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THE ECONOMIC DOCTRINE OF DR. MANMOHAN SINGH

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Abstract:-The Manmohan Singh Doctrine is a manifestation of India's economic resurgence in an era of greater economic openness. The success of India's external liberalization and the reintegration of the Indian economy into the growth processes of East and Southeast Asian economies have played a vital role in the popular acceptance of the validity of the many postulates of this doctrine. For this reason, the continued relevance of the doctrine will be contingent upon India's continued pursuit of high economic growth within the framework of an open and increasingly globalize economy.

Keywords: Economic Doctrine , liberalization , globalize economy ,protectionism.

INTRODUCTION

It is also contingent upon the process of globalization being more inclusive. If the global economy slips into a new era of protectionism, and if the current financial crisis and the global economic slowdown, with high energy and food prices, generates a backlash against globalization, it could strengthen the domestic critics of the Manmohan Singh Doctrine in India. Equally, the doctrine's appeal to the outside world is premised on India remaining a high growth, open economy and an open society, marked by popular commitment to the values of a liberal, plural and secular democracy. An inward-looking, internally divided, bigoted and illiberal India would have little external standing, and no external appeal.

In his very first budget speech in Parliament, in July 1991, Singh linked India's goal standing with its economic performance. After spelling out his strategy to deal with an immediate crisis - a balance of payments and fiscal crisis - Singh firmly anchored his economic initiatives in a wider strategic setting. He ended his historic speech with the now famous quote from Victor Hugo ("No power on earth can stop an idea whose time has come") and added, "I suggest to this August House that the emergence of India as a major economic power in the world happens to be one such idea. Let the whole world hear it loud and clear. India is now wide awake. We shall prevail. We shall overcome."

Six years later, recalling this speech in an interview published in the inaugural edition of a new international affairs journal, World Affairs, Singh underlined the foreign policy implications of the 'new economic policies' unveiled by the Narasimha Rao government.1 There was no doubt in Singh's mind that the liberalization of the Indian economy and the 'new turn' in its economic policies were part of a new strategic policy orientation taken in the context of the collapse of the Soviet Union, the rise of China and East Asian economies and India's own economic rise in the 1980s.

Indeed, Rao himself so explained his foreign policy initiatives. In one of his first media interviews, explaining his foreign and economic policies, Rao said, "now the Cold War is over. There is an element of cooperation instead of confrontation. It is a new situation. And we have to respond to that. So certain policy orientations will take place to ensure that our national interest does not suffer.”2 In 1991 this 'national interest' was defined essentially in economic terms, given the crisis at hand and the need to pull India back from the brink of bankruptcy.

However, it was not merely the compulsions of crisis management that forced a rethink on foreign policy priorities. The crisis had been anticipated by many economists and there was a long period of re-thinking on economic policy priorities preceding the 1990-91 crisis. This rethinking was triggered by the development experience of East and Southeast Asian economies and that of China, which had launched its own "Four Modernizations" policy a decade earlier, as part of a general re-orientation of its strategic policy and its relations with the outside world.

In an interview given to this writer in February 1991, three months before he assumed charge as India's finance minister, Singh told The Economic Times (Delhi) that India has to learn from the East Asian experience and re-orient its economic policies.[3] He reminded Indians that, in 1960, South Korea and India were on par in economic terms, including their level of industrial development but by the late 1980s, Korea had become a "newly industrializing economy", an "Asian Tiger", while India still lagged behind. He returned to this theme in his last Budget Speech in February 1995, "It is this vision, of a resurgent India taking her rightful place as an economic power house in Asia, which has inspired our economic policies."

In relating India's economic capabilities to its global profile and influence Singh was in fact drawing on early "Nehruvian realism" that had been forgotten during the intervening years when Indian foreign policy was shaped more by the "low politics" of the Cold War era and the "high politics" of post-colonialism. It was an interregnum in which "non-alignment" became an "ideology" rather than the "strategy" that it initially was.[4]

In his very first speech on foreign policy as Prime Minister of free India, Jawaharlal Nehru had observed,

“Talking about foreign policies, the House must remember that these are not just empty struggles on a chessboard. Behind them lie all manner of things. 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, rather inchoate, and will be groping .... a vague statement that we stand for peace and freedom by itself has no particular meaning, because every country is prepared to say the same thing, whether it means it or not. What then do we stand for? Well, you have to develop this argument in the economic field. As it happens today, in spite of the fact that we have been for some time in authority as a Government, I regret that we have not produced any constructive economic scheme or economic policy so far... When we do so, that will govern our foreign policy more than all the speeches in this House”.[5]

In a further elaboration of this "realist" and "instrumentalist" perspective on foreign policy, Nehru added, "Whatever policy we may lay down, the art of conducting the foreign affairs of a country lies in finding out what is most advantageous to the country." It is this original Nehruvian 'realist' perspective that Singh brought back to Indian thinking on foreign policy.

Several factors contributed to this shift in Indian thinking on relations with the world and the role of economics and business in international relations.

First, the collapse of the Soviet Union and the consequent disruption of an important external trade relationship. It was not just the economic and strategic fallout of this that was debilitating for India, but also the political and diplomatic fall-out. The Soviet Union was an importance "balancer" from India's point of view in its negotiations with Organization for Economic Co-operation and Development (OECD) countries, and with multilateral financial institutions. As recently as in 1980 Indira Gandhi used the "Soviet Card", as it were, in her negotiations with the International Monetary Fund (IMP) to secure improved terms for an extended financing facility loan.[6]

Second, the balance of payments crisis of 1990-91 and the need to adopt a stabilization and adjustment programme to secure financial support from the IMF and the World Bank. India also reached out to Japan for bilateral assistance and found Japan unwilling to extend such support without India adopting a clear programme of reform and adjustment. Finance Minister Yashwant Sinha had to return from Tokyo empty-handed, after having been kept waiting for an appointment with his counterpart.

Third, as a consequence of the balance of payments crisis, as a result of new thinking within the policy making establishment, and thanks to new trends in remittance inflows and foreign trade, India chose to move away from external aid and debt as major sources of balance of payments support and opt for foreign trade, especially services trade, and investment, especially portfolio flows, as sources of foreign exchange.

Fourth, the 1990s saw a major change in India's approach to foreign trade in general and to a multilateral trade regime in particular. India became a founding member of the World Trade Organization (WTO) and committed itself to multilateral rules of engagement in trade. India also began to seek regional and bilateral trade agreements on a parallel track and supported the idea of a South Asian Free Trade Agreement, to begin with, and soon expressed interest in an India-ASEAN Free Trade Agreement (FTA). India's 'Look East' policy and its interest in increasing its economic interaction with the Indian Ocean Rim countries also shaped India's relations with its wider "Southern Asian" neighbourhood.

Fifth, China's rise as an open economy and a trading nation had a profound impact on political and academic thinking within India and shaped public policy both with respect to domestic and external economic policy and with respect to India's foreign and strategic policy.

Sixth, as the 1990s progressed, and more in the first few years of the new century, India discovered its global prowess in the field of information technology. The business generated by the so-called "Y2K" problem followed by the growth of Indian information technology (IT) and IT-enabled services business, the "software and outsourcing" boom, and the growth in trade in services greatly changed attitudes towards globalization and global integration.

Seventh, in more recent years the outward-orientation of Indian business has also increased. First inspired by the experience of IT firms such as Tata Consultancy Services, Infosys and WIPRO and, subsequently, by that of pharmaceutical majors like Ranbaxy and Dr. Reddy's, Indian business groups began to move away from their earlier inward-looking "Bombay Club" mentality to a more global orientation. The recent listing of Indians among "Forbes Billionaires" is only one visible symbol of Indian business making its mark outside. Such success, howsoever limited as yet, and new attitudes of a new generation of Indian enterprise, has encouraged Indian business to push for more aggressive globalization. This 'outward orientation' of Indian business has shaped India's relations with many OECD economies, including the United States. It has also made Indian business organizations such as the Federation of Indian Chambers of Commerce and Industry (FICCI) and the Confederation of Indian Industry (CII) active players in Indian diplomacy. The 'business diplomacy' of FICCI and CII has shaped public and political opinion at home and won new friends for India outside.[7]

IMPACT OF SUCCESSFUL EXTERNAL LIBERALIZATION

The impact of the economic reform and liberalization programme launched in 1991 was felt soon enough on the performance of the economy. Compared to an average annual rate of growth of 3.5 percent in the period 1950- 1980 and about 5.5 percent in 1980-1990, the Indian economy grew by close to 7.5 percent in 1992-97. There was a slowdown after that till the revival of seven percent plus growth after 2003. The net impact of this accelerated growth was to take India away from its historical comparison with South Asia and Pakistan into a new league where its performance was increasingly compared with that of China and ASEAN. This had its own geo-political and strategic consequence.[8]

India's improved macro-economic performance in the decade 1991-2001 had more than a positive impact on its external economic and diplomatic profile. India's trade/gross domestic product (GDP) ratio went up, and so did her foreign exchange reserves. There was a sharp decline in external debt and debt service ratio. After 2000, services exports went up from around US$10 billion in 1999 to over US$60 billion by 2006. A third of this was accounted for by software services exports. India's share of world services exports rose to over 2.5 percent of world's services exports and its share of world merchandise exports doubled from 0.5 percent in 1990 to one percent by 2005 and to 1.5 percent by 2007-08.

India's external economic liberalization strategy can be described as a 'stable and successful' strategy. It was characterized by policy stability and a step-by-step approach that helped it escape the Asian financial crisis in 1997-98, weather trade sanctions after the nuclear tests in 1998, accumulate foreign exchange reserves, ensure exchange rate stability, reduce external debt burden and increase its share of global capital flows.

India went into the Doha Development Round of WTO negotiations with a forward-looking strategy focused on securing better market access to industrial products, agricultural goods and to skilled services. Singh took a pro-active stance on multilateral and regional trade negotiations. Early in his term as Prime Minister he created a new institutional mechanism for coordinated policy making on the external front in the form of the Trade and Economic Relations Committee (TERC). TERC was chaired by the Prime Minister and included the Ministers of External Affairs, Finance, Industry and Commerce, and Agriculture, and the Deputy Chairman of the Planning Commission and the National Security Advisor. TERC remained an active body in the period 2004-2008, pushing forward the India-ASEAN FTA and defining India's stance on a range of other bilateral, regional and multilateral trade negotiations.

Singh was a strong proponent of the view that India had a "strategic stake" in the multilateral system managed by the WTO. "We have as a nation, a great stake in a rule based international system, a system that is rule based and not deal based," Singh would often say, and repeatedly reaffirm India's commitment to "the successful functioning of the multilateral trading system and to broadening the agenda of the WTO with an increasingly liberal flow of goods, services and labour." Contrary to western media perception, India is not responsible for the current impasse in the Doha Round negotiations, since India has a strategic stake in multilateralism.9 India would like the Doha Round to adhere to its original mandate of being a "development round".

Without diluting its commitment to multilateralism, India also pursued regional and bilateral FTAs. Successive Indian Finance Ministers, beginning with P. Chidambaram in 1997, set the policy objective of "lowering our tariffs at least to ASEAN levels."[10] Singh would reiterate as Prime Minister that this was a "policy priority for us".

Making India a member of the East Asian Community became a policy imperative for Prime Minister Singh. "I have stated my commitment to the idea of creating an Asian Economic Community, an arc of prosperity across Asia, in which there are no barriers to trade and investment flows and to the movement of people" he told the CII Partnership Summit in Kolkata in January 2005.

While greater openness to external trade has increased the importance of external relations, the changing geographical pattern of that trade has quite understandably changed the relative importance of different countries. During the Cold War period, the Soviet Union was an important economic partner for India. Apart from defence purchases, India depended on the Soviet market to sell a range of commodities through what came to be described as "rupee trade". With the collapse of the Soviet Union, the Soviet market disappeared. In its place, and apart from the United States and European Union, ASEAN and the East Asian markets emerged as an important destination for Indian exportes.

India's integration into the world economy has more recently manifested itself in increased outward investment by Indian 'multinational' companies.[11] Outward foreign direct investment by India shot up from less than US$2 billion in 2003-05 to US$14.4 billion in 2006-07, and continues to rise as large Indian companies take over multinationals in a range of industries such as pharmaceuticals, steel, telecom and automobiles. Business leaders like Lakshmi Mittal, the Ambani Brothers and Ratan Tata have acquired a profile in India's relations with a wide range of countries. Their influence and that of business organizations such as CII and FICCI in foreign policy choices has grown over the years.

Apart from increased trade and capital flows, India has also benefited from out-migration of skilled labour and brain power. Inward remittances of migrant labour constitute an important source of foreign capital inflows. The presence of several million Indian workers in the Middle East and in OECD economies has become a strategic asset for the Indian economy, creating a strategic stake for India in the smooth functioning of the global economy and in the stability of the regions where overseas Indians live and work.

This paper discusses the economic basis of Singh's foreign policy initiatives, with a focus on his ideas of 'inclusive globalization', 'asymmetric liberalization' and the geo-political implications of India's integration into the global economy.

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4.On the idea that "Nehruvian non-alignment" was a "strategy" rather than an "ideology", which is what it became subsequently and especially in the 1970s and I 980s, see Sanjaya Baru, "The Economics of India's Foreign Policy", in Sanjaya Baru, Strategic Consequences of India's Economic Performance, Routledge, 2007.
5.For reference see Baru, Strategic Consequences. (2007) Chapter 2.
6.India's executive director on the IMF Board, M. Narasimham, told this writer in an interview years later that the US was dragging its feet on voting in favour of the Indian loan application on the IMF Board. It was a threat from Mrs. Gandhi to rum to the Soviets for help, after having criticized them an year before for their invasion of Afghanistan, that encouraged the US administration to direct its Governor on the IMF board to "abstain' on the India loan application vote and allow it to go through.
7.For a detailed discussion of the rising influence of business in foreign policy see: Sanjaya Baru, "Domestic Sources of Influence: Business Groups and Media", Paper presented at the Conference on the Future of India's Foreign Policy, Centre for the Advanced Study of India, University of Pennsylvania, April 18-19,2008. (To be published)
8.See Sanjaya Baru, "The Economic Consequences of the Kargil Conflict for India and Pakistan", in Baru 2006.
9.The propaganda in western media that Indian trade minister Kamal Nath was responsible for stalling Doha Round negotiations is not valid. However, it is true that Indian trade ministers are quite happy to be portrayed in the West as obstructionists in trade negotiations since this plays well in domestic politics. I recall former trade ministers Murasoli Maran and Arun Jaitley defending their stance at the Doha and Cancun WTO Ministerial Meetings on these grounds. Prime Minister Singh remains firmly committed to a successful conclusion of the Doha Round, as long as it protects the interests of India's small and marginal farmers.
10.Budget Speech, February 28, 1997
11.A forthcoming book discusses in some detail this phenomenon of Indian multinational enterprise. See Ravi Ramamurti and Jitendra V. Singh, (Ed.) Emerging Multinationals from Emerging Economics, Cambridge University Press, forthcoming 2009.