

Indian economic diplomacy (1947-91): Negotiating evolving position in the pre-liberalization era

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Abstract

Close linkages can always be observed between the foreign and domestic policies of a country. Several significant shifts took place in the economic policies pursued by India after its independence. Most of these had their reflection in the external policy as well. In this paper we try to see such linkages in the period prior to 1991. Historically, the evolution of the Indian state has been an important factor in determining the priorities and shifts in its foreign policy. The changing nature of the Indian state has significant influence on the economic regime, with implications for its Third World policy. India, being a middle ranking economic power, articulated the demands of the Third World and argued in the behalf of the entire group. Through collective bargain, India demanded a just international economic order. Until the early 1980s, India had been able to resist external pressures, though in a limited way, by mobilizing countries in the Third World. Within the NAM and the G-77 at the UN, India took the lead in articulating the need for 'collective self reliance' and raising the demand for a restructuring of the international economy to suit the needs of the developing countries.

Keywords: Indian economic diplomacy, pre-liberalization

Introduction

Close linkages can always be observed between the foreign and domestic policies of a country. This is equally true in the case of India. Nehru was particularly aware of such linkages. As early as in 1947, he declared that "External Affairs will follow internal affairs". He pointed out that "Ultimately, foreign policy is the outcome of economic policy and until India has properly evolved her economic policy, her foreign policy will be rather vague."^[1]

Since foreign policy was so clearly perceived as an extension of domestic policy, changes in the latter became a key to shifts in the former, with economic diplomacy acting as the mediating factor. Several significant shifts took place in the economic policies pursued by India after its independence. Most of these had their reflection in the external policy as well. In this paper we try to see such linkages in the period prior to 1991.

India's economic and technological backwardness, and the abysmal poverty of large sections of its people, made rapid economic development a categorical imperative of India's domestic policy. This necessitated an appropriate foreign policy framework. To Nehru, it was clear that international economic cooperation was an essential means to furthering the economic progress of India. In a speech to the Constituent Assembly on December 4, 1947, he argued that, "in the long distant future', self-interest itself demanded a policy of cooperation with other nations."

If the foreign policy framework adopted by India reflected this concern for maximization of international cooperation by removing or circumventing all obstacles in its way, it also equally reflected the transnational humanist concerns which were deeply embedded in the philosophical and political outlook of its anti-colonial struggle for independence. Once again, as early in 1929, Nehru had observed that "Our economic programme must be based on a human outlook, not merely the internal programme, but also the *external*

programme." It is this humanistic approach which led, at the internal level, to the envisioning of a socialistic pattern of society, a frame for socio-economic progress based on principles of equity; at external level, India resolved to work for an international economic order in which the poorer nations may be able to protect and promote the wellbeing of their peoples as well as protect their material resources."^[2]

India embraced a foreign policy framework which in its view served at once India's own interests as well as the collective interests of the entire Third World. In fact, India saw very little variance between the two. For example, the Second Five Year Plan documents reveal that Indian planners were aware of similarities in developmental problems faced by developing countries. They were also convinced that interchange of ideas, experiences and technical personnel would be mutually beneficial for their developmental programmes. This is remarkable insofar as the idea of South-South cooperation, which became popular at a later date, can be traced back to this understanding.

India's size, strategic location and potential made it incumbent upon her to take bold initiatives and provide leadership to the rest of the Third World. From the very start, therefore, India's economic diplomacy had three principles ingrained in it:

1. India argued that all developing countries had common concerns which were overarching in nature and therefore overrode their specificities.
2. Foremost among these commonalities was the fact that the entire Third World was caught in the grip of a vicious cycle of poverty. The developing countries continued to be economically exploited not only at a bilateral level but, more importantly, also through the existing international economic system which was dominated by the West and was not responsive to their needs. The international legal system too was protective of the economic and political interests of the rich countries.

3. The Third World thus needed to work jointly and make collective efforts. It needed a common platform to articulate its views.

It was at the Bandung Conference in 1955 that India played an effective role in developing an economic agenda for the Third World. The conference dealt with subjects like technical assistance, establishment of a special UN fund for economic development, stabilization of commodity trade and prices through bilateral and multilateral arrangements, increased processing of raw material, establishment of national and regional banks, and insurance companies etc. Planned development at home and diversified economic relations abroad had set in a practical model for newly independent nations to give economic content to their national freedom^[3]. The role of India in the subsequent years was critical in mobilizing the Third World, particularly its efforts at the democratization of the international economic order.

India and Non Aligned Movement

The broad foreign policy framework came to be known as nonalignment. India was a co-founder of the Nonaligned Movement (NAM) in 1961 and played an influential role in the evolution of the movement. The framework postulated a policy that would keep members of the movement equidistant from the military alliances formed by the two rival power blocs led by the US and the USSR.

At one level, the NAM was certainly a powerful foreign policy instrument in the hands of India. Clearly, an exclusive relationship solely with either the East or the West did not serve India's national interest. Nehru articulated this clearly when he said: "Even in accepting economic help...it is not a wise policy to put all our eggs in one basket."^[4] India needed to keep its options open and maintain good relations with as many nations as possible in order to garner maximum support for its own development. It needed to ensure not only the availability but also the maximization of the quantum of. At the same time, it also needed to avoid political pressure from the aid donors. Only a policy like nonalignment could ensure the diversification of the sources of aid as well as prevent the exercise of political pressure by one of the super powers.

It was necessary for India from the beginning, for the sake of the economic development, to avoid entanglement in the world wide bipolar power conflict. As a leading member of NAM, India did not have to fight ideological battles against the West, nor did it have to rely solely on the economic support of the USSR^[5]. Instead, nonalignment helped India bargain with the two rival blocs. Nehru's strategy to keep India non-aligned thus helped accelerate economic development, as India received substantial aid from both sides during the cold war, the USSR and Eastern Europe contributed almost as much in capital goods and technical assistance as did the US, Great Britain and West Germany. Yet the strength of NAM itself lay in the fact that India could convince a very large number of Third World countries to take a similar stance. India persuaded them that a non-alignment would help sustain not only its interests but the interests of a vast majority of the Third World states^[6]. While Nehru government pursued a new line of foreign policy different from the policies of two dominant blocs, it simultaneously went about making proclamations for the unity and solidarity of the Third World.

The NAM developed its economic content almost immediately at the Belgrade meet in 1961 where, on 2nd of September, Nehru asked the nonaligned nations to recognize that 'we are socially and economically backward countries and it is not an easy matter to get rid of this inheritance of backwardness and underdevelopment. It requires clear thinking, it requires action, and it requires a tremendous amount of hard work.' The participants in the Conference demanded that 'all the gains of the scientific and technological revolution be applied in all the fields of economic development to hasten the achievement of international justice.' But it was not until the Lusaka Conference of 1970 that NAM was able to give substance to Nehru's approach. The meet, which was attended by 54 participants and 9 observers, focused primarily on the tensions inherent in the division of the world between 'Haves' and 'Have -Nots'. It declared that 'economic development is an obligation of the whole international community that it is the duty of all countries to contribute to the rapid evolution of a new and just economic order under which all nations can live without fear.'^[7]

The Algiers summit took the next logical step when it envisaged a more active economic cooperation among the member state. Mrs. Gandhi urged upon the developing countries to realize that affluent countries looked after their own interests. Unless they were convinced that some of their own interests would be served by helping the poor countries they were not likely to help^[8]. This meant that Third World countries needed to strengthen their own bilateral and multilateral relations. This conference was marked by the importance given to economic development through cooperation, particularly among the non-aligned countries themselves^[9]. At the same time, India's efforts at all the conferences from Belgrade in 1961 to Colombo in 1976, were also geared towards preventing the non-aligned group becoming an inward looking club and encouraging more nations to adopt the concept of non-alignment.

The Havana summit held in 1979 tested the commitment of the movement to nonalignment. An attempt was made by the countries of socialist orientation in the movement to establish a formal relationship between the NAM and the countries of the socialistic bloc and who projected as their 'natural' allies. Although India had developed a close relationship with the Soviets in 1971 by signing a treaty of friendship, it still resisted such a push for the entire movement. Such a permanent institutional arrangement with one of the two ideological adversaries would have made nonsense of nonalignment^[10].

This clearly showed that although India's diplomacy sought to optimize India's economic interests through nonalignment, India kept collective interests uppermost in its mind when it played a leadership role in the Non Aligned Movement.

Beyond NAM: India's larger Third World Policy

Although India played a major role in the nonaligned movement, its larger Third World policy was not restricted to the NAM. It evolved as a result of a structural understanding of international economy. India realized that the structural logic of international economy was highly detrimental to the unfolding of the developmental process across the underdeveloped regions of the world. It was convinced that without drastic changes in the rules of the game, the relative

and absolute positions of the developing economies could only worsen. Indian representatives played an active role in initiating debate and discussion on these issues in forums such as the General Agreement on Tariffs and Trade. Thanks to such efforts, the GATT was amended so as to permit developing countries to impose import restrictions.

Indian representatives played a leading role in persuading the UN to designate the 1960s as the First Development Decade and undertake preparatory measures for setting up the UN Conference on Trade and Development (UNCTAD). In the first UNCTAD meeting held in 1964, India's commerce Minister argued that it was necessary that preferential treatment be accorded to the exports of developing countries so that rapid expansion of their export trade could promote their industrialization. Removal of non-tariff barriers and reduction and removal of tariff barriers were necessary for this purpose. Such a system had to be non-discriminatory and be applicable as a whole to all the developing countries of the world.

In the second UNCTAD meeting held in New Delhi in 1968, India proposed that the scheme of general and non-discriminatory preferences for the manufacture and non-manufactures of developing countries must be non-reciprocal. In the subsequent years, India continued to make use of the Economic and Social Council, the General Assembly and its committees, and the UNCTAD for mobilizing support for the cause of the Third World by sponsoring and sponsoring resolutions and moving amendments to resolutions sponsored by other countries. India thus proved to be one of the most influential countries in the group which, in spite of substantial difficulties, worked hard to forge a united front of developing countries on major issues of restructuring world economic relations^[11]. India understood the imperative of positioning development issues ahead of political issues and taking advantage of the UN system for the projection of these concerns. India thus played a major role in shifting emphasis away from the Cold War divide between the East and the West towards the more relevant division between rich countries of the North and the poor countries of the South^[12]. Third World's demand for replacement of the international structure that perpetuated unequal distribution of benefits was formally formulated first as the 'Charter of Algiers' in 1967. It was drawn up at a ministerial meeting of the Third World countries (G-77) in the wake of the extremely limited success achieved in the implementation of the decisions of the UNCTAD-I. However UNCTAD-II too failed to make any significant headway in bringing about convergence of views between the developed and the developing countries. As a result, in its summit at Lusaka in 1970, the NAM countries reiterated that structural imbalances in the existing world economic order were responsible for continued economic dependence and poverty.

Role in the UN: Demand for New International Economic Order (NIEO)

The most prominent demands of the Group of 77 presented at the sixth and seventh special sessions of the U.N. General Assembly and at UNCTAD meetings, came to be called "structural reforms". They represent a blend of political, economic and constitutional objectives. The other element in their demand for structural reforms was institutional. The demand was to increase its influence in the shaping of

international economic and political evolution by broadening the jurisdiction of those international organizations in which the South had a strong voice, and creating new international organizations which would increase the South's influence in specific areas of international activity. It reflects the deeply shared Southern perception of the existing international system and its illegitimate origins.

India was in the forefront in advancing the cause of the Third World in the UN General Assembly. At the Sixth Special Session of the UN General Assembly, India made proposals for a comprehensive policy for the revalorization of the prices of raw materials, provision of additional liquidity for concerned countries, equitable pattern of voting rights in IMF and other international financial institutions, provision of external capital for the development of the developing countries, and financial and technical assistance to the developing countries. Most of these proposals were incorporated into the "Declaration on the Establishment of the New International Economic Order" (NIEO) adopted by the General Assembly on 1 May 1974^[13].

At the Seventh Special Session of the UN General Assembly, India made several proposals for the establishment of the NIEO, which included among other things, a greater say for developing countries in the management of the international monetary system, and greater regulation of the activities of the trans-national corporations (TNCs). India persisted with these efforts at UNCTAD- IV held at Nairobi in May 1976.

In 1977, when the Janata government came to power in India, there was no change in the policy orientation on the question of NIEO. In June 1978, Prime Minister Morarji Desai acknowledged that the road to the New International Economic Order might be 'rough, tortuous and long, but it must not be allowed to become a mirage.' Later in the year, Foreign Minister Atal Bihari Vajpayee said that mere tinkering with the present world economic order and hesitant ad hoc concessions would no longer be enough. He called for time bound means to attain the goals of the NIEO, which included common funds for commodities, adequate flow of financial resources on a dependable basis, and on the softest terms and conditions, and reformation of the international monetary system and a code of conduct for TNCs^[14].

As Chairman of G-77 during the greater part of 1980s, India tried to find solutions to the deep seated structural crises and the fundamental disequilibrium that faced the world economy. India participated actively in the continued North-South dialogue so that an optimal programme could be evolved for beneficial cooperation between developed and developing countries.

An integral aspect of the NIEO was the development of collective self-reliance. It envisaged measures to be taken by developing countries to promote collective self-reliance and strengthen mutually beneficial international economic cooperation with a view to bring about accelerated development. One of the basic assumptions of the concept of collective self-reliance and the general faith in the positive results of economic cooperation was that the countries of the South had a common interest based on the fact that their economies shared some basic structural features^[15].

Strengthening the ties of unity and cooperation within the South remained a vital ingredient of India's approach towards international relations. India suggested that collective self-reliance among developing countries would provide means

for economic development and also improve purchasing power and export income. India called a meeting of U.N. developing countries in February 1982 for promoting South-South cooperation. Thus a two prolonged strategy was sought to be followed in order to make the North realize the essence of interdependence and force it to resume the North-South negotiations.

India viewed economic cooperation and integration at regional and sub-regional levels as an answer to many of the economic problems. India's relations with developing countries within its own region were built on according special treatment to them in the matter of trade. This was reflected in its policy of entering into trade agreements and bilateral trade and payments arrangements.

Summing Up

Historically, the evolution of the Indian state has been an important factor in determining the priorities and shifts in its foreign policy. The changing nature of the Indian state has significant influence on the economic regime, with implications for its Third World policy. India, being a middle ranking economic power, articulated the demands of the Third World and argued in the behalf of the entire group. Through collective bargain, India demanded a just international economic order. India was much more interested in the formation of the regional grouping such as SAARC etc, instead of paying attention to other diverse groups such as ASEAN. Until the early 1980s, India had been able to resist external pressures, though in a limited way, by mobilizing countries in the Third World. Within the NAM and the G-77 at the UN, India took the lead in articulating the need for 'collective self-reliance' and raising the demand for a restructuring of the international economy to suit the needs of the developing countries.

Signs of Shifting Priorities?

But the reversal of India's stand can also be seen in the Uruguay Round by late 1980s. A number of reasons have been cited by the analysts for this shift in the Indian stance. The significant point is that the 1980s marked a period of transformation in the internal and external roles of the Indian state in such a way as to suit its new global agenda. India's urge to redefine its role in the global order, and ensure its participation in authoring new rules and regulations for this order marks the policy shift at the external level. Since the late 1980s, there has been a perceptible shift in the India's approach and attitude towards the problem of developing countries^[16].

Indian economy went through some major changes in 1980s when its socialistic orientation made way for liberalisation, relaxing policies in the arena of industry and trade. As a result, India sought to 'bring about adjustments in its foreign policy, in its basic principles and objectives, as in terms of reordering of priorities, shifts of emphasis, and changes in approach and method. For the government, the path to choose was very clear- to mingle with currents of globalization, because they were in tune with the internal economic reform package adopted formally in 1991. Even as India initiated steps to integrate its economy with the global capitalist system, it became more susceptible to the pressures of international financial institutions^[17].

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