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ECONOMIC DIMENSIONS OF NATIONAL SECURITY

BY

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SYNOPSIS

ECONOMIC DIMENSIONS OF NATIONAL SECURITY

INTRODUCTION

1. The notion of national security has commonly been expressed through the role of military. However, we are now living in an age of revolutions on many fronts –in politics with the end of Cold War, in economics with the growth of free market economy and globalization of trade, and in technology with the advancements in information systems. The changing environment provides a rich array of possibilities for addressing national security in its broadest terms. It has been proved again and again that political, economic, cultural, demographic and environmental factors are very much integral to national security.

AIM

2. The aim of this thesis is to study the economic dimensions of national security vis-à-vis the traditional concept of national security based on threat perception and outline a balanced model to help India become a successful and prosperous nation with a voice in the 21st Century.

HYPOTHESIS

3. This thesis is built round the hypothesis that, in the present age of globalization, economy is increasingly dominating politics. Notwithstanding the changing dynamics, the security of any nation is going to remain a function of its economic as well as military strength. Free market economy and globalization will increase inter-dependence among the world community and could be a recipe for development of nations, provided these are handled well. If not, these can cause major security problems.

CHAPTERISATION

4. The thesis is laid out in four chapters as follows: -
- Chapter 1 – Elements of National Security
 - Chapter 2 – Globalization and National Security Concerns
 - Chapter 3 – Prevailing International Economic and Security Environment
 - Chapter 4 – Lessons for India and the Way Ahead

CHAPTER 1 - ELEMENTS OF NATIONAL SECURITY

5. A look at recent history goes to prove that ‘industrial revolution’ transformed the West and combined with their ‘sea power’, helped them in colonizing the whole world. We can therefore, classify national security under three broad frameworks i.e. military security, economic security and security of quality of life. The state of technology, strength and quality of manpower resources of the nation and energy security are other elements which are equally important. The NDA Government in India, in its Gazette Notification of April 16,1999, while establishing the National Security Council, enumerated seven broad areas of national security i.e. external security; security of nuclear, space and high-technology; economic security; internal security; social, communal and regional tensions; trans-border crimes and activities of foreign intelligence agencies.

CHAPTER 2 - GLOBALISATION AND NATIONAL SECURITY

CONCERNS

6. The arrangements that have evolved in the last quarter of the twentieth century are based on the concept of the global village, i.e. a relatively more open environment of economic liberalization and global trade. The European Union is a suitable example where an economic grouping to start with, has greatly shifted towards the concept of “pooled sovereignty”. Since creation of WTO in 1995, pace of globalization of the world economy has increased rapidly through international trade. Globalization processes, both economic and cultural, are harbingers of change and, in some cases, cause instability, which affect national security. The Southeast Asian economic crisis clearly exhibited that monetary and fiscal policies cannot be left totally to the market forces. The role of state in such a scenario becomes important to coordinate the activities of multi-pronged forces let loose by the process of globalization.

CHAPTER 3 – INTERNATIONAL SECURITY ENVIRONMENT

7. The late eighties and early nineties witnessed revolutionary changes in international arena. Some of the important happenings, studied in this thesis for the purposes of establishing a link between economy and national security, are as follows: -

- a) *United States*, after the cold war, has emerged as the sole super-power, militarily, economically, politically and technologically. An important component of the American global policy has been the use of its military power as a cementing force for economic interdependence.
- b) *Russia*, on the other hand, has turned the corner at last, but still remains desperately poor.
- c) *European Union* has emerged as an important economic powerhouse with an expanded membership of 25 nations and a market of over 350 million people, and is in the process of developing a modest military capability.
- d) The regions of *Middle East* and the *Central Asian Republics* will remain strategically very important due to oil and gas.

- e) Under the leadership of Deng, *China* emerged from its shell with pragmatism and single-minded commitment. She rightly chose the economic route, at the same time not neglecting her military.
- f) Despite the shock of the financial crisis, *Asia-Pacific* will remain important. *South Asia* on the other hand, is both a conflict prone and an underdeveloped region of the world, yet with enormous potential in human resources to overcome both problems

CHAPTER 4 - LESSONS FOR INDIA AND THE WAY AHEAD

8. India opened her economy in 1991 and brought in privatization, deregulation and liberalization. It has come a long way since then and is fast emerging as an economic power of future. As per a German economist, Goldman Sachs, India has the potential to develop into the third largest economy after USA and China by 2050. It has the required potential. A possible framework for development of India has been suggested, to include : seizing the global initiative provided by the WTO, continuing to press for regional and bilateral trade agreements, ensuring balanced development of the various regions of the country, training ourselves to harness the new technology, all under a stable macro-economic policy framework. While

undertaking the above, we should also strengthen our military capabilities by privatizing our defence industries.

CONCLUSION

9. It is being increasingly argued that, in the present age of globalization, politics is slowly giving way to economics. This thesis has however, argued that both are inter-dependent. Even Kautilya in his book “Arthashastra” points out that economic health of a nation is important for its security, and so is the military strength required to protect it. It is only when both are assured that the national security is ensured.

ECONOMIC DIMENSIONS OF NATIONAL SECURITY

INTRODUCTION

1. The notion of national security has commonly been expressed through the role of military. Such things as securing borders, projecting force and influence, and responding to national threats and adversaries, are roles traditionally assigned to the armed forces. For these reasons alone, the ability to defend and protect national interests defined the persistent militarized understanding of security.

2. However, we are now living in an age of revolutions on many fronts –in politics with the end of Cold War, in economics with the growth of free market economy and globalisation of trade, and in technology with the advent of information age. The changing environment provides a rich array of possibilities for addressing national security in its broadest terms. It has been proved again and again that political, economic, military, cultural, demographic and environmental factors are very much integral to national security.

3. The issue of national security is inextricably linked to the economic development of the nation states. Till the end of the Second World War, the nation-states that were developing fast were in the industrial belt and wars also broke out among them. As a major nation state started developing itself, it came into conflict with its environment. Great Britain, the first nation state had to fight long wars with France, Spain and Austria before it could consolidate itself. So did France, Germany and Russia. Japan joined the War to secure her energy needs. It is a common perception that the main US motive behind both Gulf Wars has been chiefly economic. The recent expansion of European Union is a classic example of how nations with different ideologies are joining hands for better economic interests in the present day of globalization.

4. Notwithstanding the widening of the ambit of security concerns, military security remains important. The Western enthusiasm for a “new world order” represented a brief spell of exaggerated expectations of peace following the end of Cold War. The two rounds of Gulf Wars have quickly brought back a sense of realism. In India, which has had to defend its territory on four occasions since independence and is threatened by ongoing

terrorism, insurgency and proxy war, the external and international dimensions of security cannot be overemphasized. In the light of above, though the economic imperatives of globalisation will press nations in general to cooperate than to fight, the possibility of military conflicts cannot be ruled out.

5. Therefore, it emerges that, similar to individual or family security, there are two major components of national security – economic wherewithal and threat perception. At times an analysis of these two factors leads to a situation where they start pulling in different directions. One argument is that there can be no development without adequate defense, and all development gains will be neutralized in the event of a nation facing a major security threat. On the other hand, high defense expenditure can lead to economic and political collapse of nations. The military over-stretch of the Soviet Union is considered by many to be the main precipitator of its fall. Therefore, a developing nation like India has to balance both defense and development imperatives in such a manner that none is neglected.

AIM

6. The aim of this thesis is to study the economic dimensions of national security vis-à-vis the traditional concept of national security based on threat perception and outline a balanced model to help India become a prosperous and strong nation with a voice in the 21st Century.

HYPOTHESIS

7. This thesis is built round the hypothesis that, in the present age of globalization, economy is increasingly dominating politics. Notwithstanding the changing dynamics, the security of any nation is going to remain a function of its economic as well as military strength. Free market economy and globalization will increase inter-dependence among the world community and could be a recipe for development of nations, provided these are handled well. If not, these can cause major security problems.

CHAPTERISATION

8. The thesis is laid out in four chapters as follows: -
- *Chapter 1* deals with a brief historical perspective with an aim to highlight as to how technological advancements led to rapid economic growth, followed by growing military might of nations. Some of the important elements of national security, to include: military, economic, energy, food, social, political, technological and demographic factors have also been included in this chapter. A comprehensive Indian definition of national security, as enunciated in the National Security Council document, has also been included here.
 - *Chapter 2* deals with the impact of free market economy and globalization on national security. The role of global and regional economic forums, e.g. World Trade Organization, the European Union, other regional forums and the Multi National Corporations, in shaping the economic scenarios in the world has been briefly highlighted. A case study on “Asian Economic Crisis” has also been

included to highlight the adverse impact of globalization on national security, if not handled properly.

- *Chapter 3* is devoted to the emerging economic scenario in the world, with special reference to important players such as USA, Russia, EU, China, Middle East, South-East Asia and South Asia, with an aim to study the linkages between their economies and national security.

- *Chapter 4*. This chapter is dealing with the Indian scenario, an assessment of her potential and suggesting a way ahead for India to develop herself into an economic giant and an important global player. A suggested framework for development of India in the 21st Century, on the lines of that enunciated in the US National Security Doctrine-2002, has also been included here.

CHAPTER 1

ELEMENTS OF NATIONAL SECURITY

Brief Historical Perspective

9. We shall go back to around 1500 A.D. In a map of that time England and America are nowhere in the radar screen. Western Europe was just a cluster of dukedoms. The US had scattered tribes. The Mughal Empire, however, had expanded to the size of fifteen Englands. The real key to the change came with the *development of sea power*¹ by Western European states. Early Portuguese ships sailing to the Calicut in 1490s were amazed at India's sheer riches. The Portuguese goods were distinctly inferior. But what distinguished the European powers was their capacity to organize military force at sea. Small Portuguese ships would sail half way around the world. Indian ships did not do so, even though they could have afforded to. The most successful seafaring European nation was best geographically placed: the Great Britain.

¹ Paul Kennedy, Empires: Past, Present, Future, India Today, March 29, 2004, p-41

10. The other singular British advantage was the invention of steam power and the consequent *Industrial Revolution*. This not only transformed the Great Britain but the rest of the world. This interaction of science, technology and industry is still transforming the world today. Around 1750, before the invention of steam power, India accounted for nearly the quarter of world trade. By 1900, the scene had been transformed. Because of steam power, Britain's productivity had jumped ahead massively. The export of steam driven textiles from Lancashire to India also devastated the Indian textile industry. So, India fell from a leader to lagging hundred times behind Britain in a mere century and half. That has never been seen in the world history. Were it the military might, statecraft, economic strength, diplomacy, and clever alliances? Probably, a right combination of all these and more. A number of transformations occurred because time does not stand still. New technologies, new ships and economic transformations cause alterations in power balance over time.

11. Britain's position was ousted by its first successful rebel colony, the United States of America. As it extended westwards after independence, copying Britain's modernizations, there was no stopping it. Around 1890, the United States' iron and steel production surged past Great Britain. *Steel*,

then, was like a microchip today- the best indicator of modern power in use. Soon the US burst past the UK in energy consumption too. It now had the base required to dominate the world. Like the 18th century Britain, America, by 1980, could enjoy both, the increased standard of living and increased military power. It could produce millions of cars as well as tens of thousands of fighters and bombers. Thus to say, America had both guns and butter. On the other hand, the Soviet Union had only guns and therefore, disintegrated under its own economic weight.

12. The economic dimension of national security was recognized as an all-embracing doctrine to help build conditions for peace in Europe. This US approach to national security was expressed in the Marshall Plan immediately after the Second World War. In a brief address to the Harvard University on June 5, 1947, Secretary Marshall outlined the US approach as follows: “The remedy for the people of Europe seems to lie in restoring their

economic future.”² Therefore, Secretary Marshall’s first use of national security doctrine after the Second World War was political and economic and not military. This led to about \$ 13 billion US assistance to Western Europe between 1948 and 1951. The infusion of capital rejuvenated the economies and allowed the Europeans to help themselves towards recovery. Despite the success of Marshall Plan, the concept of American national security gave way to anti-communism, containment, confrontation, intervention, and nuclear race during the Cold War. Even after the disintegration of the Soviet Union and emergence as the sole super power, the USA has continued with defence modernization. This year she will be spending 50 percent of all the defense expenditure of the 191 nations of the United Nations, the highest ever by any nation in the human history³.

ELEMENTS OF NATIONAL SECURITY

13. In accordance with the expanded conception of security, we can classify national security under three broad frameworks⁴: -

² Mariam R Lowi& Brian Shaw, Environment and Security: Discourses and Practices, Macmillan Press, London, p-11

³Paul Kennedy, Op Cit, p42

⁴ Rajesh M Basrur, Security in the New Millennium: Views from South Asia, India Research Press, New Delhi, 2001, p-173

- Firstly, *Military security*: the security of life of the national community from external threats. These may be nuclear, conventional, or sub conventional (in the form of low intensity conflict).
- Secondly, *Economic security*: the security of people's material well-being which encompasses basic needs (employment, food, shelter and clothing) as well as the access to education, health, and, in general a decent standard of living.
- Thirdly, *Security of quality of life*: includes environmental stability, cultural security (in terms of identity/way of life and opportunity for cultural self-expression), and political security (political community, democracy and human rights) in a political system legitimized by popular acceptance.
- There are many other factors that affect national security e.g. the state of technology, strength and quality of manpower resources of the nation.

Military Security

14. Till as late as the end of Cold War, most states approached national security essentially in military terms. This perspective emphasized the primacy of the state as sanctified by the Treaty of Westphalia. In this view nation-states were considered the building blocks of an international system in which their sovereignty should neither be limited nor questioned. In a Hobbesian scheme of perpetual conflict in the international system, the primary function of a nation- state was to ensure its survival and enhance its power and its position. Security, in this sense, was then a matter of competition among states, and the objective to maximize one's own security at the expense of others. In turn this relied on developing a state's capability to deter external threats through the use of force. Hence, the emphasis lay on threat analysis, preparing for conflict, acquiring military power and denying other states, particularly neighbors, any advantage in the international system. Security policies were shaped by confrontation, the constant policy of conflict, and the drive to acquire power for the state, both military as well as non-military. Preparing for and winning wars were seen as primary function of the state.

15. Military Security remains an important component of National Security. The structural disjuncture between the nation states of the world has in considerable part continued. Very often it is pointed out that Japan is regarded as a great power without it having adequate military strength. But Japan's industrial potential is clearly visible and so also its capacity to build up its military power. Its prowess as a military power demonstrated in the thirties and forties is too fresh to be forgotten. To a lesser extent, similar considerations apply in the case of Germany.

16. President Nixon in his Foreign Policy statement of February 1972⁵ mentioned that developments in the Indian subcontinent had implications for great power politics. He was prepared to consider China a great power but not India. It should force us to ponder as to what has China got which India does not. At that time China had nuclear weapons that India did not. China had distinct military advantage that she exhibited aggressively in 1962 against India, and in 1979 against Vietnam. Therefore, the implications of President Nixon's statements are very clear. If India is to be respected as an independent decision making center, it must have adequate military and nuclear power, in addition to the economic power.

⁵ K Subrahmanyam, Our National Security, Economic & Scientific Research Foundation, Federation House, New Delhi, 1972, p-30

Economic Security

17. Economic maladies are at the center of political instabilities⁶. The basic reason for colonization was economic. The two models of economic development, capitalism and socialism, again became the basis of the Cold War. In the socialist regime, the state controlled the economic institutions and development. With the failure of old strategy of autonomous development, the state today in the most cases is undergoing a fundamental shift from leader in a relatively controlled economy to manager in a relatively free economy. Its many responsibilities in the area of economic regulation remain. But its primary functions in the management of economy could be underlined as follows⁷: -

- *Growth*: attracting foreign investment and technology; infrastructure development; provision of incentives for enhancing growth and competitiveness in key sectors; and so on;
- *Welfare*: policies to cushion the impact of externally driven change (e.g., providing a welfare cushion to those displaced by new technologies, or supporting programmes for retraining workers); and

⁶ Mike Oquaye, Socio-Political Development and Security Concerns in Africa, in a talk to the National Defence College, New Delhi, 2nd August 2004

⁷ Basrur, Op Cit, p-175

- *Stability*: basic controls over the volatility of stock markets, foreign exchange transactions and interest rates.

Food and Energy Security

18. *Food and Energy Security* are other important components of national security, which must be ensured by the states in order to achieve a good social and economic growth of a nation. The United Nations Food and Agricultural Organization (FAO) defines food security as, “the access to adequate safe and nutritious food to maintain a healthy life.”⁸ On the other hand, energy security is an absolute must for ensuring good economic growth of any nation. This fact is realized by every one, and all nations are doing their bit in ensuring energy security. The US presence in the Middle East and now in Central Asian Republics can be seen as a means to ensure their energy security. The two rounds of Gulf Wars were basically fought over the control of oil in this region.

⁸ Philip McMichael, Biotechnology and Food Security, quoting FAO Report 2000, p-2

Security of Quality of Life

19. It is an accepted fact that *health* and *education* are vital components of national security. Here we intend discussing some more aspects that have remained low on the conceptual hierarchy of national security. These are⁹: -

- *Environmental security*, which is crucial to the quality of life and encompasses things like: availability of basic needs such as clean water and air; freedom from vicious cycle of poverty, de-forestation, soil erosion, flooding, and receding water tables; judicious exploitation of natural resources, and concerns relating to the potential degradation of the environment as a result of armed conflict, be it nuclear, conventional, or low-intensity. The role of state is critical in poverty alleviation, regulation of environment by legislative and executive initiatives, and above all, in balancing of growth and ecological stability. Externally, the state has to engage in inter-state negotiations to preserve the environment and at the same time combat protectionist pressures emanating from other countries in the garb of “environmental standards”.

⁹ Basrur, Op Cit, p-177

- The next is *Cultural security*. The impact of global communication e.g. satellite television, the internet and, more broadly, individualism and consumerism, can significantly alter traditional cultures and the sense community, thereby breeding social tension and conflict. This aspect may take an extreme form of religious and cultural fundamentalism, thus being crucial to national security.
- *Political security* is obviously the most important element of national security and needs no elaboration.

Technological Strength

20. Technology determines the power of nations¹⁰. Advanced technological nations apply themselves purposively to development of technology, keep a watch on developments all over the world and try to ensure they do not fall behind significantly in any major sector. This, by and large, is determined by the size of its population that is devoted to the pursuit of modern technology. For this, the country concerned must have a very strong base and tradition of high quality education. This is exemplified in USA, Japan and Germany emerging as strong power centers. The European

¹⁰ Subrahmanyam, Op.Cit, p-20

nations have rightly appreciated this aspect that individually they cannot compete in terms of population, but collectively they can be a large concentration of technologically oriented population in the world. The historic enlargement, in which ten new countries joined the 15 member EU on 1st May 2004 will create a single market of 350 million people and a combined GDP of around one trillion Euro. India and China have the largest populations. However, they lagged behind during the colonial era due to poor education and abject poverty. The scenario is changing rapidly for the better. China has already taken giant strides in the form of her modernization programs and is on its way to become the next super-power. India too needs to harness this asset in order to catch up with the advanced technological nations of the world.

Sustainable and Balanced Development

21. *Sustainable development* in simple terms means balanced and continued development with continuing improvements in the quality of life at a lower intensity of resource use, thereby leaving behind for future generations an undiminished or even enhanced stock of natural resources and other assets. Several authors have pointed out that human activities are

part of an open dynamic socio-economic sub-system in modern times, which has begun to overload the global ecosphere. Many environmentalists argue that unbound and material-intensive economic growth would not be sustainable in the long run, given that the ecosphere is finite.

22. In addition to its environmental roots, the focus of economic progress has shifted to *balanced development*. By the early 1970s, the large and growing numbers of poor in the developing world, and the inadequacy of “trickle-down” benefits of these groups, led to greater efforts to directly improve income distribution. The development paradigm shifted towards equitable growth, where social objectives were recognized as distinct from and as important as economic efficiency. For example, growing disparities between rich and poor as well as between various regions of the world or within a country can become a sure cause of insecurity.

The Indian Definition

23. The NDA Government in India, in its Gazette Notification of April 16,1999, while establishing the National Security Council, enumerated seven broad areas of National Security¹¹: -

- a) External security.
- b) Security threats involving nuclear energy, space and high-technology.
- c) Trends in the world economy and economic security threats in the areas of energy, foreign trade, food, finance and ecology.
- d) Internal security, including counter insurgency, counter-terrorism, and counter intelligence.
- e) Patterns of alienations emerging in the country, especially those with social, communal and regional dimensions.
- f) Security threats posed by trans-border crimes such as smuggling and traffic of arms, drugs and narcotics.
- g) Co-ordination in intelligence collection and tasking of intelligence agencies.

¹¹ K Subrahmanyam, Hindustan Times, June 17, 2004 and also during his talk to the National Defence College on Determinants of National Security, January 14, 2004

CHAPTER 2

GLOBALISATION AND NATIONAL SECURITY

CONCERNS

24. The arrangements that have evolved in the last quarter of the twentieth century were based on the concept of the global village, i.e. a relatively more open environment of economic liberalization and global trade. Market forces played a greater role in their evolution. Even the regional groupings show a strong inter-regional tenor as they are driven by market forces. Many non-regional groupings now have overlapping memberships, with some nations being simultaneous members of various agreements; even those that often originate in regions other than theirs. Such agreements, inter-alia, aim to access external markets, a marked departure from the earlier protectionist trends. As the end of the Cold War has reduced political tensions, focus now is on globalizing production processes and enhancing economic capability.

Globalization-Meaning and Scope

25. Let us firstly understand the meaning of “globalization”, and how does it differ from words like internationalization or trans-nationalization. The former is a process of increasing inter-dependence among the states and the latter signifies cross-border relationships. Globalization subsumes all of the above, but involves something more fundamental: a shift in the frame of reference from the national, the international and the trans-national to the global.¹²

26. The economic decisions of individuals, firms, and states are increasingly shaped by an awareness of the global market and the way in which it determines gains and losses. As societies interact with one another with growing intensity, politics too is becoming more global. The twentieth century was characterized by a marked growth in the institutionalization of international and trans-national interaction through the expansion of international law, international organizations and international regimes. The establishment of World Trade Organization is a case in point. European

¹² Ravi Nanda, Preparing India for the Next Century, Lancers Books, New Delhi, 1997, p-124

Union is an example where an economic grouping to start with, has greatly enhanced military security which represents a significant shift towards “pooled sovereignty”.

27. Globalization has also brought with it the expansion of some problematic phenomena, such as international crime, especially the trade in illicit weapons and drugs, the spread of diseases, of which Acquired Immune Deficiency Syndrome, or AIDS, is only the most publicized, and the activities of terrorist networks. As seen in the case of Al Qaida, even the most powerful states have not been able to meet these challenges on their own. Therefore, global co-operation becomes inevitable to thwart the threats to national security. The smaller and developing nations do not have the capacity to remain outside the system and go it alone. Thus, they are compelled to walk a tight rope between big forces and global market on the one hand, and the domestic demands of their citizen including hostile reactions of those adversely affected by the process of globalization on the other. At the same time, states are compelled to become more efficient, for they otherwise risk losing legitimacy and arousing opposition. Therefore, to the extent that such changes bring economic growth and inter-state integration, they are harbingers of higher levels of national security.

28. In the age of globalization, democracy becomes very important for the building of a secure society¹³. In the absence of democracy, the state tends to become an instrument of parochial interests and ignores the public good. In a number of ways, globalization induces democratization. The expansion of communications facilitates the flow of information and ideas, including democratic ideas that have a universal appeal. However, there are also the instances of reactionary responses to globalization such as religious and ethnic fundamentalism. It is also seen that the bureaucratic-military establishments try to follow the traditional approach to security because of the privileges it has accumulated over the years through systematic denial of fundamental rights to their people, as witnessed in Pakistan. By giving undue emphasis to military threats at the expense of economic and human development, the bureaucratic-military establishments try to obscure the real national security issues. Such phenomena are direct threats to the national security.

29. A less obvious and hence more insidious threat to national security arises from the shift in decision-making from the intra-state to inter-state

¹³ Lourdes Beneria & SavitriBisnath, Global Tensions : Challenges and Opportunities in the World Economy,Routledge, New York, 2004, p-30

arena. So long as the decisions relating to national security were being made relatively autonomously by the state, democratic forces could shape their content. Inter-state decision making, however, is essentially undemocratic because the agenda and basic rules of the game are set by powerful nations in their own interest. Though it is also true that, in an increasingly integrated global system, the powerful cannot ignore the weak altogether as witnessed at the Cancun summit of World Trade Organization in 2003, when the negotiations on agriculture failed due to the collective stand of the developing countries. Therefore, the collective bargaining power of the states has witnessed an increase, and it is becoming increasingly difficult for any state to disregard the collective wisdom. The Pakistani as well as Libyan compliance in war against international terrorism and nuclear proliferation may be seen in this light. To understand the nature of globalization, it is important to have a look at some of the important international and regional economic groupings and their impact on the security.

World Trade Organization

30. World Trade Organization (WTO) is the global international organization dealing with the rules of trade between nations. One of the

youngest of the international organizations, but it has inherited a half-century-old trading system. From 1948 to 1994, the General Agreement on Tariff and Trade (GATT) provided the rules for much of world trade. The original intention was to create a third institution to handle the trade side of international economic co-operation, joining the two “Bretton Woods” institutions, the World Bank and International Monetary Fund (IMF). The WTO’s creation on **1st January 1995** marked the biggest reform of international trade after the Second World War. Most of the history of 47 years of deliberations was written in Geneva. But it also traces a journey that spanned the continents, from the hesitant start in 1948 in Havana (Cuba), via Annecy (France), Torquay (UK), Tokyo (Japan), Punta del Este (Uruguay), Montreal (Canada), Brussels (Belgium) and finally to Marrakesh (Morocco) in 1994.

31. WTO is an organization for administering trade agreements, a forum for governments to negotiate trade agreements and settle trade disputes through a system of trade rules. It also assists developing countries in trade policy issues, through technical assistance and training programmes. Essentially WTO is a place where member governments go to sort out the trade problems they face with each other. The highest decision making body

of WTO is the Ministerial Conference, which must meet at least once in two years. It works on the principles of non-discrimination amongst member countries, freer trade, and promoting fair competition.

32. It has following major instruments: -

- Multi-lateral agreements on trade in goods, which includes the GATT 1994 and its associated agreements.
- General Agreement on Trade in Services (GATS).
- Agreement on Agriculture, which deals with providing market access, regulating domestic support, and containment of export subsidies.
- Agreement on sanitary measures, which concerns food safety and plant health regulations.
- Agreement on anti-dumping, which imposes restrictions on anti-dumping practices.
- Trade Related Investment Measures (TRIMS), which focuses on enhancing international investment flows.
- Trade Related Intellectual Property Rights (TRIPS)¹⁴, which deals with copy rights and patents related rules.

¹⁴ M B Rao & Manjula Guru, Understanding TRIPS : Managing Knowledge in Developing Countries, Response Books, New Delhi, 2003, p-14

33. Although purportedly a democratic institution with equal rights to every member, the WTO is actually dominated by the leading industrial countries and strong multi-national corporations. Developing countries are handicapped by the fact that their economies are in one-way or the other dependent on the economies of the developed countries. In real practice, the developing countries are marginalized and their products continue to face discrimination, as has happened in the case of petroleum products of Venezuela and Brazil, which are treated differently from the domestic products in USA. Similarly, there are many anomalies in the provisions relating to agriculture, labour and intellectual property rights, which tantamount to restricting the freedom of sovereign nations and could be termed as threats to national security.

34. Notwithstanding the above, the global regime of trade and commerce is natural fallout of free market economy in which profit is the sole concern. Such a regime is likely to degenerate into a 'free for all', bringing misery and tension. WTO, and GATT before it, is an effort to bring some semblance of order in this chaotic regime for common benefit. It provides for a forum to negotiate the ground rules and so promote the cause of world peace. In this regard there are only two options open to the nations of the

world: to take it seriously and join in, or to be left out of the race for prosperity. All institutions of trade and commerce – from the producer to the peddler – must appreciate this fact and concentrate on getting the best out of this agreement.

Regional Cooperative Arrangements

35. Regional trading arrangements (RTAs) appeared in the 1980s as precursors to trade liberalization between nations. They help pave the way for liberalization of trade in goods and services. Article 24 of GATT too allows setting up of RTAs. Some important regional agreements are discussed below.

36. **European Union.** The ECSC (European Coal and Steel Community) of 1951 by six nations (Belgium, West Germany, Luxembourg, France, Italy and Netherlands) was the forbearer of EU. The EU of today is an organization of democratic European countries committed to peace, prosperity and European integration. The latter is achieved by all members honouring decisions taken at the various EU institutions. (All EU decisions are based on treaties agreed to by all members). Community trade policy is

decided as per Article 133 of EC Treaty. The five major EU institutions are: the European Parliament, Council of the EU, European Commission, Court of Justice and Court of Auditors. It was expanded to 25 members on 1st May 2004. Earlier, EU's role was primarily trade and economy related. It now also deals with other subjects of importance, e.g. citizens' rights, freedom, security and environment. It is in the process of building a modest collective security capability. EU has ushered in stability, peace, prosperity and raised living standards with a single market.

37. **North America Free Trade Agreement (NAFTA)**. It was established on 01 Jan 94 between USA and Canada, and later expanded to include Mexico. Its major aims include elimination of most tariffs, reduction of non-tariff barriers and regulations on the conduct of business in the FTA. This includes rules on investments, services, IPR, competition, cross-border movement of persons and dispute settlement mechanisms. It is the world's largest FTA with a population of 406 million people and trade of US \$ 11 trillion.

38. **Asia Pacific Economic Cooperation**. APEC¹⁵ was established in 1989

¹⁵ John Ravenhill, APEC and the construction of Pacific Rim Regionalism, Cambridge University Press, London, 2001, p-1

by 21 'Member Economies', i.e. Australia, Brunei Darussalam, Canada, Chile, China, Hong Kong, Indonesia, Japan, South Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, Philippines, Russia, Singapore, Chinese Taipei, Thailand, USA and Vietnam. It is the premier forum for facilitating economic growth, cooperation, trade and investment in the Asia-Pacific region. It accounts for more than a third of the world's population (2.6 billion people), 60% of world GDP (US \$ 19, 254 billion) and over 45% of world trade. It represents the most economically dynamic region in the world, accounting for nearly 70% of global economic growth in its first 10 years.

39. **Association of South-East Asian Nations (ASEAN)**. It was established on 8th August 1967 in Bangkok with five members, i.e. Indonesia, Malaysia, Philippines, Singapore, and Thailand. Five more nations, i.e. Brunei Darussalam, Vietnam, Laos, Myanmar and Cambodia joined it later. It has a market of over 500 million, total area of 4.5 million square Kilometer, a combined GDP of US \$ 737 billion and a total trade of US \$ 720 billion. Cooperative peace and shared prosperity are the fundamental goals of ASEAN. ASEAN has made major strides in building cooperative ties with states in the Asia-Pacific region. Close cooperation with China, Japan and

RoK (loosely referred to as `ASEAN + 3`) was finalized in 1997. It has accorded a special “full time dialogue partner” status to India.

40. **ASEAN Regional Forum (ARF).** Established in 1994, ARF has 24 members, all having a bearing on the security of the Asia-Pacific region. The members include the 10 ASEAN members, the 13 ASEAN dialogue partners (Australia, Canada, China, DPRK, EU, India, Japan, Mongolia, New Zealand, ROK, Russia, USA and the latest entry being Pakistan) and one ASEAN observer (Papua New Guinea). In a region with little history of security cooperation, ARF has emerged as a principal forum for security dialogue in Asia. It complements various bilateral alliances and dialogues in the region's security architecture. It provides a setting in which members can discuss current regional security issues and develop cooperative measures to enhance peace and security in the region.

41. **South Asian Association for Regional Co-operation (SAARC).**

Launched on 8th December 1985 at Dhaka, it has seven members, namely, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka. Its important achievements include a yet-unfulfilled agreement on SAPTA (South Asian Preferential Trade Agreement) and the SADF (South Asian

Development Fund). These agreements can be regarded as explicit expressions of a concept of regional economic cooperation.

42. **Sub-Regional Cooperation.** Of late, India-S.E. Asia partnership has also been reinforced by sub-regional co-operation that has found expression in creation of groupings, such as BIMSTEC (Bangladesh, India, Myanmar, Sri Lanka, Thailand Economic Cooperation) and Mekong -Ganga Cooperation (MGC). India is a member of BIMSTEC in which Nepal and Bhutan have recently joined. During the just concluded Bangkok summit (July, 2004), BIMSTEC has been renamed as the 'Bay of Bengal Initiative for Multi-Sectoral Techno-Economic Co-operation'. India is also supporting Mekong- Ganga cooperation in which India and five ASEAN countries, namely Cambodia, Laos, Vietnam, Myanmar and Thailand are associated. The age-old fruitful cultural and commercial interaction between India and Southeast Asia and the shared sentiments, position India prominently to be regarded as an important regional player.

43. **Alliances and Security.** Economic and other security linkages are becoming essential for peace within and between trading regions. The current expansion of EU is an effort to that effect and one can draw conclusion that a deliberate attempt is being made to use economic ties to

prevent war. Generally, regional groupings provide inbuilt security mechanisms for member states. The Joint Rapid Reaction Force of the European Union is a case in point. In the emerging security environment, alliances are likely to be the cornerstones of future stability and prosperity and enhance the national security of the member states.

Multi-National Corporations (MNCs) / Trans-National Corporations (TNCs)

44. In the world today, MNCs and TNCs have turnover that is higher than GDP of many countries. They dominate the world markets as well the latest technologies. They have large network of commercial and distribution links worldwide. Therefore, a developing country can initially promote its trade through them. To cater to the requirements of that country, these MNCs/TNCs may either set up their own manufacturing facilities or sub-license its technologies to local firms or import goods from their foreign manufacturing facilities. They bring in Foreign Direct Investment (FDI) into the host countries, which can help in the economic development of those countries. When a country invites MNCs/TNCs, in the sense of globalising the economy, the host country is obliged to make certain structural adjustments and adopt their system of personnel management. They may

even want to bring in their own technocrats and specialized manpower. This may cause an initial increase in unemployment and consequent aggravation of social problems. Should political interference take place in their operations, they can twist the tails of the host countries in many ways, e.g. pressurizing through international institutions like World Bank, IMF, WTO or, through the governments of their own countries or, in extreme circumstances, by squeezing the money supply in the host countries, thus affecting the whole financial system of those countries. Thus, in some ways, they have become a subtle form of economic domination and neo-colonialism¹⁶. In this light, a study of Southeast Asian Economic Crisis will be worthwhile.

SOUTH-EAST ASIAN FINANCIAL CRISIS

45. Under pressures from international financial institutions (IFIs), the South-East Asian countries liberalized their trade and financial sectors in the 1980s. Despite the higher growth following liberalization, the economics of large number of these countries collapsed in 1997-98. Let us have a look at the reasons of this meltdown and lessons that emerge from it.

¹⁶ Mahander Kumar Saini, Politics of Multi-Nationals : A Pattern in Neo-Colonialism, Gitanjali Press, New Delhi, 1981, p-237

46. It is pointed out that structural weaknesses in the affected countries led to speculative attacks on their economies. One of the structural weaknesses was said to be in the region's banking sector, where the deposit/lending rates were freed, so were credit allocations, which appears to have activated a 'boom-bust cycle', causing instability by providing easy access to financing. The other flaws cited were unsustainable exchange rate system, surge in interest rates and wide spread corruption. The removal of credit controls in all these countries resulted in surge of credits, including to the speculative real-estate sector. The banks, business and corporate borrowed very heavily from the international markets to lend to domestic borrowers. Thus, a substantial fraction of liabilities was denominated in foreign currency while the assets consisted of loans in inflated local currency. Hence a "bubble" was born wherein the prices rose much above their real value. The bubbles were also fully blown in the pay scales of executives and those who worked in finance, securities and other firms, tremendously increasing their excessive purchasing power to create other bubbles in the prices of durable goods including cars, houses, and luxury items. As a result, income and consumption surged. Foreign investors flocked into booming South East Asian equity markets, wherein many industries

expanded well beyond their means. Hence, the economy was growing like a bubble with a fragile foundation. A bursting of it was waiting to happen.

47. The opening of capital markets to foreign investors increased the demand and prices of domestic assets, which in turn resulted in the appreciation of real exchange rates, credit booms and high interest rates. Most of these credits were financed by short-term foreign debts, made by either the private banks or corporate sector, known as foreign institutional investors (FIIs) or “Hot Money”. This type of flow is more volatile and fragile when compared to FDI (See Table 1). Measured in terms of its ratio to foreign exchange reserves, countries with worst economic situation were precisely those who had short-term debt (STD) greater than their reserves. With large short-term debts denominated in foreign currency, the exchange rate risk increased. When the debtors are mostly banks, as in Korea, the depreciation adversely affected credit expansion. Where most debtors are members of corporate sector, such as Indonesia and Thailand, the capacity to expand became severely constrained. Therefore, the South Asian Economic crisis that was originally characterized by only an exchange rate crisis turned into a widespread economic crisis in the form of recession.

48. After the crisis burst, the policy response advocated by IMF also contained several faults. The fund's insistence on severely tightening the monetary policy by raising the interest rates proved to be counterproductive. Its arguments for drastic and fundamental microeconomic adjustments such as ending corruption, curtailing special business privileges and imposing good governance, all make good sense. But all these are outside IMF's mandate and are seen by many analysts as impinging on the sovereignty of nation states. Infact, demanding drastic actions in the midst of a currency crisis made things worse in the form of disproportionate income distribution benefiting the high income savers, worsening the financial positions of many sectors, particularly the medium and small industries, and dampened investment that resulted in major recession. This further dampened market confidence, something that the IMF intended to restore in the first place. The social repercussions of economic contraction were also serious. No doubt the IMF came in for a lot of criticism in handling the crisis.

49. The important lessons from this crisis are as follows: -

- It is clear that financial sector liberalization in SE Asian crisis countries contributed to the vulnerability of the region's financial

sector. At the very least, liberalization increased the likelihood of a crisis. However, it must be understood here that liberalizing the ‘trade’ and ‘financial sectors’ are fundamentally different. The policy implications are not the same. Trade liberalization brings in significant economic gains. However, the state has to be more careful while liberalizing the financial sector. Proponents of liberalization argue that, in order to reduce the risks of instability, several pre-conditions need to be put in place prior to liberalization of the financial sector, such as improving the quality of regulations and making sure these are enforced and improved. Therefore, the push by the IFIs for liberalization, which overlooked the prevailing institutional conditions, clearly raised the likelihood of a crisis.

- It is pointed out that most of the financial crisis countries had accepted the IMF’s Article VIII conditionalities including full current account convertibility. It is argued that those countries that refrained from full current account convertibility like China & India, largely survived such crisis. However, there were countries like South Korea, which did not have capital account convertibility, but were hit by the crisis.

- Sweeping changes in the midst of a crisis should not be forced and is not good for restoration of market confidence. A New York Times report rightly pointed out that, “If a nation is so plagued with problems that it needs to make 140 changes before it can borrow, then may be the fund should not lend.”¹⁷

50. It therefore, clearly emerges that monetary and fiscal policies cannot be left totally to the market forces. Some intervention by the states in the free play market forces is necessary to avoid and mitigate financial disasters. The financial sector liberalization, especially in the capital accounts, should be a part of a co-coordinated and comprehensive approach so that the fundamentals of the economy are not weakened. Also, financial institution bailout, like IMF, impinged on the national sovereignty of these countries by dictating their own terms and conditions.

¹⁷ Lourdes Beneria & Savitri Bisnath, Op Cit, p-92

CHAPTER 3

PREVAILING INTERNATIONAL ECONOMIC AND SECURITY ENVIRONMENT

51. The late eighties and early nineties witnessed revolutionary changes in international arena. The most important development of the disintegration of Soviet Union was that the world was now devoid of a force to balance US military superiority. After the nuclear tests by India and Pakistan in 1998, the US administration became active with the issue of nuclear non-proliferation. However, the most important issue that has influenced US actions post Cold War was the 9/11 terrorist attacks in 2001 on the twin towers of World Bank and Pentagon headquarters – signifying the economic and military might of USA. In this backdrop, let us examine the salient features of the emerging international environment.

The USA

52. United States after the cold war has emerged as the sole super-power, militarily, economically, politically and technologically. It is unchallenged

around the globe and will remain so for many decades hence. US spends very heavily on defense and its lead in defence technology is unsurpassed. US economy constitutes a little less than a quarter of the world's economy. In spite of the devaluation of the dollar, troubles in its domestic economy, growing unemployment, enormous trade and budget deficits, its currency continues to be preferred over others around the world, providing it a reserve and strength not available to others. In the knowledge world of today, as long as the best minds from the world flock to the US and its universities and remain there, US position as an economic, political and military super-power is not likely to be challenged. The reign of US supremacy is likely to be measured in decades and not years and it is a wider reality that the world has to come to terms with.

53. An important component of the American global policy has been the use of its military power as a cementing force for economic interdependence, and providing political preconditions for the close linkages among the economies of the world. The demonstration of military might during the Gulf Wars proved that the efficacy of force endures even after the Cold War. The reliance of the Gulf States on American military power long after the defeat of Iraq, has added considerably to the American strategic and

diplomatic ascendancy. In the case of Saddam's challenge to USA, it was not Kofi Annan but George Bush who called the shots and imposed the one sided war.¹⁸

54. However, the military dominance of USA has not been without economic effects. The USA's self assumed role of global policeman has been demanding a huge chunk of money. Bases, nuclear carriers and submarines, rapid deployment forces, and armed personnel deployed the world over have necessitated considerable financial commitments. This is why the US encouraged Japan and the European Union to play a greater role in world affairs in which it would set the agenda and they would share the burden of leadership and expenditure. While a reluctant Japan is being pushed to increase its defense expenditure, the US feels concerned about a separate European defense identity. USA does not seem to favour a challenging power projection capability even on part of its allies. In many respects it remains out of tune with the world and isolated on many international issues; from global warming and climate change to trade and commerce and is an active opponent of the International Criminal Court. On disarmament questions, whether it is the CTBT, the 1972 ABM Treaty, or

¹⁸ D D Khanna & P N Mehrotra, Defence versus Development: A Case Study for India, Indus Publishing Company, New Delhi, 1993, p-54

plans to deploy space based weapons, or as some believe, an impending decision to resume nuclear weapons tests, it remains the odd country in the international system. Further its policies are characterized by unilateralism, and a low opinion of the UN and its organs.

55. USA is one of the most important trade partner of India, accounting for over 20 percent of the entire Indian trade. Indian students in United States account for maximum number of expatriates, followed only by China. The growing Chinese market has been able to attract huge quantities of American investment. The next country on US horizon is India due to her growth potential. USA acknowledges India as being among the ten fastest growing economies. Indo-US trade has doubled to over \$16 billion in last decade. However, it is far short of its potential. Of late, US leadership has shown far greater interest in India. The US Secretary of State Mr Collin Powell termed this relationship as “strategic partnership”¹⁹, of which the economic component will surely be an important part. The growing economic inter-dependence between the USA and nations of South Asia augurs well for the security of the region.

¹⁹ Colin L Powell, Await the Blockbuster, India Today, March 29, 2004, p-39

Russia

56. A country that has turned the corner at last, but still remains desperately poor. It is likely to continue to grow economically, particularly if oil prices remains high. Its population is reducing by a million a year and in five years will be lesser than that of Bangladesh or Bihar. Still a military power, but decidedly of the second rank, and mounting expenditure for maintenance has lowered the effective power projection capabilities. Mostly a defensive force, Russian military improvement, modernization and restructuring will take over a decade. The continuing terrorism in her Chechen has been taking a lot of her resources and attention. Nevertheless, Russia will remain an important player in selected areas due to its membership of the UNSC and its glorious past.

The Middle East and the Central Asian Republics

57. As long as oil and natural gas remain the principal energy source for the world, the region will remain strategically very important. Yet, this critical dependence may well reduce significantly in the next fifteen to twenty years. Of these countries, Saudi Arabia and Iraq will be the crucial

players. The question of the region's political stability will remain an important question and affect India's interest vitally. In the case of the CAR, the domestic stability of the countries will be a major concern in the future, with a potential for negative developments like was the case in Afghanistan.

China

58. Under the leadership of Deng, China emerged from its shell with pragmatism and single-minded commitment to become a superpower. She rightly chose the economic route, at the same time not neglecting her military. Her increasing economic strength has given her resources for sustained development as well as strengthening her military might. China has emerged as a truly great power and is an important player in world affairs.

59. However, what is of specific concern to India is the network of ties established by China with Pakistan and other small South Asian nations to what it termed as "Indian hegemony". There is strong Chinese influence in Pakistan, Bangladesh, Nepal, Sri Lanka and Myanmar. China has, in the past, provided economic and military aid to India's neighbors whenever intra-South Asian relations have threatened to turn sour. Of late, it has

adopted a conciliatory approach, but has done nothing to allay misperceptions on the border issue. Chinese strategic writing is extremely confrontationalist and refers to the possibility of a US-India-Japan alliance to contain China. The Chinese while deprecating other Indian developments, overemphasize Indian military capability. They are highly critical of presence and role of the Dalai Lama in India. Overall the intellectual output from China is directed in the long run to preparing for a showdown rather than a settlement with India.

60. Notwithstanding the above, there is a strong case to improve relations with China. India and China have everything to gain from pooling their resources in the construction of an equitable and peaceful world. In the last few years, Chinese leaders have modified their statements on Kashmir and have advocated a resolution of the dispute in accordance with the provisions of Simla Agreement. It is because they are directing all their energies into becoming an economic superpower. We have many lessons to learn from the Chinese. While China is currently way ahead in economic reforms, having had 13 years head start over us (See Table 2), our economy too has performed well in last two decades. If we accelerate our reforms, especially

in agriculture and education, we will gain ground. If we don't, then China is going to push us around and humiliate us in the 21st century.

Asia-Pacific

61. Despite the shock of financial crisis of 1997-98, the next century will still belong to the Asia-Pacific. Its dynamic growth, innovativeness, enterprise and thrift will all act as powerful forces determining the region's place in the world. Even though there may still be some hot spots, yet these problems are likely to be resolved without conflict or major confrontation.

South Asia

62. South Asia today faces a particularly significant dilemma. It is both a conflict prone and an underdeveloped region of the world, yet with enormous potential in human resources to overcome both problems. The region is witness to both intra-state and inter-state conflicts. Military expenditures are high and growing. On-going conflicts, arms build-ups, and efforts to maintain strategic and military balance account for a considerable

part of their resources. Nuclear weapons in two countries make this an even more potentially dangerous region.

63. The non-military factors are equally important, and sometimes more intractable as sources of threat and deprivation. Widespread poverty remains South Asia's most persistent and urgent problem. The region has a population of 515 million out of the population of 1.3 billion people who live in absolute poverty. Thus, there are more people living in absolute poverty in South Asia than any other part of the world. About 43% of total populations in South Asia live in absolute poverty, compared to 14% in East Asia, 24% in Central America and the Caribbean and 39% in Sub-Saharan Africa. Endemic political violence by ethnic minorities and resultant instability, threat of surprise terrorist attacks, acute water shortages, environmental degradation, the burden of refugees and cross-border population movements, and the challenges of globalization are even more real and threatening.

64. During the Cold War, US-Pak and Indo-Soviet relations manifested themselves on economic, diplomatic and military levels, with the situation reaching its peak during the 1971 Indo-Pak War, in which sides were clearly

taken. The economy and armed forces of Pakistan were highly subsidized by US economic and military assistance after 1955. The American aid improved the fighting capabilities of Pakistan's armed forces, contributed to the country's economic growth and helped bridge a major hard currency deficit. After a period of lull in the seventies, due to the US displeasure with Pakistan on the nuclear issue, the Soviet armed intervention in Afghanistan again pushed Pakistan to the front line. The Reagan administration offered two big economic and military aid packages worth over \$ 7 billion spread over 12 years. The US also helped secure badly needed credit from the IMF and development loans from the World Bank. Moreover, other Western nations and Japan also came forward with various aid packages. Thus, Western strategic considerations helped not only Pakistan's armed forces but its economy too, and its per capita income rose higher than that of India. US assistance to Pakistan reduced considerably after Soviet withdrawal from Afghanistan in 1989. Pakistan has again become a front line state in US war against terrorism, despite the fact that Pakistan itself is the biggest nerve center of Islamic terrorism and nuclear proliferation as disclosed recently. Despite Mr Qadir Khan's exposure on sale of nuclear technologies to many countries classified as "rogues" by the USA, Pakistan has again been rewarded with huge assistance recently.

65. The combined effect of this complex matrix of conflicts on the society, polity and economy of the region is enormous. Politically, states remain unstable while governments are ill prepared to face challenges of effective governance to meet the needs of development. There is a growing realization that a confrontational approach, both within and outside the country, only leads to impoverishment, which in turn breeds insecurity. Indeed South Asia has paid too heavy a price for this confrontation and lack of co-operation.

CHAPTER 4

LESSONS FOR INDIA AND THE WAY AHEAD

“Risks of an open economy are well known. We must not, nevertheless, miss the opportunities that the global system can offer...the world cannot marginalize India. But India, if it chooses, can marginalize itself. We must guard against this danger.”

C Rangarajan, Chairman, Finance Commission

66. India had the world's tenth largest industrial economy in 1945, which slipped to twenty-fifth by 1990, which shows how wrong were our policies that we followed, despite some notable successes in the form of 'green revolution' and development of heavy industries. We were taken over not only by China, but also by smaller countries like Korea and Taiwan, whose economies were in shambles when India embarked upon planned economic strategies in the 1950s. By the end of eighties, India had reached the verge of default in debt servicing. It was at this crucial juncture that Narasimha Rao took over as the Prime Minister and Manmohan Singh joined him as his Finance Minister. They took the decision to shed the socialist pattern of planned development and open the economy by carrying out economic reforms. They brought in privatization, deregulation and liberalization.

67. India has come a long way since then and is fast shedding the burdens of the past. It is a country confident and eager to connect with the world in every field. Ideology is on the retreat and technology is on the march. Pragmatism is the new mantra. Increasingly, our national interest is in harmony with global objectives. In today's world the challenge is mostly economic. We need to create wealth and ensure its equitable distribution. In some ways we have already started the arduous journey. We do have the **building blocks**²⁰ for ensuring economic as well as strategic security, some of which are enumerated below: -

- Freedom. India unarguably has the most evolved and stable civil society in Asia. We have had a number of free and fair elections, including the recent one to the Lok Sabha, exhibiting the commitment of the Indian people to democracy. Freedom makes the Indian markets stable and sustainable.
- Digital Power. In the age of connectivity, India is fast emerging as a leading provider of IT-enabled services to the world, big enough to make outsourcing a campaign issue in USA during its poll year.

²⁰ Aroon Purie, The Building Blocks are in Place, India Today, March29,2004, p-23

- Manpower. We produce half a million engineers and a quarter million doctors every year. This vast pool of brainpower manifests itself at home and abroad.
- Enterprise. Unlike China, India abounds in entrepreneurs. With low cost labour and vast internal market offering economy of scale, we can become a manufacturing base for the world. We also have well developed financial markets and an independent judiciary. All these are vital elements for a developed economy.
- Demography. India is one of the youngest countries in the world. Seventy percent of her population is below 35. This makes India a dynamic, inspirational society. One of the world's biggest consumer classes is emerging in this part of the world. To make use of this potential, India needs political vision and leadership that have nothing at stake, except India.

Prophecy of Goldman Sachs

68. Last year, a German economist, Goldman Sachs²¹ looked fifty years ahead into the likely economic growth of four large non-western countries: Brazil, Russia, India and China (BRICs). Their growth rates were compared with those of rich G-7, then G-3 countries- America, Germany, Japan. If they keep up their recent rapid growth rate, it predicts very significant shifts in world power balances. It predicts that China would be the world's largest GDP, overtaking USA over a period of 50 years. By 2025 India's GDP would have overtaken that of UK and by 2050 India's GDP of \$28,000 billion will be the third largest behind China and the USA. However India's per capita income will continue to be comparatively lesser at \$ 18,000, due to her large population of 1.4 billion.

69. The Goldman report does not take into account various political, strategic and social challenges, such as Indo-Pak tensions, possible ripples created as a result of China's rise to world power status, India's heavy

²¹ Paul Kennedy, Op.Cit, p-43

dependency on outside energy resources and global challenges of terrorism, drugs, migrations, etc. However, these challenges can be overcome with wise leadership, clever diplomacy, peace and economic progress.

An Appraisal

70. The **India Today Conclave 2004** took place in Delhi on 12-13 March, 2004. This is an annual event conducted by India Today group of papers where they invite eminent speakers and thinkers from all over the world and India to debate a particular theme. This year's theme was "How to Build an Indian Century". In his talk, Prime Minister Atal Bihari Vajpayee spelt out his vision of making India a developed country by 2020²². He mentioned the fact that every Indian, whether living in India or abroad, has always believed that India is a great nation and has wondered why the world has not acknowledged this obvious truth. Perhaps because we have tended to judge ourselves by our potential, whereas others judge us by our performance. However, the gap between our potential and performance is now getting bridged. India is changing, and changing very rapidly. The

²² Atal Bihari Vajpayee, We can't be Shackled by History, India Today, March 29, 2004, p-33

imprint of this change is becoming bolder and more attention catching by the day.

71. The world acknowledges our prowess in IT and in other sectors of knowledge-based economy. Our growing markets and our rapidly expanding economy compel global recognition. Indian businesses have learnt from globalization and the technology revolution, the imperatives of becoming globally competitive. Today “Made in India” or “Sourced from India” labels are becoming a matter of national pride. We have started to take the right steps which are essential to make India a stronger and more prosperous nation. Towards this end we have begun to: -

- *Speed up our GDP growth;*
- *Speed up the reform of our economy and our institutions; and*
- *Speed up the expansion and modernization of our infrastructure.*

72. However, there are certain very important areas that require immediate and equal attention. Since vast majority of Indians live in the villages and are dependent on agriculture, there is need to focus our attention towards making the rural India prosperous and vibrant. The Green

Revolution helped India achieve self-sufficiency in food production. Now, the country needs a second Green Revolution to create profitability, efficiency and value at every stage in the food chain linking the farmer to the consumer. Unemployment is our biggest problem. The nature of employment generation is changing with the changing nature of the economy. Jobs in the government and organized sectors have shrunk not only in India but all over the world. At the same time, new employment and self-employment opportunities have sprung up on a large scale in the recent years. These are in housing, road construction, transportation, cottage industries, IT, financial sector, tourism, services and enterprises in the informal sector.

73. Faster economic growth is essential, but this must take place in an environment of social harmony and in an atmosphere of social cohesion. There are some regions in our country that have seen impressive economic growth. But there are also regions that are witnessing social polarization. On the other hand, in other parts, social relations work wonderfully well. But here economic growth has been less dynamic. The challenge will be to work and sustain a fine balance between economic imperatives and social realities. The challenge will be to sustain economic growth that provides equality of

opportunity to all, economic growth that empowers the many as opposed to enriching a few. The poor must become partners in development, not its victims. A small section of society can not appropriate the gains of growth while large sections are left bearing the brunt of its pains. If this imbalance is not recognized and rectified, India could face endemic social unrest.

Therefore, a continuing Indian economic prosperity and national security must be one in which every Indian, particularly those from the deprived and disadvantaged sections of society, can both participate and partake. This will undoubtedly come from the exuberance, energy and enterprise of its youth, its women, its entrepreneurs and its civil society. It will also demand a new vision from the state, a whole new definition of its role and responsibilities. The vision must give the state a new strength and impart to it economic growth and social change. There must be right degree of synergy between the market economy and public interventions.

THE WAY AHEAD

74. The erstwhile External Affairs Minister Mr Yashwant Sinha summed up during the India Today Conclave that, “ Power in the 21st century will

flow from the pores of a well run economy”²³. However, we can analyse the fact that India’s higher international visibility is a more complex product of a number of factors. The first is of course her steady economic growth. But equally important are the facts of her emergence as a nuclear power as well as a strong base of IT and knowledge based economy. There is also a global recognition of India’s huge reservoir of young and world-class human resources. India’s track record as a democracy, our diverse society, independent judiciary and vibrant press also stand out. India’s secular and multi-cultural ethos is unique in the world. India is home to every religion and they co-exist. India’s Muslim population is the second largest in the world and its Christian minority outnumbers the entire population of many European countries. Therefore our way ahead will contain a right balance in developing and maintaining a credible nuclear and military deterrence, while pursuing a higher and sustained economic growth with an aim to provide useful employment to her large young population. All this needs to be done within the democratic and secular framework provided by our constitution and an amicable foreign policy to guard our core vital interests.

²³ Yashwant Sinha, What it Takes to be a World Power, India Today, March 29, 2004, p-44

75. As stated by Mukesh Ambani of Reliance, India's share in the \$33 trillion global economy is less than 2 per cent²⁴. Our task is to engineer a quantum leap. We can do this by converging three fortuitous factors for economic development – services, energy and knowledge-age competencies. We must also bring about a renewed dynamism in agriculture, infrastructure and manufacturing. Our share in global services is only 1.5 percent. We can find opportunities for 200 million Indians in the services sector. To do this, we have to make a paradigm shift – from providing support services to directly serving global consumers. India can be the world's leading health care provider, the preferred tourist destination and leading center for creativity. The earnings from the services sector can transform the complete economic scenario of the nation.

76. India is an energy-deficient state. It is now believed that India is a largely under explored territory in oil and gas. This is confirmed by the recent oil and gas finds in the country. India has the ability to build knowledge competencies in technology and global trade. Technology is emerging as the greatest driver of economic growth in the 21st century. About two-thirds of incremental global GDP in the future is estimated to

²⁴ Mukesh Ambani, How India can be a G-5 Economy, Ibid, p-49

come from technology domains. India has the opportunity to leverage technology for economic growth and development. This will come from a paradigm shift – from deriving benefits of innovations to driving innovation in India itself.

77. To promote Economic Security, India should develop a comprehensive strategy, on following principles²⁵:

- *Seize the global initiative.* The new global trade negotiations launched under the aegis of World Trade Organization in 2001 has an ambitious agenda, especially in agriculture, manufacturing, and services, targeted for completion in 2005. India must work hard to adapt itself to the WTO provisions so as to gain maximum from the global trade.
- *Press regional initiatives.* India needs to keep enhancing the scope and content of regional co-operation, as is rightly being done by her, with regards to ASEAN, SAARC and BIMSTEC (This appears to be having an excellent potential).
- *Move ahead with bilateral free trade agreements.* Building on the free trade agreements with USA, EU, China, Singapore, Japan, and others.

²⁵ Ideas taken from U S National Security Doctrine 2002

Our aim should be to achieve free trade agreements with a mix of developed and developing countries in all regions of the world.

- The seven sectors (*Saat Sutras*) which should form the main pillars of development of India, as identified by the new government and announced by Prime Minister Manmohan Singh²⁶ on 15th August 2004, are: - Agriculture, Water, Education, Healthcare, Employment, Rural upliftment, Urban Renewal and Infrastructure.
- *Balanced Development*. Besides accelerating the pace of economic development in the country, the main objective of planning should be to attain an egalitarian socio-economic order with balanced development of the regions²⁷. Presently we have pockets of excellence in some areas, where as some regions are lacking far behind. As a nation, such type of development is sure recipe for disaster.
- *Promote the connection between trade and development*. Trade policies can help developing countries like India to strengthen property rights, competition, the rule of law, investment, the spread of knowledge, open societies, the efficient allocation of resources, and regional integration—all leading to growth, opportunity, and confidence. We should improve our records in these fields.

²⁶ Manmohan Singh, Promises to Keep, Hindustan Times, August 17, 2004.

²⁷ A K Agarwala & P Hazarika, Developmental Disparities : A Quantitative Insight, Akansha Publishing House, New Delhi, 2004, p-1

- *Help domestic industries and workers adjust.* The benefits of free trade depend upon the enforcement of fair trading practices. These safeguards help ensure that the benefits of free trade do not come at the expense of Indian workers. Trade adjustment assistance will help workers adapt to the change and dynamism of open markets. We should also have a continuous practice to educate our workers so that they remain contemporary in their respective fields.
- *Enhance energy security.* Energy is engine for growth. We must therefore, strengthen our energy security by ensuring unhindered supply of energy resources by tapping our domestic resources to the full, developing reliable trading partners and energy producers to expand the sources and types of global energy supplied. We must also continue to work towards development of alternative sources of energy, including nuclear energy for power.
- *A stable macroeconomic environment* is a pre-requisite for successful economic liberalization so as to avoid / absorb economic setbacks, if any²⁸. We need to avoid situations such as those that resulted in South-East Asian economic crisis.

²⁸ Kunal Sen & Rajendra R Vaidya, The Process of Financial Liberalization in India, Oxford University Press, New York, 1997, p-146

- *Development of adequate military strength.* Simultaneously while developing our economic strength, we should also develop our military and nuclear might, which continue to remain important components of national security.
- *Privatization of Defence Industry.* As of now the most Indian defence industries are in the hands of the public sector, and the results are not very encouraging. We must learn from the United States and transfer most of these activities to the private sector, which, in addition to improving the quality own defence equipment, will also be a major source of export earnings for the country.
- The Indian main asset in the years to come is likely to be the large reservoir of scientific and technological *manpower* the Indian population base and educational programs can generate. Our strategy of planning must take into account the short-term compulsions of industrialization, as well the long-term opportunities that this asset offers by organizing and training them well.

CONCLUSION

78. It is being increasingly argued that, in the present age of globalization, politics is slowly giving way to economics. This thesis has however, argued that both are inter-dependent. Even Kautilya in his book “Arthashastra” points out that economic health of a nation is important for its security, and so is the military strength required to protect it. It is only when both are assured that the national security is ensured.

79. The new thinking tries to look at national security from a more holistic perspective, attempting to put people first, with due focus on society and the political and economic aspects prevailing within a country and the region around it. In this context it has been argued that poverty and socio-economic underdevelopment are indeed as important sources of threat to national security as individuals and hence of societies, and security cannot be ensured without effectively challenging the menace of poverty and underdevelopment. The current slogan of growth with social justice is a belated recognition of the fact that in the current harsh international

environment, when the world has considerably shrunk due to advances in communication and transportation technologies, nations cannot afford vulnerabilities like high unemployment, extreme income disparities and abysmal poverty for vast sections of the population. Such a state of affairs will lead to conditions of insecurity and in a heterogeneous country like India to secessionism in various regions. Therefore, the security of the nation is closely interlinked to economic as well social development.

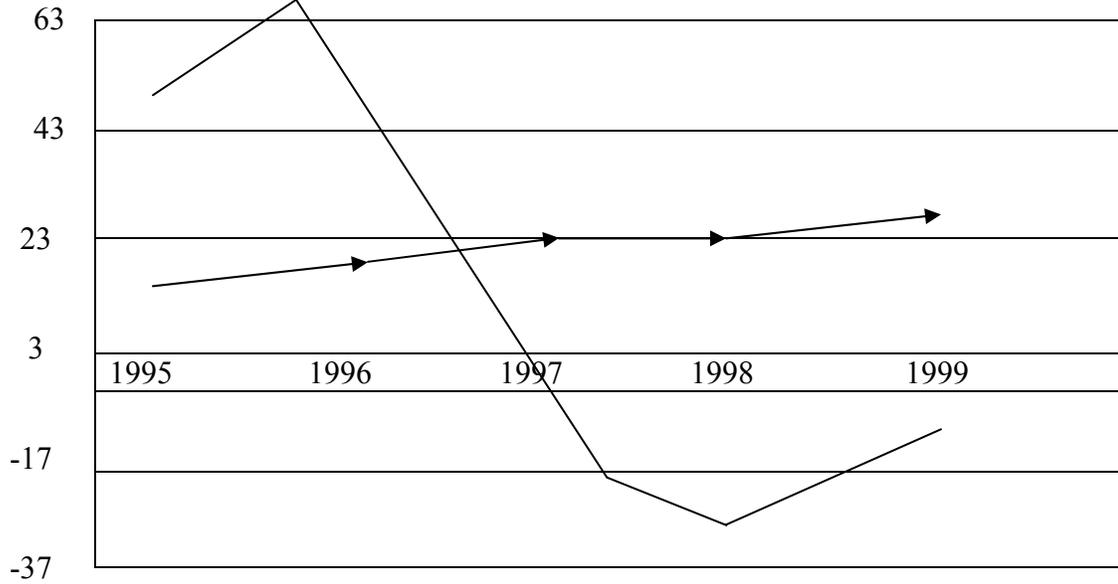
80. The international security environment has also changed. The collapse of Soviet Union, emergence of a uni-polar world under USA, emergence of China as an economic as well as a military giant and globalization of market economy, all demand a fresh thinking on the most important aspect of national security of India. The Indian leadership seems to have rightly recognized various facets of national security in the document establishing the National Security Council, which lists external threats, economic strength, internal security, social issues, trans-border terrorism and crimes as integral elements of national security. Taking a cue from the US National Security Doctrine-2002, this thesis has aimed to formulate a broad framework under which Indian economy could grow to its full potential. We need to have a holistic approach towards national security.

81. In the recent times the Indian economy has attained a good growth rate, which needs to be sustained and accelerated, while at the same time pushing our industrial and agricultural programs to proceed forward rapidly. We have shortages in all sectors of industry and infrastructure and we also have large under-utilized capacities. Our educated unemployment is rising steadily. It is not difficult to perceive that if we do not have a total strategy towards industrialization and technological transformation of the country, we shall only be adding to our vulnerabilities with the growing dissatisfaction of an increasingly educated population. With a restructured economy, a vibrant society, and a powerful but controlled military establishment, India can play an important role in world affairs.

TABLE 1

EAST ASIAN FINANCIAL CRISIS : FDI Vs FOREIGN BANK LENDINGS

Billion USD



KEY: — Foreign Bank Lending
—> FDI

SOURCE: World Investment Report
1999

TABLE – 2**DEVELOPMENT INDICES : INDIA Vs CHINA**

Indicators	China	India	Comparison of Chinese Edge
Population (Billion)	1.30	1.05	1.2
Average Persons per Household	3.7	5.3	.7
Household (Million)	345	198	1.7
Urbanization (Percentage)	37	28	1.3
Per Capita Income (USD)	492	368	1.3
GDP Growth (1990-2000)	10.3	6.0	1.7
Per Capita Income (in PPP terms-USD)	3976	2358	1.7
People Living Below \$1 a Day (%)	16	35	2.1
Passenger Cars (per 1000 population)	7	5	1.4
Telephones (in Million)	400	53	8
Computers (per 1000 population)	19	5.8	3.3
Exports (Billion USD)	320	35	9
Literacy (%)	84	65	1.3
Infant Mortality Rate (per 1000)	32	68	2.1
Total Armed Forces (Million)	2.2	1.2	1.9

Source : 2001 Figures as given by Pradip Baijal in his talk to the NDC, New Delhi, on Liberalization & Public Sector Reforms, on March 4th, 2004 and Human Development report 2003, Oxford University Press, New York, p-73 & 306

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ABBREVIATIONS

ABM	Anti Ballistic Missile
AIDS	Acquired Immune Deficiency Syndrome
APEC	Asia Pacific Economic Co-operation
ARF	ASEAN Regional Forum
ASEAN	Association of South East Asian Nations
BIMSTEC	Bangladesh, India, Myanmar, Sri Lanka, Thailand Economic Cooperation
(Now)	Bay of Bengal Initiative for Multi-Sectoral Techo-Economic Cooperation
CAR	Central Asian Republics
CTBT	Comprehensive Test Ban Treaty
ECSC	European Coal and Steel Community
EU	European Union
FDI	Foreign Direct Investment
FII	Foreign Institutional Investor
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
IMF	International Monetary Fund
IT	Information Technology
MGC	Mekong Ganga Cooperation

MNC	Multi National Corporation
MTCR	Missile Technology Control Regime
NAFTA	North America Free Trade Agreement
NDA	National Democratic Alliance
NGO	Non Government Organization
NPT	Non Proliferation Treaty
NSC	National Security Council
RTA	Regional Trade Agreement
SAARC	South Asian Association for Regional Co-operation
SADF	South Asian Development Fund
SAPTA	South Asian Preferential Trade Agreement
STD	Short Term Debt
TNC	Trans National Corporation
TRIMS	Trade Related Investment Measures
TRIPS	Trade Related Intellectual Property Rights
UK	United Kingdom
USA	United States of America
UNO	United Nations Organization
UNSC	United Nations Security Council
WTO	World Trade Organization

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