist states in the West, which were also democracies, had to live with the possibility that unregulated markets devoid of state intervention could produce recessions, depressions and electoral losses. It was important for the US, therefore, to take into account the interests of Europe, whose views were ably articulated by John Maynard Keynes in his debates with the US representative, Harry Dexter White.

India needed to take its rightful place in the arena of persuasive argumentation. Ideas such as sovereign equality, democratic global governance, and social justice in the global economy, could be pursued with great effect. Empirical case studies highlighting the predatory nature of the powerful in the international system of states, based on sound empirical evidence, could produce persuasive arguments that could fight such injustices.

Such studies could push normative ideas to combat the asymmetrical situation that prevailed in the global economy.

Power, Rationality and Social Purpose

This section will demonstrate through a case study how particular international rules can affect the global distribution of revenue by describing deliberations in the international corporate tax regime.

Questions that needed to be asked in similar issue-areas related a) to the causal mechanisms behind international rule formation; and, b) how India could intervene given the dynamics of international norm formation. The consensus on conditionality within the IMF; structural adjustment within the World Bank; norms governing what mutual funds considered investment friendly destinations; and, conditions involving the entry of foreign direct investment; are the other regimes that needed to be closely scrutinized and engaged with, by India. This was especially important at a time when India's development was increasingly becoming dependent on transnational capital.

Rules governing international corporate taxation could benefit rich or poor countries depending on how they were defined. The content of these rules were especially important for India because it was engaging in the kind of transnational commerce, which the new rules would come to encompass. The current principles, which were embedded in over a thousand bilateral treaties among countries, were being reviewed in the light of the fact that transnational commerce would be tough to govern within bilateral settings. More importantly, these rules, which were being deliberated within the OECD, were now being coordinated as a discussion between the World Bank, the IMF and the OECD.

Digitization posed a challenge for corporate taxation. Taxation based on “residence” was favorable to the US. “Residence” was where the firm most central to the bundled product maintained its strongest ties. Microsoft and Intel may be creating significant value in India but may be *residing* in the US. US resident income was derived globally. “Source”, on the other hand, was the place where value was being created. Microsoft could be creating value in its subsidiary in Bangalore although it was headquartered in Seattle.

The following could be the developing country objections to the principle of residence-based taxation proposed by the US. If source based taxation was the guiding principle, then the value that Microsoft created in India would be taxed in India, and, the value that it created in the US would be taxed in the US.² However, if “residence” were the principle of taxation then the total value creation would be taxed in the US. Residence based taxation was antithetical to the interests of capital scarce countries that created value, but where the major firms doing business along the digitized route were not headquartered. Second, residence-based taxation could also lead to a proliferation of tax havens or low tax locations. If the location of taxation depended on where a firm was incorporated rather than where value creation was taking place, what would stop firms from registering themselves in low-tax locations and outsourcing value-creating activities to other locations?

Problems such as international corporate taxation were of a generic nature in an era of globalization. Globalization demanded a greater degree of accountable, transnational, economic governance. The greater the degree of legitimacy and accountability in rule formation with checks and balances against the predation of the most powerful, the more enduring and development friendly these rules were likely to be. On the other hand, this

² This issue could be complicated by other considerations such as the principle of permanent establishment in international taxation, which I will not discuss in this paper. Suffice it to say, that it would be reasonable to treat this story as a model of the reality rather than reality itself.

would mean that the powerful would need to sacrifice their short-term interests in favor of a more enduring constitutional structure with checks and balances. The distribution of power would not yield such a structure. What combination of rational self-interest and legitimate social purpose could provide such a roadmap was worthy of investigation. Realism, nevertheless remained an important paradigm to comprehend the dynamics of predation in the global political economy.

C) **THE STATE'S ROLE IN REDUCING SOCIAL VULNERABILITY
AND INCREASING COMPETITIVENESS**

Social Vulnerability

Globalization can increase both wealth and social vulnerability for two reasons. First, as countries become more dependent on external markets, job losses often result from the recessions, oil shocks, and a variety of policy options followed by people in other locations. It is for this reason that the highly trade dependent states in Scandinavia also have the most effective welfare states. A number of studies show that globalization has not been able to erode substantially robust welfare states in the OECD countries. The politics and networks of welfare are relatively well entrenched in a majority of the world's richest countries. These states, according to some well-argued accounts, were born as a result of contests between the rulers and the ruled, on the issue of taxation.

The story of the developing world is just the opposite. Post-colonial state formation differed markedly from the conflicts that characterized the contests between the citizen and the state in the West. A persuasive cross-national study showed that the welfare state in the developing world was declining. How could the logic of democracy and markets be different

in the West and East? If social democracy, with powerful trade union movements, seemed to be a plausible reason for the success of the growth model in the West, would not the developing world also need such a social democratic model?

Second, markets, which produce efficiency and growth, also heighten inequalities. They often cannot take care of marginalized groups who are not within the purview of the market. India's telecommunications revolution spurred by private initiative succeeded in urban but not to the same extent in rural areas. This could exacerbate the already existing rural-urban divide. Private hospitals have mushroomed but healthcare for the poor had suffered. Productive investment in agriculture had declined but subsidies benefiting the rich farmers went unchecked. Elementary education, needed to spread with greater rapidity.

The state needed to promote the positive sum between the rich and poor, often by using its autonomy to tax and redistribute effectively. The capacity of the Indian state to tax and redistribute to the poor and marginal groups in society was becoming less, but its ability to spend and provide benefits to the well to do and middle classes in India continued unabated. To give one example from India's telecom story, the wireless in local loop technology was permitted to basic service providers because it was considered that wireless technology would be less expensive to rollout basic services in rural areas than the traditional one using wires. Basic services operators used this technology to compete with cellular operators in urban areas but did not fulfill their rural commitments. What was surprising was the way in which the rural commitments of the basic service operators were overlooked by the regulator and the government. Second, the manner in which the Indian state under different parties at

the Center negotiated the deal with Enron smacked more of a rent-seeking state than one, which was committed to improved service delivery.

A state in retreat in an era of global economic integration could give excessive voice to capital and powerful stakeholders. Global economic integration needed the state to work with capital for ensuring that India grew at 7% to 8% per annum. But growth without redistribution at low levels of human development, and a minimal welfare state, could not be in the long run interests of either capital or labor. It was imperative to examine the relationship between the Indian state's capture by capital and rich farmer's lobbies, and, the decline of welfare.

Regional Inequality

Economic liberalization and hard budget constraints have reduced the role of Centre in allocating resources to states. This had heightened regional inequality. The increasing role of private investment afforded greater autonomy to the states to take the initiative to grow. The abolition of industrial licensing ensured that private investment, both foreign and domestic, would go to states where productivity gains would be the greatest. Investors sought a decent legal administrative system for pursuing business; infrastructure in the form of power, telecommunication and roads; and, a skilled and disciplined work force. Good governance was essential for attracting investments.

Montek Ahluwalia has argued persuasively that private rather than public investment was positively and significantly correlated with state-level growth rates in the 14 Indian states that he studied. This implied that states with a higher level of private investment in relation to their gross state domestic product (GSDP) were likely to grow faster. Private

investment could be more positively correlated with growth because of the greater efficiency of resource use.

The level of state plan expenditure, which was only about 10 percent of the investment, did not make a dent on growth. Orissa, which had the highest state plan to GSDP allocation (7.10 percent), grew at 3.25 percent, while West Bengal with the lowest plan to GSDP ratio (2.70 percent) grew at 6.90 percent. Badly targeted subsidies in the state plans, especially for electricity and irrigation created budgetary problems. The state electricity board losses were about 10 percent of the state plans in 1992. At Rs. 25,000 crores in 1999, the same figure had risen to 30 percent of the state plans. Off the 1071 PSUs in the states only 247 were making profits. Agriculture could not be taxed. Civic amenities in the cities were failing while at the same time raising municipal tax to remedy the problem was tough.

Economic reforms transformed the national level scenario in respect of growth leaders and laggards among the states, if we considered the periods 1980-90 and 1991-98. The fastest growing states out of the 14 for which comparable data were available between 1991 and 1998 were Gujarat, Maharashtra and West Bengal, all grew at rates greater or around 7 percent per annum. The middling states were Tamil Nadu, Madhya Pradesh, Rajasthan, Karnataka, and Kerala, which grew between 5.5 and 6 percent per annum. Madhya Pradesh, Tamil Nadu, Kerala, West Bengal, Gujrat, Maharashtra and Karnataka improved their growth rates over the reform period. Rajasthan's growth rate declined marginally from 6.60 during 1980-1990 to 5.85 in the period 1991-98. Punjab, Haryana, Bihar, Uttar Pradesh and Orissa declined in terms of growth rates. The problem states were Bihar, Uttar Pradesh, and Orissa. These three states carrying about a third of the population of the 14 states under consideration also had the greatest number of poor.

The gini coefficient for inequality among states grew from 0.152 in 1980 to 0.175 in 1991 to 0.233 in 1998. Inequality within the 14 states grew during the reform period. The good news was that there was reduction in the inequality among the richest and the majority of 14 states, if one considered the pre and post reform period together. Punjab and Haryana were the richest states in the pre-reform period. Their growth rates slowed down to 4.77 and 5.13 percent respectively in the post-reform period. The bad news was that three poorest states were not only becoming poorer with respect to Punjab and Haryana, but with respect to the rest as well.

Bihar, Orissa and Uttar Pradesh posed a challenge for Indian federalism. India could be evolving both in a developmental and predatory fashion at the same time, worsening disparities and creating grave consequences for the political economy. Whereas in China, the most populous regions were also growing the fastest, just the opposite was true for India.

The Centre needed to play an interventionist role to check regional disparities. The Centre's subsidies to the states at Rs. 46,000 crores exceeded the assistance of the Central Government to the states in support of their plans. Would the Centre be able to reduce support for subsidies and channel funds as performance-based grants to make a dent on the continued underdevelopment of Bihar, Uttar Pradesh and Orissa? With such help, the three most backward states may be equipped to compete with the rest of the eleven.

This would need deploying conditional funds that could transform the politics of underdevelopment and nudge it towards a developmentalist path. Policy-oriented social science could point to aspects of good governance that would help the poorest states get out of the poverty trap with productive state directed investment. The nature and quality of

Central intervention required for pepping up the poorest Indian states posed a challenge for social science in post-reform India.

Administrative Reforms

Investment driven growth was premised on good governance. Governments needed to provide for a reliable legal system, physical infrastructure, basic health, education, civic amenities, and, a social safety net that secured people from social disruption endemic to a market oriented system. In India, politicization, transfers, lack of accountability, and the lack of citizen-oriented governance came in the way of engendering an investment friendly climate. An important research question was the relationship between good governance and private investment in the states. A related question was the relationship between the productivity of public investment and good governance in the states.

The bureaucracy needed some insulation from the politician. Oftentimes this was not easily possible because of the power of ministers to transfer public officials for personalistic reasons. Rapid transfers of officials in the Indian states robbed the administrative leadership of knowledge and experience. Civil servants would have less of a stake in their jobs when there was no guarantee that would be able to complete them. Second, rapid transfers enabled the political master to bend the official to its whims and fancies, increasing the likelihood of corruption. The Fifth Pay Commission gave detailed guidelines to fix the tenure of an officer for a period between two to five years. That the political will behind this policy recommendation was lacking was evident from the lack of consensus on this issue in the Chief Ministers conference of May 1997.

Excessive emphasis on procedure rather than results slowed down the administration. The Economic Administrative Reforms Commission had noted that it was essential to have

proper delegation of powers and a clear delineation of responsibility within each ministry between the Secretary, Joint Secretaries, Directors and Deputy Secretaries. The Fifth Pay Commission recommended level jumping for acting efficiently on a file.

Inter-ministerial issues often lacked accountability, as there was no way to link a policy failure to particular minister or official. Proper delegation and accountability of inter-ministerial tasks posed a problem. On rare occasions such as Prime Minister Vajpayee's successful initiative to get the telecom policy back on track after years of investment pessimism, a model of inter-ministerial coordination based on task force initiated by the PM's office, seemed to work. The New Telecom Policy of 1991, which resulted from the work of this task force, was hailed as a public policy document worthy of note. It was important to understand what produced successful and failed initiatives in inter-ministerial coordination.

Making government services more accessible to users was especially important in the context of economic reforms. The Department of Administrative Reforms and Personnel Grievances encouraged the idea of citizen charters. These charters were to promote accountability by setting the standards of service delivery. Procedures to render the service orientation more accountable were instituted. There would be a Director of Public Grievance in every ministry, a directorate of public grievance in the Cabinet Secretariat, and, a Standing Committee of Secretaries constituted under the Cabinet Secretary.

Following the recommendations of the Fifth Pay Commission some states instituted the position of a Lok Ayukta or an ombudsman for public grievance redressal. The Lok Ayukta had the right to initiate proceedings directly if it so wished. The institution of the Karnataka Lok Ayukta with a budget of Rs. 4 crores and 500 officers from the police,

technical, audit and statistical wings, was a notable development. The Karnataka Lok Ayukta had under its vigilance directors of health, education, the Bangalore City Corporation, the Bangalore Development Authority, and the Police Wing. The Karnataka Lok Ayukta team was active in investigating corruption in health and education. It was important to study institutions like the Lok Ayukta, and, the factors that contributed to its success or failure.

The Brihanmumbai Municipal Corporation's (BMC) Dahisar Facilitation Centre implemented innovative ideas. Help desks with a monitor facing the citizen enabled her to access forms, guidelines and prior billing records. A single window received applications for opening a factory or a restaurant, took the responsibility for obtaining no objection certificates from other agencies, and issued licenses within 30 days. The grievance tracking software package defined a grievance by sector and type, and gave response times. A single computerized system of letter and file tracking replaced the work of 80 registries.

The BMC worked closely with an NGO named Praja. Praja's citizen charter summarized the BMC's standards of public delivery in areas such as solid waste management, public health, road, electricity, transport, waterworks, licensing, environment and sewerage. It also conducted the first ever-public survey of the BMC's performance. In this survey, water works were rated highly but the license, sewerage and traffic departments were not. Praja worked actively with BMC to develop an online public grievance redressal mechanism.

Accountable decentralized governance could be facilitated through Panchayati Raj institutions. States like Kerala and Karnataka have devolved some financial powers to Panchayati Raj institutions. China's economic liberalization program succeeded in part because of what some scholars have termed as market preserving federalism. Market

preserving federalism was based on the principle of devolving decision-making powers to the lowest level of government. Could Panchayati Raj institutions play such a decentralized decision-making role? What factors inhibited the possibility of localized decision-making in India?

Good governance was essential for luring investment and skilled personnel to India's poorest states. Administrative reform was an area that needed close scholarly scrutiny. Prime Minister Manmohan Singh's noble objective of reforming the administration by bringing about greater accountability and citizen orientation, needed to be supported with sound scholarship in this area. Since, most of India resided in the poorest states, effective governance, especially in the poorest states, was an imperative.

Enhancing Competitiveness

Some generic questions are likely to arise in relation to promoting India's competitiveness. Does India have decent roads, ports, airports, adequate power generation, efficient telecom service provision, and the human capital (education and health services) necessary for becoming a major trading nation? Does it have a banking and financial system which will aid capital to engage with the global economy? Did the country have a workable contract between labor and capital that created the conditions for social harmony and productivity?

Second, privatization and competition in infrastructure areas needed to be encouraged. Privatization in infrastructure areas was often confronted with predation by the big financial players. In the initial stages, this could mean predation by the government owned incumbent. In the subsequent stages, if privatization succeeded, private capital could pose a threat to

competition. Markets would not work for the benefit of consumers if effective regulators did not confront this problem. The problem was that the government was often not easily willing to give effective independence to regulators after ensuring a high level of integrity and responsiveness to government policy. Scholarly research needed to address the issue of effective regulation, if predatory behavior was not to alleviate the positive effects of competition.

D) IN SUM

This paper has proposed three types of research agendas for comprehending the state of the Indian state under globalization. The first is the question of adjustment. Is India adjusting to international best practices due to an internal consensus and in a manner that is peculiarly suited to India's plural polity and economic conditions? Or, is the adjustment donor driven and externally induced? Do gradualism, political opportunism and a homegrown approach; have benefits and costs that are central to an understanding of the Indian state's adjustment to international best practices?

The second research agenda addresses the nature of international rule formation. Uncovering the dynamics of international rule formation could help India engage effectively with global regimes. Do these international rules reflect just the power of the strong to exploit the weak; or, a positive sum situation in international relations that cannot be understood without international institutions, based on reciprocity? Or, do they reflect persuasive arguments about a logic of appropriateness that ought to govern inter-state conduct? The paper makes the case that these three types of causal arguments could be suited

to addressing different kinds of problems facing the Indian state, as it engages with the global economy.

The third set of questions address the problems that could arise from globalization, which needed to be handled by the Indian state. First, globalization could increase social vulnerability. The state needed to follow the example of the OECD countries to tax and redistribute resources, in order to increase its capacity to provide welfare. Second, liberalization and hard budget constraints had increased the autonomy of the states to pursue development. This may have aggravated inter-state inequality as well. Good governance, especially in the poorest states facilitated by conditional Central finance to nudge these states along a developmental path, was essential.

Last but not least, improving India's international competitiveness was related to the larger question of improving its physical and human infrastructure. Improving physical and human infrastructure required strengthening regulation and promoting competition in various sectors of the Indian economy.

The three issues, which involved a) adjustment to international best practices; b) a proactive international agenda setting role for the Indian state; and, c) creating the internal dynamism to succeed with globalization, deserved urgent scholarly attention.

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