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## Economic Determinants of India's Foreign Policy: Pre and Post 1991

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### **Abstract:**

*Foreign policy of a country basically consists of some principles, actions, programs and means adopted and followed by a nation for securing the goals of its national interest. The objective of the foreign policy is the preservation, promotion and protection of its national interest and the second most important objective is consolidation of strategic autonomy. Foreign policy has also been described as wheels on which relation among the different countries operates. As no country can live in isolation, so each country identifies its national interest with the aim of preserving its political independence along with safeguarding its territorial integrity. As there are various determinants of the foreign policy, economy is one of the foremost important determinant, it is quite visible that, those countries are having strong economies are having more assertive foreign policy. In this paper, I will discuss first the foreign policy, then its determinants. I will also try to look into the different arguments by the established scholars. This paper will also compare the determinants of pre 1991 and post 1991 periods.*

**Key words:** Foreign policy, India, economic determinants, pre- / post-1991

Foreign policy is plan of action adopted by one nation in regards to its diplomatic dealings with other countries. Every country

has to be in relation with other as no country can survive in isolation in this globalised world. Every state has to promote its self interest by entering themselves in diplomatic relations with other countries. Every state seeks to promote its national interest and also tries to find its due place in international politics and for that purpose it seeks changes and adjustments in the behavior of the other states and sometimes its change its own behavior too. The principles, nature and purpose of a state reflect in any country's foreign policy.

One can say that, foreign policy of a country is the means and achievement of the national interest is the end. The means to achieve its national interest are different like alliances and counter alliances, use of the instrument of balance of power and signing treaties.

National interest is the keynote of international relations. According to Hans Morgenthau, the great realist thinker, "all politics is struggle for power and as long as world is politically organized into nations, the national interest is indeed the last word in world politics" (Khanna 2009). So, no country can afford to base its foreign policy on considerations other than national interests. There is no permanent friendship or enmity among countries in world politics but permanent national interests.

George Washington the first US president had declared the universal truth that "no country can be trusted further than it is bound by its national interest; and no prudent statesman or politician will venture to depart from it". (Khanna 2009)

Foreign policy makers can never ignore the states national interests and its essential components are generally believed to be security, economic developments and peaceful world order. Protection of its territorial integrity and preservation of its sovereignty is the primary motive of any country's foreign policy. On the other hand, promotion of its economic interest including conducive atmosphere for the free flow of trade is also a vital objective of foreign policy.

According to J.Bandopadhyaya, “the formulation of foreign policy is essentially an exercise in the choice of ends and means on the part of a nation state in an international setting” (Khanna 2009).

Various scholars have expressed their views about foreign policy. Dr Mohinder kumar has expressed that, “foreign policy is a thought out course of action for achieving objective in foreign relations as dictated by the ideology of national interests.” (Ghai 2009)

In the words of Cecil V.Crabb, “reduced to its most fundamental ingredients, foreign policy consists of the two elements: national objectives to be achieved and means for achieving them” (Ghai 2009). George Modelski believes that foreign policy implies, “changing the behavior of other states”. But various scholars are not agree with Modelski, Professor Mohinder kumar believes that, a change in the behavior of other states is not always desirable, some changes required to be brought in one's own behavior. The basic aim of foreign policy is to regulate the behavior not merely change the behavior.

In the making of foreign policy, there are various stakeholders and determinants which plays important role. As people and media are the important stakeholders these days, there are various other determinants ranging from military power to economic strength, from geographical location to political establishment.

James Rosenau includes geography, size, economic development, culture and history, great power structure, alliances, technology, social structures, public opinion and governmental structure as the basic determinants of foreign policy (Khanna 2009).

Prof Appodorai (1981) discussed two broad determinants which influences the making of foreign policy which includes domestic environment and international environment. But, one thing is somehow clear and agreed by many scholars that,

economy is one of the basic and foremost important determinants of any country's foreign policy. The economic strength of any country always reflects in strong and assertive foreign policy.

Economic well being ensures development, power, security and global respect for the country. Economic rationale of external relation somehow acts as a driving force in foreign policy making and no country can afford to ignore it. The economic aspects of foreign policy making have become even more relevant as free trade agreement have become instrumental aspect of bilateral and multilateral relations. As a result, the foreign economic policy of any government has become a vital parameter for evaluating its success in the realm of external relations. In fact, the boundary disputes and various other hostilities are not acting as a major hurdle in the smooth functioning of trade relations among countries. India despite being having not good terms with China politically but economically they are major trade partners.

In case of India's foreign policy establishment, there are various factors involved and as per J.Bandopadhyaya (2003) the basic determinants are geography, economic development, political tradition, domestic milieu, international milieu, military strength and national character.

As a developed or developing economy determines its national power and national power in turn plays an important role in framing foreign policy based on the national interest so economy stands the primary and important determinant. A foreign policy aiming at the increase of power must have a highly developed or at least a fast developing economy. As of now, India is one of the fast growing and emerging economic market and this fact has now been determining its role in international relations.

India at the time of independence was facing some humongous challenges like horrific poverty, huge unemployment and low level of literacy. India opted to go for

Non Alignment policy, not to be a camp follower or satellite of any of the great powers, so that India can judge all issues on merit. India being a newly independent country doesn't want to be part of cold war politics, on the other hand India was also eyeing development assistance from both of the great powers.

In order to get developmental assistance, foreign policy is to be clearly formulated in order to get the much needed capital and technical assistance from economically developed countries. Nehru's first broadcast to the nation as head of the interim government on 7<sup>th</sup> Sep. 1946 in which he substantiated his four major foreign policy objectives will be:

- a) Maintenance of freedom of foreign policy
- b) The promotion of international peace
- c) The emancipation of colonial and dependent territories
- d) Promotion to racial equality

India has relied on the three means for achieving her foreign policy objectives, these are:

- a) Non Alignment
- b) The temper of peace
- c) Friendship with all countries

Nehru after taking oath as Prime Minister of India came across with some practical problems of administration and development of agriculture and industry, moreover at that time India's economy was primarily an agrarian economy. By keeping this mind, he was of the opinion that economic pattern of this country shall be a socialist economy and any method which worked and satisfied the masses could be used. Nehru himself visited Russia in 1927 and was impressed by the developments there especially in education and improvement in the lot of the peasants. He was also deeply impressed by the way planning was adopted there in the Soviet Union.

Nehru being at the centre of the formulating domestic and foreign policies, he opted to go for planned economy by

establishing planning commission and adopting 5 year plan model domestically and also chalked out the strategically well poised Non alignment movement as its foreign policy. On the other hand, in order to raise the living standard of the people, planned economic model was the only choice.

The economic factors which determine Indian foreign policy are as:

- a) Capital accumulation
- b) Technology know how
- c) Industrial growth
- d) Foreign direct investment
- e) Trade
- f) Capital markets
- g) Agriculture and industry
- h) Non government organization

As an underdeveloped country, India was substantially required capital to satisfy its basic needs. India was low in their per capita income as it was just Rs 198 in 1945-46. Foreign capital was desperately required to modernize its economy for which its needs improved machinery and equipment. So, India was eyeing huge capital inflow from the super powers. Beside capital, technology was the major requirement; India was short on well trained and skilled manpower, lacking scientifically and technically trained personal as well as management personals. If we analyze the progressed made by the countries , one could easily see that those countries which had a well built technological infrastructure were the first to catch up and accomplish accelerated rates of growth.

It was obvious and clear that participation of foreign capital and enterprise will give a push to the industrial techniques and knowledge and it will contribute to the rapid industrialization of India. Nehru told the constituent assembly on 8<sup>th</sup> march 1948, “we want the help of other countries, we are

going to have it and we are going to get it too in large measures”

The most well known are the amounts provided by the USSR for Bhilai steel plant, Durgapur steel plant was financed by Britain and Rourkela steel plant was sponsored by Germany. India was keen in strengthening its domestic economic structures and was also not interested in the ongoing cold war politics and the policy of Non alignment was the means to achieve the desired goals. Although India had to face strong criticism because of NAM but still it was not easy for any country to ignore India.

According to J. Bandopadhyaya (2003) Foreign policy is conditioned by some economic factors like natural resources, technology and capital. Natural resource base is a major element of national power and potential in international relation. All the major powers like USA, Russia and other developed states possess abundant natural resources. India is blessed with relatively abundant supply of natural resources and is important for her national power and foreign policy formulations.

India was able to get food grains from United States under PL-480 schemes despite being USA is strong critique of NAM. During the cold war, economic aid from USA and other western countries could only be obtained for private sector, similarly Soviet Union was willing to assist public sectors only. It was an uphill task for the policy makers to maximize the quantum of available aid from both the super powers. The policy of Non Alignment facilitated the achievement of this objective.

But the approach of government of India towards socialism underwent a slow change in late 1980s, but up till 1990, the disintegration of USSR followed by the end of cold war changes the world order and India had to change according to the changing international relations. India was having a tilt towards Soviet Union in its foreign policy and 20% trade was

with USSR and it's just collapsed. India was left with no option but to open up its markets and be a part of globalized world. The economic aspect has become more relevant because to the phenomenon of globalization and the resultant economic liberalization policies adopted by almost all countries in the world. If the cold war period was known for the military power and arms race, the post cold war global order is defined by the integration of global economy.

This interconnection of the world markets has generated a kind of interdependency and necessitated to have a firm and decisive foreign policy for the achievement of national interests. Domestically the too much protectionist approach did not allow its economy to grow beyond Hindu growth rate of 3.6%. Even country like communist China too started liberalizing its economy in late seventies. As India was approaching nineties, our economy started worsening, there were huge balance of payment crises, and foreign reserve basket was almost empty, huge inflation was fully backed by high unemployment ratio, India was almost at the threshold of being called as defaulter.

The worst economic crises of 1991 compel the policy makers to initiate reforms and ultimately these reforms were carried out by keeping national interest in mind. Subsequently Indian think tank policy makers were bound to have a shift in its foreign policy in order to give a successful push to the ongoing economic reforms. The end of cold war has also necessitated in marking a shift in its foreign policy in order to adjust itself according to changed world order.

After the disintegration of USSR, India and the US began talking of forging a 'strategic friendship' if not a 'strategic partnership'. Even after the nuclear test of 1998 which resulted into huge economic sanctions and also manages not to signed NPT and CTBT, India went on to sign a nuclear deal with United States in 2005 just within seven years of nuclear test. It was one of the fastest emerging and developing economies of the world, which makes sure that ignoring India



now is not absolutely possible. The inauguration of new economic policy in 1991 also represents a decisive turn ideologically towards liberalism, the collapse of USSR not just affected the foreign policy of India but its domestic economic policy too.

But one thing is clear when India got independence from the colonial rule, it was our foreign policy that was needed to be framed accordingly in order to get much of the assistance that was immensely required too for the developmental process to be carry forward but after India has gone for liberalization of its economy, now it's on the back of economic strength, that India usually formulated its foreign policy by keeping various other factors in mind.

#### **VARIOUS SCHOLARS' ARGUMENTS:**

**Chaturvedi (2009)** argues, there is always a strong link between foreign policy and economic strength of any country, Jawaharlal Nehru in a speech at the constituent assembly on Dec. 4, 1947 in New Delhi, stated his interpretation of the relationship between foreign policy and economic policy. He said, 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. Foreign policy will always be assertive in nature, if our economy is strong and sustainable in nature. Being strong enough economically means, one can play a major role in regional politics as well as world politics. Economic consideration always played decisive role in shaping the nation's foreign policy. Nehru was of the opinion that India's role in the world may not be achieved by the traditional power politics but more by rapid enhancement of its internal economic capabilities.

**Chiriyankandath (2007)** analyses that there are two major key aspects of post cold war Indian foreign policy. The

first one is adoption of nuclear weapons and the second is development of the relation with USA. He outlined two proximate causes for the market oriented reforms. The rapid growth in the fiscal deficit and the shooting oil prices brought about by the gulf crises of 1990-91. Foreign exchange reserves barely sufficient to pay for a fortnight import.

**Baru (2002)** argues that a strategy of inward oriented industrialization and the political choices India made during the cold war reduced India's global economic and strategic engagement during the half century after independence. However, the shift in economic policy and steady growth in the last two decades towards a more open, outward oriented economy in 1990s helped India seeking new relationships of economic engagement with her neighbor in Asia as well as major powers. He also argues that among developing countries, India was late in shifting gears from inward looking approach to outward looking policy. The end of cold war coincided with BOP crises in 1990-91 forced the pace of this change.

**Mukherjee (2008)** examines that the substantial difference between 1991 and other crises periods was that this was the first time a severe financial crises had occurred when a reform team was in place to take the advantage of the crises. Finance Minister Manmohan Singh himself a distinguished economist, was the first Indian scholar in the 1960s to have argued forcefully for the need of reforms for promoting trade for India's development. The crises helped for two significant reasons. First, Import substitute industry, which was heavily dependent on imports, needed the foreign exchange. Agreement with IMF was the only way to mitigate the imports. Second, the establishment of FICCI which latterly played the key role as an important consultant to the government at the time of economic reforms.

**Mohan (2006)** argues that the collapse of soviet union and the new wave of economic globalization left India scrambling to find new anchors for its conduct of external

affairs. Economic crises of 1991 alongside disintegration of Soviet Union left India in immense trouble and it created a tension between the imperative of the new and the resistance of the old ideas on how to conduct foreign policy. The world was changing from bipolarity to unipolarity and internally, pressure was mounting to adopt the new emerging challenges as soon as possible and to get engaged with the rest of the world.

According to Rajamohan, there were some relevant transitions that India was steadily undergoing; the first one was the building of a “modern capitalist” society from “socialist society”. The second transition was focusing on economics instead of politics in the making of foreign policy. The third transition in Indian foreign policy is about the shift from being a leader of the third world to the recognition of the potential that India could emerge as a great power in its own right. The fourth important transition was that, in 1990s India started discarding its anti western mode of thinking. Finally, the fifth important transition in Indian foreign policy in the 1990s was from idealism to realism. The economic growth of the decade after successful economic reforms gave India immense self confidence that by the late 1990s, it recognized the importance of becoming a declared nuclear weapon power.

Despite facing huge economic sanctions after nuclear tests in 1998, it still manages to have a civilian nuclear deal with United States. Mohan also believed that since 1991, India has moved from its traditional emphasis on the “power of the argument” to a new stress on the “argument of the power”.

**Mukherjee (2010)** examine about economic crises that, prior to 1991 India was stereotyped as a soft state quite unlike the fast growing “tiger” economies of East Asia. India was deemed incapable of disciplining powerful social actors in order to promote its competitiveness. Writing about how globalization affected the Indian state, much had changes in India after the crises of 1991; the policies have become more positive about

promoting exports and allowing foreign capital to participate in the process of growth.

Mentioning about changes, he argues that tariffs were reduced, foreign exchange control were relaxed, competition was introduced in the traditional public sector dominated infrastructure areas like power, telecommunication. Industrial licensing was virtually abolished, public sector units were sold to private partners, FDI was welcomed in a variety of sectors.

**Kumar (2004)** explains that the reforms which began in 1990s aimed at liberalizing government control, envisaged greater role for the private sector, downsizing of the government sector and finally greater integration with the world economy. Foreign companies were invited to enter the economic arena by way of setting up of new companies in India. Foreign policy with regard to entry of the foreign companies was relaxed.

**Mohanty (2013)** talks about that, there was a fundamental shift after the end of the cold war for all the countries but for India the end of cold war was coincided with opening up of its market and globalization of Indian economy. So the shift in Indian foreign policy was more pronounced. India sought to engage with more and more countries. Many of the foreign relations were elevated to the status of the "Strategic partnership".

India has then adopted a gradual approach of increasing competition for domestic players by signing FTA with Srilanka (2000), Thailand (2003) and Singapore (2005) rather than multilateral trade liberalization. To encourage export, Special economic zone was created too.

**Swamy (2005)** argues that political compulsions are the main drivers of the economic reforms in India. In India politics had led economic reforms during the last two decades. Growth rate accelerated and exports boomed, increased FDI was seen and many poor people were lifted above the poverty line.

**Abraham (2007)** believes that in more recent times, India's phenomenal economic development along with its open declaration of nuclear potency has allowed a new confidence in claiming its rightful place on the world stage. On foreign aid issue, India has started providing increasing amounts of foreign aid to the developing world beyond its immediate neighborhood. In the schemes of foreign policy, these activities are marginal beside traditional diplomatic efforts to establish Indian influence, counter the actions of states deemed hostile to India and increasingly supporting the overseas activities of Indian multinationals.

**Anderson (2001)** articulated at two fronts about the change in Indian foreign policy. Internationally, the end of cold war and the collapse of USSR have had profound security implications for India. On the other hand, the changed International conditions have enabled India to refashion its foreign policy on the lines of economic self-interest.

**Baijal (2002)** analyses that, post independent India was no different from the rest of the world in adopting a pattern of economic development best described as state led growth. The compulsions of ensuring higher level of investment at progressively higher levels of efficiency and productivity require a complete restructuring of the economic environment. Privatization and liberalization of the licensing regime for FDI are two initiatives which can meet the objectives of efficiency enhancement, domestic and foreign resources mobilization and incremental capital outlays.

**Ghai (2009)** analyses that there is an intimate relationship between foreign policy and national interest. National interest is the key element of foreign policy. It's the foreign policy which selects, formulates and defines the goals of national interest and then to attempt to secure these goals. If national interest is a determining factor of foreign policy, foreign policy is the director of the national interest.

**Gosai (2013)** argues that at the time of independence, India was facing challenges like shattered economy, horrific poverty and underdevelopment crises.

**Nehru (1947)** articulated his vision about the Indian foreign policy in a speech to constituent assembly legislature in 1947, standing for peace and freedom is necessary but we have to develop in economic field. He also added that India's foreign policy will be shaped by its commitment to the development of all developing economies.

The need of resources and technology for the overall economic development was a prime factor which influences the direction of our foreign policy; Nehru sought to have friendly relation with both the super power in order to get the desired heavy machinery to support India's steel, power and chemical industries. The policy of non-alignment brilliantly facilitated the achievement of this objective, allowing Delhi to maintain cordial relation with both of the super powers.

Finance Minister Manmohan Singh (1991) mentioned that, the new government inherited an economy in deep crises. BOP situation was precarious; there is huge fiscal imbalance along with the impact of gulf crises, sharp decline in capital inflows also making the economic environment worst. Due to foreign exchange crises, there was a huge threat to the sustainability of a growth process. These all factors resulted in increasing the inflation into double digit.

He suggested that, two immediate steps should be taken, the first one is credible fiscal management and the other one is macro-economic stabilization. Both must be supported by essential reforms in economic policy and economic management.

**Khanna (2009)** believes there is an intimate relationship between security and development. Foreign policy is influenced by economic development and national developments are influenced by foreign policy.

**Joshi (1998)** analysis that the root cause of the economic crises can be traced back to India's reaction to the earlier crises of 1979-81 when oil prices were doubled. The immediate objective for government in office was to reduce inflation, improve the balance of payment position and reduce the fiscal deficit.

From here onwards, India finally opens up its market; shun the isolationist approach, started engaging with the rest of the world and its result was even visible. The kind of crises India was going through compel its policy framers to relook its foreign policy objectives alongside initiating new possibilities in engaging with the western world too.

## **CONCLUSION:**

One thing is clear that, when India got independence in 1947, it was India's foreign policy that was needed to be formulated like such, so that India can have maximum economic assistance from developed nations, so that India can fight with all the issues and challenges. Poverty and hunger was a major concern at that time. But as India has grown up well economically and turning one of the fastest growing economy despite many shortcomings, India is now deciding and formulating its foreign policy on the basis of its economic strength particularly after 1991.

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