

# India's Road to Development

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# I. The Questions

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India is an ancient civilization, rich in the arts and possessing intriguing wisdom. From a more material perspective, however, the country has evoked rather opposing images: the richness of the princes has been impressive, but the same goes for the poverty of the masses. In recent decades, India became especially known for the failure to give its people a higher standard of living. As long as most other newly independent countries in Africa and Asia remained poor, however, this failure did not attract much attention. In line with Marxist ideology, many people thought that the international economic system was organized in such a way that poor countries did not have a real chance to improve their people's livelihoods. Even though development had already started in Asia in the 1960s with the so-called 'tiger' economies of Taiwan, South Korea, Hong Kong and Singapore (while Japan had taken off in the nineteenth century), the poverty of South Asia and adjacent countries remained a matter that was taken for granted by almost everybody, both inside and outside the country. In the 1970s, countries in South-East Asia started on the road of modernization. In the 1980s, China followed. Yet still, India did not move. By that time India had earned a reputation for being able to 'snatch defeat at the jaws of victory'.<sup>1</sup>

Then—finally—in the 1990s substantial policy reforms were implemented in New Delhi, and the country responded. In the one and a half decades since then, when it comes to production, trade, investment, incomes

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1) Omkar Goswami, 'Humility, Not Hubris, Will Make India Great', in: *Far Eastern Economic Review*, December 2005, vol. 168, no. 11, p. 12.

and social development, India has probably changed more than in the first four decades after independence, or for that matter in a whole series of centuries. At the time of the reforms, about half of India's huge population had less than one dollar a day to spend; now it is about one-third of the population. According to the World Development Indicators, over the same fifteen years GDP per capita, a measure for the standard of living, doubled from less than 1,500 to around 3,000 US dollars.<sup>2</sup> According to the data of the United Nations, India is on track when it comes to achieving the first (and, many would say, most important) of the millennium development goals, regarding the reduction of income poverty. On several of the other goals, especially in health, India is an early achiever, meaning that it will reach the objectives before the 2015 deadline.

In the highly complicated process of development, with its tens of interrelated aspects, this paper will highlight the efforts and achievements to create a vibrant, effective and competitive economic basis. Only on such a foundation can people achieve their ambitions and realize their dreams, such as decent incomes, education and health care, in a sustainable manner. Too often, it seems, the emphasis in development discussions and policies is on the end result: providing the good things for the people. The international campaign to achieve the millennium development goals is an important example of this unbalanced approach. Without a solid economic underpinning, poor societies will never be able to sustain the social improvements on their own. So this paper will look more to economic changes and growth than to the development of social indicators. When the economy is in shape, social improvement will follow, sooner or later. For the sake of simplicity, this paper will not distinguish between 'development', 'modernization' and 'progress'—these concepts all refer to the road that societies take when they move from poverty to wealth.

It is sometimes said that images do not change so easily. For India at least, this does not hold true. In only a few years India's eternal image as the land of poverty has disappeared. People often stress that India might still have more poor people than Africa, but such statements are increasingly made within the context of a new future for India, in which poverty will play a different role than in the past. India is nowadays often compared with fast-growing China, and the two Asian giants are central to the development of the Asian continent as a whole. For international investors looking for a nice profit, India could well be the destination. If you buy something in a shop, in whatever country, the product—whether simple clothing or sophisticated software—could be 'Made in India'.

The substantial developments in this country of more than one billion inhabitants have not gone unnoticed. Henry Kissinger mentions India as a

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2) For the development of income in India since 1900, see the graphic in chapter 9 (on India) in Jeffrey Sachs, *The End of Poverty: Economic Possibilities for Our Time* (Harmondsworth: Penguin, 2005). It clearly shows the dramatic rise in income during the last two decades.

potential world power.<sup>3</sup> Nevertheless, India has been neglected by important authors who take the whole world as their subject, such as Francis Fukuyama, Samuel Huntington and William Bernstein.<sup>4</sup> They analyse almost every culture, except India's. According to the Indian diplomat Pavan Varma, this may be the result of difficulties in creating a coherent image of Indian culture. The complexities and contradictions are many. On the one hand Indians are spiritually inclined and other-worldly, but on the other hand they are extremely materialistic and the Indian state is secular. They can be very moralistic, but in practice corruption is ubiquitous. They are indeed extremely tolerant, including of the human misery in their midst, but at the same time they have a rigid system of exclusion (untouchability). Indians have a particular taste for inequalities and status, but do practice democracy. And so on.<sup>5</sup>

This paper will not try to solve the mysteries that always seem to surround India. It will stick to the main themes regarding development. Perhaps the changes in the economy, image and status of India, and the standards of living of its inhabitants, have come so fast that time was lacking to reflect on some of the obvious questions: a) Why have Indians, since the 1990s, become richer?; b) Why did this not happen earlier (or later)?; c) How does modernization change Indian society?; d) How does the development of India compare with the development of other countries in Asia?; e) What can be expected for the coming years?; and f) Which general lessons can be drawn from the case of India about the start of the development process?

Each question will be discussed with in a separate section. The first five sections are successively called 'The Start', 'The Past', 'The Transition', 'The Comparison', and 'The Future'. Answers to these questions are important because they may provide better understanding of one of the most important recent developments in Asia, and indeed in the modern world. Besides, they may provide lessons for other countries that are still struggling to find the road leading to a better life for their peoples. Therefore, the concluding section—called 'The Lessons'—attempts to describe some of the possible general lessons for the start of modernization. Each country may travel its own unique road to development, based on the characteristics of the particular time and space and the people involved, but scholars must nevertheless search for the rules and the structure of this process.

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3) Henry Kissinger, *Diplomacy* (New York: Touchstone, 1995), pp. 23-24.

4) Francis Fukuyama, both *The End of History and the Last Man* (Harmondsworth: Penguin, 1992), and *Trust: The Social Virtues and the Creation of Prosperity* (New York: Free Press, 1995); Samuel P. Huntington, *The Clash of Civilizations and the Remaking of World Order* (New York: Simon & Schuster, 1996); and William J. Bernstein, *The Birth of Plenty: How the Prosperity of the Modern World Was Created* (New York, Chicago and San Francisco: McGraw-Hill, 2004).

5) Pavan K. Varma, *Being Indian: The Truth About Why the Twenty-First Century Will Be India's* (London: Penguin, 2005), pp. 2-6.





## II. The Start

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Literature on India's recent improvements points to the summer of 1991 as the period when the change started. This 'golden summer' followed the tragic death of former Prime Minister Rajiv Gandhi (in May 1991), who was murdered while campaigning for re-election.<sup>6</sup> The murder caused a wave of sympathy for the Indian Congress Party, which subsequently won the election, although not by an absolute majority. Congress leadership decided to form a minority government. They had hoped to continue the Nehru–Gandhi dynasty and have this new cabinet headed by Rajiv Gandhi's widow, Italian-born Sonia Gandhi, a woman without political experience.<sup>7</sup> Mrs Gandhi refused, so the Congress leadership had to look elsewhere, at least for the moment (until Sonia Gandhi might change her mind and accept her 'historical destiny'). They choose Narasimha Rao, a 70-year-old politician

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6) 'The Golden Summer of 1991' is the title of the chapter devoted to the way in which the policy changes came about, in Gurcharan Das, *India Unbound: From Independence to the Global Information Age* (London: Profile Books, 2002), pp. 213–227.

7) See Ali Tariq, *The Nehrus and the Gandhis* (London: Pan Books, 1985). After publication of the book, the dynasty's strength was demonstrated by efforts from both inside and outside the Congress Party to have Rajiv Gandhi succeeded by his widow Sonia. At the time she refused, but in the meantime she nevertheless became the party's new political leader. However, it remains unlikely that she will become prime minister. It is much more probable that her (and Rajiv's) son Rahul Gandhi, who is presently a member of parliament, will move on to this most important political position in a few years time.

who was about to retire from parliament. Over the years Mr Rao had gained a lot of experience in several of India's ministries. He was a quiet, not very outspoken man, and being on his way out, he was unlikely to be a threat to anybody. Narasimha Rao seemed to be the ideal person to replace Sonia Gandhi for the time being. He would not rock the boat.

But he did. The new prime minister indeed never spoke out loudly and he shied away from impressive public performances, but he did allow—if not cause—the reforms that would change India more than independence had done in 1947. Sometimes people who are old do certain things *because* they are old and on their way out. They have nothing to lose and, at the same time, have acquired a long-term perspective that goes beyond the vested interests of specific groups. Their perspective might not any more be that of the people around them, but that of the future world of their grandchildren. If things do not change, what will the world be that they inherit? The new prime minister's wide experience with politics and bureaucracies made him the ideal person to have the reforms carried out as well. So to almost everybody's surprise this innocent-looking elderly man actually became the destructor of the system that the Congress Party had erected over 40 years in India, a system that had not worked well, but that had provided jobs and income for many thousands of civil servants.

Prime Minister Rao could not have carried through this historic change all on his own. In the cabinet that he presented at the end of June 1991—barely one month after the murder of Rajiv Gandhi—he appointed Manmohan Singh as minister of finance. This was a crucial position indeed, because India happened to be out of money. The Soviet Union, which as a true friend had always bought Indian goods, was disintegrating at that time. Besides, Iraq had invaded Kuwait and the first Gulf War was about to break out. A quarter of a million Indian migrant labourers returned from the dangerous Gulf area, thereby ending remittances. Even worse, the conflict caused the price of oil to rise fast, and India's economy depends on foreign oil (the share of oil in total Indian imports at the eve of the first Gulf War was 25 per cent). India could no longer sell its products and lacked hard currency to buy imports. To make things worse, it had to repay foreign debts. Under Rajiv Gandhi's administration, India had borrowed quite extensively on the commercial market and these often short-term loans had to be repaid, with interest. India simply could no longer pay its debtors. Its international credit rating was downgraded, which meant that it could no longer borrow commercially abroad. Indians living outside the country, who often had their money deposited in India because of its high interest rates, became nervous and pulled their money out. India was bankrupt on all accounts. It even had to relinquish its gold reserves to obtain an emergency loan from the International Monetary Fund (IMF) so that it could at least pay bills and salaries.

India had never liked talking to the IMF. Such a relationship did not fit with its tradition of neutrality, self-reliance and a centrally planned economy.

The IMF typically stood for Western capitalism, for an economic view of the world that was not considered Indian. But now the IMF alone was in a position to help India out of its terrible financial situation. And help never comes free. The IMF was willing to support India on conditions: the government in New Delhi would have to quit its ineffective economic ways and open India up to the world economy. The IMF had also sent this message to the Indian authorities before Mr Singh moved into his finance ministry, but at the time this had been considered unacceptable. Manmohan Singh, however, had a different background. Being an economist, he had an understanding of what could work and what would not. He had spent years working outside India and had acquired a wider horizon. In his last job as secretary-general of the South Commission in Geneva, he had studied the success of the East Asian economies. He knew what India had been doing wrong. The remedies to the problems as he saw them were not very different from the IMF's views. So a deal was struck, and reforms in India were under way.

First, the financial situation had to be stabilized: India's currency, the rupee, was devalued by 19 per cent and interest rates were increased to attract more money. Second, the fiscal situation had to be stabilized: this was done through a reduction of budget spending. Third, extra finances had to be made available for India, from the IMF, the World Bank and bilateral donors, so that India could continue to import the most necessary materials and products. Fourth, structural reforms had to be implemented: it was in this field that political battles would take place.<sup>8</sup>

In order to reduce expenses, the government had to cut subsidies. Manmohan Singh had also agreed with the prime minister that subsidies on exports would be abolished, but this of course had to be made acceptable to the new minister of trade, Palaniappan Chidambaram, who had to face Indian entrepreneurs. Chidambaram had worked as a lawyer for private companies and thus knew the problems facing business. In principle he was agreeable to the idea of reforms. He could accept the abolishment of subsidies on exports if the necessary import licences were abolished at the same time (India had build up a sea of red tape both to control and to prevent too many imports because of lack of hard currency). It set a domino effect in motion. One after the other, large parts of the so-called Licence Raj (nicknamed after the British Raj) were abolished and the economy freed. However, other cabinet ministers and party officials became nervous: what was happening to India's economic system and traditions?

The prime minister handled this potential conservative revolt in a way that no outsider could have considered. He asked trade minister Chidambaram to write a memorandum that would show that these reforms

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8) Ajai Chopra, Charles Collyns and Richard Hemming, *India: Economic Reform and Growth*, IMF Occasional Paper 134 (Washington DC: IMF, 1995); and Das, *India Unbound*, pp. 213-220.

were nothing new, but actually fitted with the socialist tradition of Pandit Nehru and his daughter Indira Gandhi. The trade minister's memorandum indeed showed that, contrary to the critics' opinion, the reforms were in fact just an implementation of the ideas of Nehru, Indira and Rajiv Gandhi. The trick worked, because it silenced the surprised critics. Without too much opposition the reforms continued, one piece of new legislation after the other, until sometime in 1993 when the financial crisis was over. The speed of policy renewal then slowed down. With the outside pressure gone, the government was not willing to undertake much more. Instead, it freewheeled to the end of its term in 1996.

The results of the reforms had been impressive, especially in the field of macroeconomics. 1991 and 1992 were bad years, but the economy stabilized and then improved. The same happened to the government's financial situation. The budget deficit was reduced and foreign exchange reserves grew considerably. In two years inflation was more than halved (from 13 to 6 per cent), and the number of new jobs created doubled (from three million in 1991-1992 to more than six million average per year for 1992-1995). Large parts of the licences' building were brought down, especially with regard to industries.

The freed economy started to grow faster, doubling its speed from 3 to 6 per cent per year. This was stimulated by a significant increase in foreign direct investment, which could now enter India relatively easy. Besides, foreign direct investment could benefit from new preferential tax rates and tax holidays. The total amount rose from almost nothing to more than 2 billion dollars a year.<sup>9</sup> This foreign capital could freely be invested in many sectors of the economy, and foreign companies were often even allowed to acquire majority ownership in industries that had until 1991 been closed to them. Additionally, foreign products could enter the country much easier than before. The import of raw materials and capital goods was freed of restrictions, and the import of foreign industrial goods was no longer obstructed by high tariff walls. In 1991 custom duties were 200 per cent; over a period of a few years this was brought down to 25 per cent on average. The rupee lost its fixed over-valued exchange rate and became floating, with rates determined by the market (largely following fluctuations in the value of the dollar). India's stock markets were brought up to date and were opened to international portfolio investors. India's economic development had been given a second chance.

The reforms provided the basis for a rapid reduction of poverty, although nobody quite knows by how much. Statistics for India tend to be highly unreliable, especially when it comes to the figures on poverty, which carry a heavy emotional and ideological weight. There is fundamental disagreement both about the data and their interpretation. The orthodox view, held by the Indian government and the World Bank, is that around the time of

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9) 'The Plot Thickens', in: *The Economist*, survey on the Indian economy, 31 May 2001.

independence almost half of the Indian population lived below the poverty line, that the percentage of poor people went down only slightly in the following decades (or rather, remained constant) until the middle of the 1980s, and then started to decline rapidly, especially in the 1990s. At the beginning of the twenty-first century the number of Indians living in extreme poverty is estimated to be about 25 per cent. This already dramatic improvement is questioned by new research, which claims that the poverty figure may already be down to around 10 per cent of the population.<sup>10</sup> Here is not the place to comment on this—apart from the emotions—highly technical discussion. It is suffice to conclude that, whatever the precise figures, India has finally found a way to defeat poverty.

Why did India reform? The financial crisis was clearly the immediate cause of its reforms, and with the crisis gone, the reforms also stopped.<sup>11</sup> But there must be more reasons to explain India's sudden willingness to change its ways. Usually such a tough combination of vested interests and bad ideas (about economics, see the next section) is not so easily overcome. We must therefore look to more structural causes that might have paved the way. The slowest of such structural changes might be the increasing interconnectedness of the Asian region, and indeed the whole world, over the last few centuries, with a spectacular extra push in the last few decades ('globalization'). This made learning from the success of others not only easier, but also more necessary.

In ancient times, the states on the Indian subcontinent had hardly any relations with East Asia, including China. Asia's two greatest civilizations—India and China—separated by the almost insurmountable Himalaya mountains and the Tibet plateau, had only minor contacts. Sometimes an Indian Buddhist monk would visit East Asia to spread new ideas, and Chinese monks would visit India to learn more about it. There was some trading over the seas, usually via the port of Malacca in present-day Malaysia, which was conveniently placed halfway between East and South Asia. Trade relations grew in colonial times, such as the infamous opium trade.

It was only after independence, however, in the middle of the twentieth century, that India and China could for the first time establish a relationship as states on their own accord. It proved not to be a happy encounter, at least not for India. China occupied Tibet in 1950 and became a direct neighbour of India. It remained unclear where Chinese ambitions would end, and India's first independent government found itself forced to militarize the northern border area to prevent a further Chinese advance. Relations between

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10) Surjit S. Bhalla, *Not as Poor, Nor as Unequal, As You Think: Poverty, Inequality and Growth in India, 1950-2000*, final report of a research project undertaken for the Planning Commission, Government of India, entitled 'The Myth and Reality of Poverty in India'.

11) The government, for example, did not make the capital account convertible, which probably saved India from the monetary crisis that in 1997 hit several modernizing Asian countries.

the two great states remained tense, and in 1962 China actually invaded India. The Indian army was no match for the Chinese, who could have invaded the northern plains of India, but instead retired voluntarily behind what Beijing considered to be the border. India was shocked by the Chinese invasion as well as by its own weakness, which the invasion had revealed. It responded by building up its military and strengthening its inward-looking attitude. Because China in the same period became involved in a conflict with the former Soviet Union and was shocked internally by Maoist experiments such as the Cultural Revolution, no more major incidents between the two powers occurred.<sup>12</sup>

Around 1980 China woke from its dormancy and India had to become alert again, this time not so much with regard to security as to economic matters. China began to travel the road that the region's smaller countries had taken earlier, with immediate results.<sup>13</sup> It awoke the Indian intelligentsia to the idea that the development model of the small tiger economies could also be relevant for big countries.<sup>14</sup> People like Manmohan Singh began to study the East Asian economic miracle. If a big country like China could become wealthier by connecting economically with the outside world, then India could do the same. Moreover, China's economic success greatly enhanced its international reputation. Suddenly, China mattered in world affairs. Would that also be possible for India? It was no longer realistic for India to escape the message of East Asian development. Moreover, it was no longer in its advantage to do so. Politicians, whether they had a vested interest in the old system or not, became interested in change because of the advantages that it might bring to India. With the end of the Cold War in sight, neutrality and non-alignment, which had provided India with some kind of international status, lost their relevance. There seemed to be room for something new.

Many businessmen had been waiting for change. For centuries, India has had a strong entrepreneurial class, which had survived both colonialism and the decades of economic planning since independence. It had made their attitude towards more openness somewhat ambivalent. Some businessmen were rather comfortable behind the protective tariff walls. Others, observing the modernization of East Asia, felt much more could be achieved. They increasingly pressured their own government to give them more room to do business. To these businessmen in India could be added the many highly-educated Indians living abroad. Since independence the Indian Diaspora had

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12) For an overview of relations between India and China, see Waheguru Pal Singh Sidhu and Jing-Dong Yuan, *China and India: Cooperation or Conflict?* (Boulder CO and London: Lynne Rienner, 2003).

13) Although India was on its way to acquiring nuclear weapons, just as China had done earlier.

14) Fernando Henrique Cardoso, President of Brazil from 1994 to 2002, explained to an audience at the Netherlands Ministry of Foreign Affairs in December 2005 that the governments of big countries like Brazil, China and India at the time paid very little attention to the economic success of East Asia's tiger economies, because they thought that the mere difference in size would make them incomparable.

grown and flourished considerably, because many countries valued the knowledge and skills of these people more than India did. Many of the migrants worked for international business or for international organisations such as the World Bank. They witnessed the rapid economic developments around the world and advised the Indian government to change its policies.

In the 1980s Prime Minister Rajiv Gandhi had already felt that he could no longer completely ignore the challenge. He had tried some reforms, which indeed increased the economy's growth, although at the price of heavy commercial borrowing. The new policies were not good enough as a basis for sustainable development. India still needed a crisis and a change of leadership to make it work.

This push factor in the opening of India was supplemented by a pull factor. The warm welcome that India received at appearing on the world stage must have been supportive for New Delhi in moving forward. As soon as the country opened up, it was greeted with enthusiasm by countries in the region (although not necessarily by its direct neighbours), renowned institutions and observers alike, which without much hesitation claimed the rise of India to be a fact.<sup>15</sup> It seemed as if the world was ready for India to take its rightful place, given its size and history. Especially the smaller countries in the region, primarily member states of the Association of South-East Asian Nations (ASEAN), were glad that India would be around when forces had to be combined to counterbalance an increasingly strong China. Without India, the countries surrounding China would never be able to keep the emerging giant in check. With India, some kind of a balancing act would be possible in the dynamic and potentially unstable Asian region.<sup>16</sup>

Another structural change that promoted change in India was suggested by the author V.S. Naipaul. If Naipaul's theory had been constructed after 1991, it could have been discarded as an interpretation in hindsight, but since it was published in 1990, on the eve of the reforms, Naipaul might indeed have been foreseeing or feeling the coming events. V.S. Naipaul was born in Trinidad of Indian descent. Since the 1960s he regularly visited India in search of the land of his ancestors. In his most recent work, *India: A Million Mutinies Now*, he concludes that over the last 140 years, from the establishment of peace by the British after the Mutiny of 1857 (see the section on 'The Past'), India has slowly restored itself.<sup>17</sup> According to Naipaul, such mental and intellectual restoration was necessary after the Indian equivalent

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15) See, for example, the so-called *BRIC's Report* (about Brazil, Russia, India and China) of Goldman Sachs, released in 2003; and Thomas L. Friedman, *The World is Flat: A Brief History of the Globalized World in the Twenty-First Century* (London: Lane, 2005).

16) Amitav Acharya, 'Will Asia's Past Be Its Future?' in: *International Security*, summer 2003, vol. 28, no. 1, pp. 150-153.

17) V.S. Naipaul, *India: A Million Mutinies Now* (London: Heinemann, 1990), pp. 516-518. Naipaul's earlier works on India are *An Area of Darkness* (1964) and *India: A Wounded Civilization* (1977).

of the Dark Ages, starting with the Muslim invasions and ending with the struggles and chaos that accompanied the birth of British India. The restoration started at the top, with the country's intelligentsia, who built the liberation movement that gave the Indian nation political independence for the first time in a thousand years.

While this new nation was trying to find its way in the modern world, the idea of freedom found its way from the top downwards, ridding the people of feelings of (in the words of Naipaul) 'abjectness and defeat and shame'. Slowly the people's self-confidence was restored, often by experimenting in regional, sectarian or religious excesses, which would not get out of hand because the new Indian state acted as a stabilizing framework, a compass for civility and reasonableness. The energy liberated the spirit of freedom in millions of Indians—hence 'a million mutinies'—who looked for a new way to grow, for themselves and for the nation as a whole. When Naipaul thought this over, he could not have known that only a year later substantial reforms would be implemented that would indeed give Indians an opportunity to use this energy and self-confidence effectively to build new lives.

Finally, a caveat on the discrepancy between economic and social development should be made. If *one* moment in time must be chosen to identify the start of Indian development, it has to be summer 1991. There is no way around the fact that in these months the most important decisions were taken to change the historical path of India. This being so, the 'golden summer' has become the starting point of India's new direction and thereby become larger than actual life. However, the changes that brought about India's current rise are multiple and not all are connected to summer 1991. As mentioned above, Rajiv Gandhi's administration had already implemented some liberal reforms in the 1980s, which speeded up economic growth. The coalition government led by the Hindu nationalist Bharatiya Janata Party (BJP), which came to power in 1998, did the same: it opened up India's economy much faster than anybody had expected beforehand. Even though Indian politics did not witness another reform era similar to summer 1991, reforms still continue, gradually, to date.

The improvement of social indicators, nowadays combined in the UNDP's Human Development Index, has also been a process spread across time. Starting with independence, successive governments have devoted a relatively large part of public expenditure to social services, especially education (although a relatively large part went to higher education). This policy proved not to be sustainable because of the weak economy. In 1991 the country went bankrupt financially, but not (yet) socially. The 1991 reforms improved the economy, thereby providing a more stable basis for renewed social policies, although to date no spectacular gains have been made. So when it comes to social development, the picture is one of slow improvements starting right after independence, and 1991 is not discernable as the year of



take-off.<sup>18</sup> In contrast to the spectacular ups and downs of economic development, in which 1991 really stands out, social progress is much more gradual indeed.

Every Indian government must be extremely careful not to cause overreactions by the population on its reform agenda, which might vote it out of office at the next national elections. The same goes for politics at the level of the states. No incumbent Indian government could ever win the elections with a campaign emphasizing economic growth alone. Liberalization, deregulation, privatization and globalization are not popular concepts in India, so very few politicians dare to defend them in public. Narasimha Rao never did, and thus never received public credit for the reforms of 1991. After its term from 1998-2004, the BJP government of Prime Minister Vajpayee campaigned with the slogan of 'India shines'. It promptly lost the elections, because to the large majority of Indians the country did not shine at all. The Congress Party understood this better. In the 2004 campaign it connected economic with social issues (such as employment and education) and won. Any politician who believes in integrating India in the world market, and openly states it, walks a tightrope. Especially the symbols of American capitalism might infuriate the population. Coca-Cola still cannot enter India and McDonald's only could after the Indians had been somewhat immunized through the gradual introduction of chicken burgers and veggie burgers (no hamburgers, of course) by foreign companies that were less known.

For reforms to be effectively implemented, a subtle adaptation to the cultural and psychological environment in India is needed. Politicians who are unwilling or unable to do so are punished in the ballot box. India's modernization process, just like that of any other country, has to build on age-old layers of tradition.

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18) As the overview in the *Human Development Report 2005* of the UNDP shows, the figure for India improved slightly from year to year, starting with 0.412 in 1975 to 0.602 in 2003. The UN Economic and Social Commission for Asia and the Pacific (ESCAP) offers information on its website on the achievements of the region's countries, including India, with regard to reaching the millennium development goals.



### III. The Past

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When Siddharta, a son of the wealthy and powerful Gautama family, ventured outside the protective walls of the princely estate in Kapilavastu, at the foot of the Himalaya mountains, he looked at a world that was nothing special: people going around doing their business, in a rather dirty environment that smelled. Old and sick people, the handicapped as well as beggars, formed a natural part of street life in the sixth century BC. It should not have surprised anybody, including Siddharta. But because his father had tried to keep him away from the misery of the world, he had not been allowed to go outside. At his birth it was prophesied that Siddharta would become a roaming ascetic—of which there have always been many in India—and this was exactly what his father intended to avoid. So the young Hindu Siddharta did not know the harsh realities of life, and, looking at it, he was shocked. It changed his life much more than the normal gradual immunization by the sight of misery could have done. He became a roaming ascetic after all, philosophizing about life and searching for enlightenment.

The story of Siddharta, who became the Buddha, is well known, as well as his teachings: life is suffering, a suffering caused by our desires. If we extinguish desires, our suffering will stop and we can enter the state of nirvana. Only then will the circle of rebirths end. It was this vision on man and his place in the world, which soon spread throughout India and beyond. In a land already famous for its ascetic lifestyle, the idea of getting rid of desires must have been a further motivation to limit the search for material progress. Ancient India certainly had its wealthy people, but among the

cultural elite and the masses poverty almost came to be seen as something to be desired—an end in itself.

This negligence or even rejection of material wealth, which contrasts deeply with the spirit of modernization, was reinforced by the social organization of Hinduism, which in later centuries supplanted Buddhism to become again the dominant religion and cultural philosophy of India. Society was divided into castes. If a person lived his life according to the rules of his caste, he would be rewarded by a rebirth in a higher caste. If not, he would go to a lower caste or even fall outside the system altogether and become a casteless person, an untouchable or pariah. So the caste in which you were born determined your life. It decided in what kind of house you would live, from which social group your husband or wife would come, your status in society and so on. The caste offered a way of life, but also defined the horizon. Social mobility did not exist in this world, but between death and rebirth.

Classical India was a wonder of beauty, refinement and wisdom. Its material legacy can still be seen in centuries-old temples and palaces. They are often proof of extraordinary wealth, while the masses at the time lived in material poverty. In itself such a situation was nothing new. All over the world the vast majority of people lived in poverty, which was made sustainable by a certain social and ideological organization. The pre-modern organization of India has been extremely effective. Both spiritually and symbolically, India and poverty seem to belong to each other. When Mohandas K. Gandhi, the father of independent India, during the struggle for independence wanted to show his disgust of the British and of the modern world in general, he took off all his clothing except his loincloth. Almost naked, dressed only in a small piece of cloth and without any further material possessions, the *mahatma* ('great soul') portrayed Mother India in such a way that it was recognized by all his fellow countrymen.

Nevertheless, every man must survive and therefore hard work and materialism have their place in the phases of life of a Hindu. In the second phase, that of a parent, it is the duty of man to take care of his family materially. Many people actually worship money in front of statues of the goddess Laksmi. In the pursuit of wealth, a lot seems to be tolerated. Maybe as a reaction, rhetoric in politics and public opinion is heavy with morality. Because 'rich' is often associated with 'bad', increasing wealth per se would not be a popular objective. Material progress has to be combined with other objectives (or even better, be overshadowed by them) to become acceptable to the mass population.<sup>19</sup>

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19) Already a century ago, the famous German sociologist Max Weber blamed Indian culture and religions for the lack of economic development. In English translation, see Max Weber, *The Religion of India: The Sociology of Hinduism and Buddhism* (New York: Free Press, 1958). In many ways, Pavan K. Varna in *Being Indian* follows in Weber's footsteps, although he uses a fundamentally different interpretation of Indian culture: not directed towards

Often the states of classical India fought fiercely among themselves, as was depicted and analysed around 150 AD by the philosopher and statesman Kautilya, who described how rulers in his day should maintain law and order and run an efficient administration. He also had a keen eye for economics, since he believed that governments had a vital role to play in maintaining the material well-being of their subjects.<sup>20</sup> In economic terms, classical India was certainly not backward. In almost all respects the subcontinent was further developed than the areas around it. In India's relatively small cities a division of labour had appeared, with entrepreneurs, manufacturers and craftsmen whose work can sometimes still be admired. There was trade, also over long distances, and embryonic financial institutions and money existed to pay for products and services. Over several centuries the rulers of neighbouring states, especially in South-East Asia, looked to India for guidance and examples.

Yet it took another thousand years between the end of classical India and the start of modernization. This period that was characterized by increasing foreign influence. The first infringement on India's cultural integrity was made by the conquering armies of Islam, which entered the subcontinent through the northwest mountain passes. Soldiers on horseback were a new phenomenon in India, and they easily overwhelmed the small armies of foot soldiers. Until then, almost everything was done walking, which had severely limited the scope of organization. Most of the time ancient India had been politically fragmented. The typical classical state had its borders not further away from the capital city than one hundred kilometres.<sup>21</sup> It was very hard for the pedestrian soldiers and tax collectors to reach areas further away in a systematic manner. Only seldom did large regular armies emerge to conquer a bigger piece of the subcontinent, as under the emperor Asoka in the third century BC.

From around the year 1000 AD onwards, Muslim cavalry would descend from the mountains of what are nowadays Pakistan and Afghanistan, and raid the plains of northern India. After two more centuries Muslim leaders stayed in India and started states of their own. The mobility of their armies made for larger organizations than the subcontinent had known before, but these new states remained rather unstable, depending on the ability of the leadership of the time. The centre of these Muslim states consisted of a garrison town, which housed the cavalry and the tax collectors. Around these officials other people would try to make a living, thereby giving a boost to the process of

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otherworldliness, but towards power. In the pursuit of power, everything is legitimate. In this interpretation, *mahatma* Gandhi was not a model to be followed by normal Indians, but he was worshipped because he could, according to Varma (p. 7), 'transcend the irresistible'. In linking culture with development issues, it is important to note that culture is not a static thing, but changes all the time. Besides, it is easy to manipulate its interpretation and use it, for example, for political purposes.

20) Kautilya, *The Arthashastra* (London: Penguin, 1987), edited by L.N. Rangarajan.

21) Dietmar Rothermund, *An Economic History of India: From Pre-Colonial Times to 1991* (London and New York: Routledge, second edition 1993), p. 2.

urbanization. In around 1500 AD, state formation in northern India reached a new stage with the introduction of yet another military innovation: field artillery. Just as in Europe, these new weapons, especially the cannons, would end the rule of feudal lords and start new 'national' states, giving rise to the great empire of the Moguls in India. The Mogul empire belonged to the category of organizations that Karl A. Wittfogel has called oriental despotic states, based on an extensive and centrally regulated organization of rice cultivation.<sup>22</sup> For the first time in Indian history, a rather large bureaucracy appeared and took charge of the economy and society.

The impact of the Muslim invasions was not limited to the introduction of new technologies (in the military and other fields), to new political organizations and to the economy, but also had an important influence on society as a whole. This was further stimulated by the ideology of Islam, which as one of its central tenets has the equality of man. Of course this proved attractive, especially to the subjects of lower castes and untouchables, who used the new religion to escape from their social class. Islam became an important force in many parts of the subcontinent, both through conquest and through forced and voluntary conversions. But with all these changes, for the majority of the subcontinent's people, life did not change in a significant way from generation to generation. The innovations made new organizational structures possible, which sustained a larger elite. The masses, which not only produced for themselves but also for this elite, lived as they had done before. The mechanisms of the pre-modern status quo successfully adapted to new situations.

The dynamics brought by Islam received even more impetus at the beginning of the Mogul era by the arrival of Europeans on the subcontinent's shores. At first they were mainly Portuguese, Dutch, British and French armed traders trying to get a piece of the Indian economic cake. In their efforts to secure a monopoly on international trade in the region, they fought each other and the smaller Indian states along the coasts, in varying oppositions and alliances. Over time the British East India Company became the strongest contender, which eventually (in the eighteenth century) first beat its main European competitor, the French, and then the main Indian power, the Mogul empire. On the basis of the power of the strongest modernizer of Europe, Great Britain, a new and still larger empire in India was built: that of British India. This empire used the newest state-of-the-art technology, for example in transport and communications. Soon after they were introduced in a rapidly changing Europe, India was reached by steamships and became acquainted with the telegraph and the railway.

It was, however, not the technological innovations that made the biggest impression on their Indian subjects, but the efforts of the British to change the Indians' way of life. Although British colonialism was less intrusive than,

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22) Karl A. Wittfogel, *Oriental Despotism: A Comparative Study of Total Power* (New Haven CT: Yale University Press, 1957).

for example, that of the Portuguese or French, it nevertheless tried to ‘civilize’ the local population. Attempts were made to spread Christianity and to end certain customs, such as the burning of widows at the funeral pile of their deceased husbands (known as *suttee*). In the middle of the nineteenth century tensions between locals and foreigners reached a climax over rumours that Indian soldiers fighting for the British used in their new guns the fat of pigs (forbidden for Muslims) and cows (forbidden for Hindus). The soldiers and populace were enraged and started a full-scale war. This so-called ‘Mutiny’ of 1857 forced the British to make the strategic decision to either retreat from India or to move forward and take firm control of the whole of the subcontinent.

The 1850s were a decisive decade both in the history of colonialism in Asia and in the history of Asia’s development. The two—colonialism and development—are linked in several ways, one of which is unfolded here. While the British were under pressure from the Indian mutineers, and the Indian population was under pressure from the British forces, similar struggles took place elsewhere in Asia. From the perspective of the history of modernization, by far the most important exchange between Asia and the West (although no actual fighting occurred) took place in the Bay of Tokyo, where American naval ships forced the *shogun*, at that time the ruler of Japan, to open Japan to the outside world. The Japanese authorities were reluctant to do so, but had no choice in the light of the Americans’ and Europeans’ superior military technology. An agreement was reached to start international trading gradually. In the meantime, young officers staged a successful *coup d’état*, which ended the rule of the *shogun* and restored the imperial family to its rightful position, the so-called Meiji Restoration. The crucial element of the changes was the new policy of the junta of young warriors (sometimes called the ‘oligarchs’) to start immediately a series of drastic reforms to strengthen the state, so that it would be able to defend itself against future attacks from the outside. It was a conservative *coup*: Japan had to change in order to be able to remain the same. Because Japan’s elite lacked the sense of superiority that exists among the elites of Asia’s greatest civilizations (most notably China, but also India), it was willing to learn from people who knew more. The new policy consisted of copying the ways of the West. Development had started in Asia.

Back to India. The forces of the Indian mutiny, resisting the British around the city of Kanpur and elsewhere in the plains of northern India, were not able to gain control of the situation. The British made the decision not to retreat but to move forward, and subsequently installed a new and more rigorous dominion over the country. The East India Company was abolished and what until then had officially been a private affair became the public affair of the British government and crown. Victoria, queen of England et cetera, was crowned empress of India. The subcontinent could therefore not try to develop as part of an effort to resist colonialism, as Japan and to a lesser

degree Siam (nowadays Thailand) were trying, but had to do so as part of colonialism itself.

However, to bring at this stage the theme of development into the story is rather anachronistic. The industrial revolution had started in Britain in the eighteenth century, but it still took a long time before 'development' (in the sense of raising the income of the population at large) became an issue. By the middle of the nineteenth century development was nowhere in the world a serious objective, not even in the most advanced countries of Europe. Mass consumption only started in the twentieth century, not before. So if the development of the population was not a political concern in Britain, it certainly was not in Britain's colonies, such as India. Colonies were obtained for various reasons, including national prestige and economic exploitation. At the end of the nineteenth century, discussions started on the well-being of the colonized peoples, and in the twentieth century the first measures were taken to improve their livelihood. Looking strictly from an economic perspective, colonies were usually no worse off than the non-colonized areas in the same region, with Japan being a major exception.

India was the crown of Britain's extensive colonial empire. The subcontinent was organized in such a way as to provide maximum benefit for the home country. A relatively small group of Britons was placed on top of the existing power structure. As the result of several reforms, effective administrative structures were developed, manned by Indian personnel, which were sometimes called the 'steel frame' of India. By the standards of the day, the colonial government obtained many of the characteristics of rational governance.

The economy was liberalized to fit into the relatively open world economy of the nineteenth century. For many Indians this policy created hardship, because the Indian manufacturing branch, which was especially geared to textiles, had a hard time competing with outside producers. India's main competitor, just as for the other countries working for a wider market, was Britain itself, which was in the middle of a spectacular industrial revolution. Part of the inventions were the cotton mills of Lancashire, which were economically much more effective than any comparable mills in the world. They put the Indian textile industry almost completely out of business. However, this is not only a story of colonial hardship, as it is often presented. The fierce competition triggered a response in India to improve its textile production. In the first half of the twentieth century Indian textiles were gradually recovering, sometimes with the support of British capital. India's introduction to modern ways was a complex affair, and not exclusively negative: at times the colony could profit from innovations, such as the railways, and when it became cheaper to produce steam engines in India than to import them from Britain, they were made in India.<sup>23</sup>

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23) Das, *India Unbound*, pp. 60-68.



Under British imperial rule, India was forced to accept many modernizing influences in various fields, especially the economy, governance and technology. These innovations, which were not confined to India but spread over much of the colonized world, paved the way for later development. They were the first signs of what would become characteristics of globalization. This process of creating a world capitalist economy has a history of about five centuries.<sup>24</sup> During the age of modern imperialism, when India became part of the British Empire, it began to spread at a faster pace. The growth of international capitalism has not stopped since, and a century later, after the end of the Cold War, it became such a dominant dimension of the world order that people started to speak of the age of globalization. According to the Scottish historian Niall Ferguson, it was during the imperialist age that the aspects which we now so closely associate with globalization (and for that matter with development)—from market economics to democracy and civil society—found their way to areas of the world where they until then had been largely unknown, including India. Because most of these innovations originated in Britain and because Britain had by far the largest colonial empire, Ferguson suggests that instead of speaking of globalization, we should maybe speak of ‘anglobalization’.<sup>25</sup>

The colonial empires did not survive the twentieth century for reasons that can be linked to this ongoing process of globalization. First, the United States, which in the eighteenth century had emancipated itself from a colonial status, became the strongest economy in the world. It was in favour of an open world order, so it worked against the continuation of European colonial domination of much of the world. Second, Japan, in an effort to avoid colonization, had successfully started on the road of modernization, thereby becoming a serious competitor of the Western powers in Asia. In copying Europe, it also copied the policies of colonialism. Japan’s efforts to found a colonial empire of its own in East Asia led to a full-scale war with Russia in 1904-1905, which it won. This Asian military victory over a European power was a signal to the Asians living under colonialism that the Europeans were not invincible, that they could be beaten. And third, the Russian Revolution of 1917 presented an alternative vision of the future. The new socialist (or communist) road was a reaction to capitalist developments. According to the new Soviet leadership, a socialist road to justice and prosperity was possible. At the same time, the new model was presented as an alternative to colonialism. The Soviet leader Lenin had explicitly linked colonialism to capitalism.<sup>26</sup> He rightly predicted that colonialism (or imperialism) would end, but wrongly assumed that capitalism would be destroyed in the same struggle.

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24) Immanuel Wallerstein, *The Modern World-Economy: Capitalist Agriculture and the Origins of the European World-Economy in the Sixteenth Century* (New York: Academic Press, 1974).

25) Niall Ferguson, *Empire: How Britain Made the Modern World* (London: Allen Lane, 2003).

26) Lenin, *Imperialism: The Highest Stage of Capitalism*, first published in pamphlet form in Petrograd, 1917.

Lenin's misinterpretation would have grave consequences for many countries that liberated themselves from colonialism, including India. To many the message was that not only should the colonizers be fought, but also their modern, capitalist ways.

India was one of the first colonies to gain independence, in 1947. The anti-colonial struggle had been led by Mohandas K. Gandhi, who had spectacularly introduced a strategy of non-violent resistance. Gandhi had been educated in Britain and subsequently worked in South Africa as a lawyer. After returning to India in 1916, he spent some time 'discovering' India, trying to define the nation again. In this endeavour, he looked more to the past than to the future. He contrasted the civilized ways of (ancient) India with the uncivilized ways of the (modern) British. According to an anecdote, asked what he thought about European civilization, Gandhi had replied that it would be a good idea. Modern economic developments were not his cup of tea. Instead of promoting the efforts of Indian textile entrepreneurs who tried to compete against the British cotton mills, he advocated a return to the traditional home spun. As father of the nation Gandhi led India to independence, but it remained unclear which position India would take in the modern world.

This question was to be answered by India's first prime minister, Jawaharlal Nehru. He headed a government of members of the Indian National Congress, the party that had dominated Indian politics from the start. It was a broad party, incorporating all kinds of people and ideas, including various visions about the future. Although under Gandhi (who was murdered in 1948) socialism had not been prominent, under Nehru it became the leading ideology. In his youth the prime minister had been much impressed by the Soviet example and even attended meetings of the Moscow-led international communist organization, the Comintern. For Nehru socialism, with its emphasis on the collective, looked like the model that could be successfully adapted to India's communitarian values. Because India did not want to alienate the West, it chose to remain neutral in the Cold War that had erupted between the Soviet Union and the United States. On the other hand, it was too big and too proud to relinquish its hard-won independence by becoming a political vassal of the Soviet Union.

India did, however, opt for close economic cooperation with the Soviets. It also adopted the Soviet model of import-substituting industrialization, through the planning of economic activities in five-year plans and other instruments. In order to be able to plan, bureaucrats needed to keep track of economic activities. For this, a system of licences was introduced. Whenever somebody wanted to undertake something economic, such as importing natural resources or using credit facilities, he needed a licence from the authorities. Through this paper machinery the bureaucracy became the centre of economic control, not unlike the position that it had held in Mogul times, in the age of the hydraulic state. And comparing it with British control over India, the new bureaucratic system was labelled the Licence Raj. Indian

companies could compete behind protective walls, but their freedom was checked by numerous regulations. The bureaucracy, for example, did not allow entrepreneurs to change from one (unprofitable) line of production to another line that was deemed more profitable. To compete internationally under such circumstances was even harder.

By not allowing a capitalist modernization process to evolve, India to a large extent returned to the pre-modern status quo. This was, of course, not the objective of Prime Minister Nehru and his political colleagues and successors. At the time it was thought that a socialist road to prosperity was feasible. Like many poor countries at the time, India leaned heavily on what has come to be called 'development economics'—a set of economic rules that were to supplant the market, which was supposed to be not adequate for poor countries. According to many inside and outside the developing world, standard neo-liberal economic theories had little validity in poor countries, because the people there were too poor to respond properly to market signals (such as a change in the prices of products), because markets were imperfect, or because it would simply take too long to develop along this path. In an effort to do better, the governments of poor countries were told that they should plan economic development. In India this central planning was to supplement the workings of the market mechanism. Because India had inherited from colonial days an effective administration and the Indian government received advice from the top international planning specialists of the day,<sup>27</sup> the results of this policy were not as disastrous in India as elsewhere.<sup>28</sup> Distributive mechanisms worked relatively well, so that over the first few decades of independence, some social progress was achieved. The economy grew at a slow pace, until in 1980 by not much more than on average 1 per cent per capita per annum. It was sometimes positively described as a 'Hindu rate of growth'—stable and persistent. Economic modernization, however, remained out of reach.

Under Nehru, India was not supposed to remain its eternal self. Many old-fashioned, backward habits and rules had to disappear, including the caste system—the heart of India's society since time immemorial. The caste system was abolished in India's first constitution, including the status of untouchability. To this judicial measure were added political reforms of 'positive discrimination' (for example, the use of quota), which were intended to make it possible for people of former low-caste and untouchable status to play a role in, for example, political life. However, the drastic reforms did not lead to quick results on the ground. Because economic patterns did not

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27) Bimal Jalan, *The Future of India: Politics, Economics and Governance* (New Delhi: Penguin/Viking, 2005), pp. 3–4.

28) The Indian economist Deepak Lal has written what has probably become the definite critique of this policy approach in *The Poverty of 'Development Economics'* (London: Institute of Economic Affairs, 1983).

change substantially, people remained caught in their villages and their old lifestyles, which were based on the traditions of centuries.

With hindsight it is easy to conclude that India's socialist road to prosperity was bound to fail, even though India was in many ways different from, for example, the Soviet Union, in the sense that it was a democracy and that it respected private property. It is only fair to acknowledge that compared to the other countries that have travelled the same dead-end street, India has not done too badly. It went bankrupt later (in 1991) than most other countries that tried similar policies. If the fast population growth is taken into account, India's performance can even be considered reasonable. India's already huge population of 350 million at the time of independence had exploded to 850 million by 1990. Over the same four decades the annual growth of the economy was almost 5 per cent, several percentage points less than other countries in Asia, but still impressive given the economic model chosen. It led to a rise in per capita income from 641 US dollars in 1947 to 1,316 dollars in 1990.<sup>29</sup>

Nevertheless, this was not good enough. If we subtract the 3 per cent population growth from the 5 per cent growth of the economy, there remains a meagre 2 per cent. Part of this increase was located in cities, another part in the countryside. It was in agriculture that India made its most impressive advance, and again, it was new technology that made this possible. At the end of the 1960s, the so-called 'green revolution' came to India. It meant a substantial renewal of agriculture through the spread of irrigation and subsidized fertilizers, and especially the use of new seeds. These high-yielding varieties not only produced higher returns, but were also more resistant to disease. Financial support and technical assistance to farmers were added. In only a decade India trebled the yield per acre. By 1970, India—which had been a land of famines—produced sufficient food for its own fast-growing population and even started to export food. But Indian agriculture remained heavily regulated, just like the rest of the economy. Controls and artificial pricing inhibited farmers and agro-businesses from increasing productivity, which remained low. Therefore farm wages remained low and India's countryside did not escape from poverty. Besides, the state proved unable to provide India's hundreds of thousands of villages with modern facilities. At the end of the Cold War, the vast majority of Indian villages still did not have running water or electricity, and if education was provided, it was of poor quality.

India lacked a real engine to pull society out of its old ways. The economy, which was centrally led, was unable to do this. Many companies were totally or partly state-owned, with private companies struggling along in an overregulated environment. Next to the formal economy, there existed an extensive informal economy in which numerous small goods were freely

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29) Angus Maddison, *Monitoring the World Economy 1820-1992* (Paris: OECD, 1995), table D-1e, p. 205.

traded by usually poor people who had no relationship with the state whatsoever. The main problem was that the state had taken for itself too big a share of the economy in order to be effective. It wanted to plan and control too much. The average entrepreneur had to go through complicated procedures with officials, and it was the bureaucrats who benefited from this, not the businessmen. To put it in the jargon of a recent relevant discussion on the problems of development, the incentives were not placed right by the state in order to get the economy going.<sup>30</sup>

Moreover, the incentives were also placed wrongly when it came to the kind of economic activities that were stimulated by the state. Certain policy measures (especially the creation of a protective tariff barrier around India) and planning activities created an illiberal, artificial economic environment. Most products that could be produced better or cheaper in other countries were kept. These products were to be produced locally, naturally against higher costs. The problem of import-substituting industrialization is that you concentrate on your weak spots (the things that others can do better) instead of on your best qualities, your comparative advantage (as you would in an open environment). This causes numerous extra headaches for entrepreneurs and higher costs for consumers, but the bureaucrats prosper, at least as long as they can continue the system, which is their particular interest.

But there was an even worse effect. India's relatively closed economy did not compete internationally, which reduced the need to improve production techniques and labour efficiency. While the productivity of many countries in Asia improved dramatically, India's productivity remained the same. In fact, on average India was not producing more efficiently at the time of the 1991 reforms than it had at the time of independence. Even a hesitant modernizer like Indonesia had succeeded in raising its productivity during the same period to more than twice that of India—not to mention the outstanding performances of Taiwan, South Korea and others.<sup>31</sup> The more that countries integrated in the globalizing economy, thereby improving their economic ways, the greater the problem became for India. At the end of the Cold War when the Soviet Union collapsed, India also reached the end of the line.

The question of why the reforms did not happen later, after 1991, or not at all, must also be faced. Historical change, as well as historical continuity, is caused by a combination of structural processes and accidental events. The structural processes make change possible, within certain time limits. For example, India's response to colonialism understandably put it on an anti-capitalist road, from which it could not turn off before it was clear to at least some powerful people that, first of all, this road would lead them nowhere and that, second, a feasible alternative was at hand. It took several decades before this became apparent. Apart from its own economic problems, the end

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30) William Easterly, *The Elusive Quest for Growth: Economists' Adventures and Misadventures in the Tropics* (Cambridge MA: MIT Press, 2001).

31) Maddison, *Monitoring the World Economy 1820-1992*, table 2-7b, p. 47.

of the Soviet Union and the failures of Mao's China were sufficient evidence for some Indian leaders that a continuation of these policies would be a waste of time. The success of quite a few other Asian countries, first the so-called tigers and then also others, which used a different economic model, provided the alternative. It was the larger Asian countries following on the trail of the tigers that convinced the Indians that the tigers' model could also work for larger economies. The economic growth of China after Deng Xiaoping's reforms in particular made the conclusion inescapable that here there was a path to be followed.

Into this conclusion was built a certain urgency. Asia was clearly on the rise and India was falling behind. As long as the successful Asian nations had been small, they could be discarded as being in another category than mighty India. But after China joined the game, India's absence became increasingly noticeable to the international world and annoying to the Indians. It would be difficult for India to keep its international prestige as a great nation if it were, at the same time, a lasting failure among the countries of Asia. Besides, as V.S. Naipaul put it (see the former section), India might have needed the first several decades after independence to rid itself of the trauma of a thousand years of foreign domination and build its self-confidence. At the end of the twentieth century these slow structural developments came together, putting pressure on the national leadership to take action. They might have done so some years before 1991, as indeed Prime Minister Rajiv Gandhi tried. They also might have done so later than 1991, certainly, but structural developments would have been building up more and more pressure to act. It is hard to imagine that India could have escaped substantial reform for say another twenty years.

The exact moment of historical events is determined not by the structural causes, but by the coincidences of history. In the case of India, the relevant coincidences were both international and internal. Internationally, the main accidental event was the invasion of Kuwait by Iraq in 1990, which caused Indian migrant workers in the Gulf area to return home and ended their remittances. Even more important, it caused the price of oil on the international market to rise fast. At the same time, India lost its most important market for products made in India—the Soviet Union. Internally, the main driving events were the murder of Rajiv Gandhi and the start of a new government. It was also the choice of new people coming to power. They had not been mandated to introduce real change, but to the surprise of many this was what they wanted. Finally, the last coincidence might be that they succeeded in implementing the reforms against the odds of Indian political tradition and vested interests.

Suddenly and surprisingly, everything worked well to make India change its historical course in 1991.

## IV. The Transition

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Modernization—the road from poverty to richness—is a process that hardly leaves an aspect of society untouched. It ranges from substantial adaptation to a complete change of the various parts of society, such as politics, social relations, the economy, culture, technology, values and ideology. Of course the old characteristics will usually remain visible and the new modern society will be built on traditional foundations. Modernization sometimes puts such pressures on society that parts of it try to undo the changes through a return to traditional ways. Such counter-modernization developments, such as renewed emphasis on local culture, can be seen all over the modernizing and modern world, and must therefore be considered a normal ingredient of the modernization process. It is often impossible to make a clear distinction in the complicated interaction between modernizing and counter-modernizing changes.

According to the British sociologist Anthony Giddens, a struggle between tradition and modernization is always found in globalization.<sup>32</sup> Among other things, tradition defines identities and loyalties. Who am I? To which group do I belong? Who else belongs to that group and who doesn't? Under modernization, the answers to these questions begin to change. It is no longer only the local situation (such as the village) that, in the absence of modern infrastructure, determines the life of people, but the horizon widens. For some people, even becoming part of a world community becomes an option.

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32) Anthony Giddens, *Modernity and Self-Identity: Self and Society in the Late Modern Age* (Cambridge: Polity Press, 1991).

The widening horizon may for some be an exciting new possibility to be explored to the utmost; for others the sense of loss of the traditional can be overwhelming. When interaction with the new is totally rejected, for example out of fear or because vested interests may be in danger, people may cling even more and this time unconditionally to their traditional beliefs and ways, becoming fundamentalists in the process. Even fundamentalism must therefore be regarded as a more or less normal product of modernization.

Under the stress of modernization, India has developed its own particular brand of fundamentalism, although its origins can be traced to the years before 1991. After independence a movement appeared that wanted to place the Hindu religion and culture at the heart of Indian society. The prominent interpretation of history of this so-called *Hindutva* movement is that after the period of classical India, the country was ruled by foreigners (first the Muslims, then the Christian British) for a thousand years, a period in which Hinduism was repressed. Now, after independence, India must go back to its Hindu roots. Hinduism is considered a superior culture, which must be restored to its rightful place. Because the dominant Indian Congress Party was secular in outlook, a separate political Hindu party was established, renamed in 1980 the Bharatiya Janata Party (BJP), consisting mainly of upper-caste Hindus and with limited attraction to the lower castes and non-Hindus.

The BJP grew considerably during the tumultuous start of the 1990s, with the murder of Rajiv Gandhi and liberalization, as well as religious conflicts that it had itself provoked, including the destruction by Hindu militants of the ancient Mogul Babri Mosque in Ayodhya in 1992. The opening of India to the outside world fuelled the flames of Hindu nationalism further. The BJP's following grew by the year, and in the national elections of 1998 the party succeeded in voting the Congress Party out of office. Under Prime Minister Vajpayee, the BJP formed a new government.

This political earthquake could have ended India's modernization there and then. For quite a while BJP leaders had advocated some kind of economic nationalism, centred around the concept of *swadeshi* or self-reliance<sup>33</sup>. This principle urges Indians to buy only goods made in India, wants protection of the Indian economy against outside competition, and opposes the activities of foreign and multinational companies in India. It is much more compatible with the policy of import-substituting industrialization than with the liberal economy that was started by the 1991 reforms. It was therefore only logical that international business was nervous when the BJP rose to power. An immediate return to the old economic model would have been consistent, but no such thing happened. Without much explanation the new government continued on the road paved by the reforms.

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33) At the time, this principle was promoted by *mahatma* Gandhi. The BJP, however, does not consider Gandhi as its spiritual leader, because according to the party, he had been soft on Hindu interests.



One reason for the BJP's continuation of the liberal policies was probably pressure from Hindu businessmen, many of whom were BJP supporters. Another reason might be that the basis for nationalist policies was largely emotional and could easily be influenced by the success of the reforms. The new government must have felt that it would be unwise to kill the goose that was beginning to lay golden eggs. Besides, nationalist pride found a new and more positive expression. Until then India had mainly been driven by hurt pride, a defensive feeling aiming to isolate India from the rest of the world, which apparently could do better. The new leadership realized to its surprise that the outside world had begun to look to India with new eyes. There was admiration of the first results and speculation about how big India might become if it continued along this path. Surely no nationalist leader would change course under such flattering circumstances.

The BJP government did not last. In 2004 it lost the national election to the Congress Party, which formed a coalition government under Prime Minister Manmohan Singh, who in 1991 as minister of finance had forced the reforms through. Singh in his turn chose as his minister of finance Palaniappan Chidambaram, who in 1991 had been minister of trade (Narasimha Rao, the prime minister in 1991, had died in the meantime). Aware of the sensitivities among the traditional support base of the Congress Party, they spoke publicly very little about the advantages of globalization and ongoing liberalization. It was, however, clear that the 1991 reforms would be continued, even though there was quite some resistance to them, especially by India's large Communist Party, which showed a schizophrenic attitude towards the new economic realities. At the national stage, in parliament in New Delhi, it opposed the government's liberal policies by arguing that the consequences for the masses would be terrible, but in the state of West Bengal, where it held power, it implemented those very policies. Referring to China's Deng Xiaoping, Calcutta's communists started their own combination of socialist rhetoric and capitalist economics, thereby succeeding in making a start to reducing poverty in one of the worst urban miseries on earth. Foreign capital is welcome in Calcutta—recently a contract was signed with the British ports and shipping group P&O to build India's first private port just outside Calcutta.<sup>34</sup>

Since the 1991 reforms, India's communists and Hindu nationalist have shown in their attitudes towards globalization a surprising divergence between theory (when in opposition) and practice (when in power). Indian political leadership, from whatever ideological background, will not easily change the economic policies. In fact, traditional ideological differences have faded away in the new international environment. When communists (following China's example) and religious nationalists go global, the political discussions of earlier times become outdated. Of course there remain enough political

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34) Jo Johnson, 'Bengal Tiger: Calcutta is Transformed from Marxist Redoubt into India's Latest Hotspot', in: *Financial Times*, 20 October 2005, p. 11.

problems to be solved, but they have become less ideological and more practical in nature.

This is all the more important since India's political landscape has over the years become increasingly fragmented. Since 1947 the Indian Congress Party, as the political instrument of the anti-colonial struggle, had been dominating political life. The party consisted of a big, well-organized apparatus in New Delhi and numerous special ties with local leaders all over India who headed branches of the party in all the Indian states. Under India's open political system, such a special position of power by one party was likely to erode over time. This erosion was inadvertently promoted by Prime Minister Indira Gandhi, who in the 1970s tried to strengthen further the Congress Party's organization throughout India. She put pressure on local leaders to tie them stronger to the centre. This led to negative reactions from leaders in the states, who would only consider such a development if there was something in it for them as well. But Mrs Gandhi at the time did not have much to offer, except political pressure. This was not appreciated, and the result was that some local leaders started a political life on their own, away from the traditional link with the Congress Party. Since the rather chaotic years of Mrs Gandhi's administrations, the fragmentation of political life in India has increased. The Congress Party can no longer count on a majority among the people. Many new parties have started, and quite a few of them are ethnically or regionally based. The content of Indian politics has changed.

Nevertheless, India's democratic system and the country as a whole remain stable. The existence and unity of this highly complex organization called India, with its hundreds of ethnic groups and languages, is no longer an issue. This is probably the most important achievement of the first few decades of independence. There are no large groups in society opposed to the idea that the nation-state of India is the context in which modernization should take place.

Moving from the political to the technological and economic, it may be stated that India's modern transition was to a large extent caused by technological innovations, just like the former historical changes on the Indian subcontinent. After the first millennium AD, the introduction of chariots and cavalry made larger states possible in northern India. Around 1500 AD the lineage of various sultanates found its final expression in the Mogul empire, which—based on the monopoly of field artillery—expanded over almost the whole subcontinent. Over the period of a century, from the mid-eighteenth to the mid-nineteenth century, this magnificent empire was forced to leave the scene to the even stronger force of the British. British power was based on still newer inventions, not only in armaments, but also in transport and communications. Such early modern inventions as the steam engine and the telegraph finally brought the whole subcontinent together in one state: British India. The next substantial change started in 1991, when market policies were introduced in this huge area, thereby unleashing the energies of the population.

This change was deepened by another technological revolution, which became the trademark for India's modernization: use of the latest information and communication technology, in short ICT. To the surprise of many, poor and backward India proved itself ready to occupy this particularly sophisticated niche in the international market. One of the secrets was that India was not only a poor and backward nation, but a country with many faces. Since independence, the Indian government had promoted education, with special emphasis on advanced studies in technology. Prime minister Nehru already started several technical high schools, and these institutions received a real boost in the 1980s under the technology-minded prime minister Rajiv Gandhi.

While a majority of Indians remained illiterate, India also became known for its excellent engineers and scientists. For a long time their tragedy had been that they were wanted in many countries around the world, but not in India, where they could not find proper jobs. So part of India's educated elite went abroad, only to return after the reforms. When India opened up to the world, it found that it had a comparative advantage in the field of computers.<sup>35</sup> For example the city of Bangalore, which became the centre of India's ICT industry, already housed quite a few educational institutions preparing students for this work. Moreover, Indians seem to have a special talent for computer technology. Indian culture has a long tradition of mathematics and adjacent fields of science. It discovered 'zero', a concept that (almost symbolically) fits in perfectly with the new technology.

Next to the sophisticated technology are services in general that characterize the Indian economic take-off. When the American economist Rostow published his theories about modernization, he suggested that undeveloped countries should start with the mass manufacture of simple products, and then move on to more sophisticated goods.<sup>36</sup> The earliest modernizers of Asia followed this theory—in fact, Rostow published his famous book when the first Asian tigers were busy taking off—but India does not follow it, or only to a much smaller degree. Since 1991 India's service sector has grown significantly faster than other sectors of the economy, sometimes by around 10 per cent a year. It has grown tremendously under the new economic policies and includes not only ICT, but also many kinds of outsourcing (such as telephonic helpdesks for customers all over the world, but especially in the United States).

Of course, the role of agriculture in the broader economic picture decreased. For centuries it accounted for more than half of India's GDP, but at the beginning of the twenty-first century it is close to 20 per cent (although

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35) For India's history with ICT, see the chapter on India by Clyde Prestowitz, *Three Billion New Capitalists: The Great Shift of Wealth and Power to the East* (New York: Basic Books, 2005), pp. 79-105.

36) Walt Whitman Rostow, *The Stages of Economic Growth: A Non-Communist Manifesto* (Cambridge: Cambridge University Press, 1960).

the majority of people still work in agriculture). The percentage of both industry and services have increased, although that of services much faster than that of industry. Services account for over half of GDP; industry for still not much more than about one-quarter. The sectoral composition of India's economy therefore resembles more that of an advanced country than that of a low-income state, which India still is.<sup>37</sup>

The sector that troubles India's authorities most is industry. Less than 20 per cent of the population works in industry. The sector experiences significant bottlenecks to further growth in the bad shape of physical infrastructure, especially ports and roads. Productivity is increasing, but remains low when compared to countries in the region. When it comes to the mass production of simple goods, India cannot compete with, for example, China and Vietnam. Nevertheless, Indian industries are rapidly changing. Many state-owned companies have disappeared and new private enterprises have started. With around twenty million labourers, the textile industry is still big, but it faces tough competition from other countries, especially China.

Life may have become tougher for India's industrial working class. In the old days, workers often had a regular job with a low, but fixed income. In cases of formal employment, the situation of strongly regulated labour conditions continues. The other labourers often only have temporal contracts and uncertainty about their future. The vast majority of Indians work in the so-called informal sector, where it is a free for all, without protection or certainty whatsoever. For people who cannot find work in the informal sector, all that is left is unemployment. With around 10 per cent of the labour force without work, the unemployment figure remains high. Even the fast-growing economy cannot create enough new jobs for all of the newcomers who enter the labour market each year.

Nevertheless, many Indians are entering the world of manufacturing and industry for the first time in their lives. Among them are many young people from the countryside, who migrate to cities in their province or further away, thereby leaving their traditional village life. Economic development has done more for Indians of lower castes and untouchable status than the judicial changes at the time of independence. For decades the new judicial status mainly existed on paper. Circumstances in the villages did not change, so people remained imprisoned in their traditional structures. But when going for a job in the city, people physically left the traditional structures and entered a new life, even though the caste background would still be noticeable (for example, from the names).

The reforms not only changed the cultural, social and economic landscape of India, but they also had an impact on the nation's psychology.

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37) Jim Gordon and Poonam Gupta, *Understanding India's Services Revolution*, IMF Paper (Washington DC: IMF, 2003). Just for comparison, at the beginning of the twenty-first century, industry accounted for more than half of China's GDP, and services for only one-third.

Over the years the mindset of innumerable Indians altered, regardless of caste and social position. A growing number of Indians seemed to rid themselves of an attitude of dependency. Since independence, people had come to depend on the state for welfare. Whatever happened, in the end it was always the state that would be responsible for putting things right. In a poor, pre-modern society, such an attitude is a relevant addition to the general feeling of being relatively helpless in an environment that is overwhelming. Under such circumstances it simply does not make sense to try to get a firmer personal grip on your life, because that life will still be at the mercy of much bigger forces. Now that the state had retreated, people had to look elsewhere for support.

The market has appeared, a rather new and potentially dangerous phenomenon. In the beginning people were often reluctant to use the market, not knowing what to expect and what the market expected of them. Working in the market needs to be accompanied by a shift: from depending on a collective structure (such as the village, the caste or the state) to relying on oneself. A modernization process will not succeed if people are unwilling or unable to make this change. In India people now seem to be in the middle of the modernization process. The one million mutinies that V.S. Naipaul witnessed around 1990 must be tens of millions by now. Undoubtedly, a majority of Indians will still be in the grip of traditions and afraid of the market, but the balance may be shifting. More and more people realize the potential of the new environment, and restructure their lives to make the most of it for themselves as individuals.

Upper layers of society also shed their attitude of dependency. Since independence, India had tried to occupy a prominent position on the world stage, be it in the United Nations, the Non-Aligned Movement or the British Commonwealth of Nations. Often, however, when important issues were at stake, India was overlooked because it lacked economic and military power, and thus political influence. With India's rise in the 1990s, this situation changed rapidly. In 1998 India successfully tested a nuclear device, thereby joining the informal club of the nuclear powers. Further substantial investments in the military field, such as the acquisition of an aircraft carrier, made sure that from the military and political point of view, India would no longer be overlooked.

In addition, India's leaders tried to sever the link with poverty and give India another, more positive image. Even though poverty was still very much part of modernizing India, its leaders wanted to reduce India's international relations that focused entirely on this aspect. In 2003 the Indian government ended development cooperation with all of its international development partners except the six most important (including the World Bank and the main UN organizations). Smaller bilateral donors were requested to stop their development assistance to India. The decision had both a practical and an ideological background. Getting rid of the multitude of smaller donors cost money, but saved a lot of time and hassle because Indian bureaucracy no

longer had to deal with the donors' visits to India, their objectives, their report requirements, and so on. The ideological message was rather nationalistic: India was too big and too important to let itself be patronized by distant minor countries. From now on, India depended on nobody. It could take care of its own problems. India clearly still had many poor inhabitants, but this was a problem for India to solve.

## V. The Comparison

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Broadening the picture from India alone to modernizing Asia, India must be labelled a latecomer on the scene. The development of Asia started in the nineteenth century, when a new regime in Japan decided to strengthen the country forcefully so that it would be able to keep foreigners out. For almost one hundred years, until the Chinese revolution and the Korean war, not much happened. Then suddenly, triggered by the victory of communism in China and the aggression of newly established North Korea, several other countries, or rather parts of countries (Taiwan, South Korea, Hong Kong and Singapore), made the necessary changes to start economic growth and raise incomes. These Newly Industrializing Countries (NICs) or 'tigers', as they came to be called, were followed in the 1970s by more regular countries in South-East Asia, especially Thailand, Malaysia and Indonesia. These countries were in part motivated by the same threat that had given birth to the tigers: fear of a communist takeover, both from outside the country (China, North Korea, and for South-East Asia especially Indo-China) and from inside. Strong communist sympathies existed in all of these countries, and it seemed that raising the standards of living would be the most effective way of structurally reducing them. Besides, the tigers had provided a practical model of how to do it.

Besides the threat, a feeling of competition appeared to have motivated the changes. This feeling of competition became dominant in the next phase of Asian development: the rise of China, starting around 1980. China could not, unlike the smaller countries around it, be motivated by fear. China is simply too big to be afraid of the outside world. Its main problem was rather

the opposite (and the same goes for India): because it is so big and has always been important in history, it has over the centuries developed an attitude of cultural arrogance. China and India were such shining centres of the world that they did not have to look to others to learn, but others had to look to them. This position came to an end with the modernization of Europe. Asia's great classical civilizations had no effective answer to the new challenges. China disintegrated under the pressure and India was conquered. In the middle of the twentieth century both countries reappeared, but traumatized. They went soul-searching, looking inwards, in opposition to the malicious outside world and especially the modern West.

China re-emerged ten years before India, because the challenges of its immediate surroundings were clearer. China had always considered its neighbours to be barbarians, but in the 1960s and 1970s it became increasingly visible that those barbarians could do things that China could not: they became wealthy, and as a result their prestige in the world was rising. It increasingly looked as if China had become a barbarian country. This, of course, could not be tolerated much longer by China's authorities. They had to respond. By then, the way out of poverty, misery and ignorance had been discovered by many countries in the region, so China just had to follow. And this Chinese start of development prompted a reaction from Asia's other great civilization: India.

Peculiarities in the international environment have in all cases been a major reason—probably *the* major reason—for the change in internal policies that brought about the start of development. For India this happened relatively late (at the end of the twentieth century), so that it became a latecomer on the scene of Asian development. India's official international relations, in the British Commonwealth and especially the Non-Aligned Movement, were impressed by the high ideals and symbolism of India—such as political neutrality, Eastern spirituality and Gandhian non-violence—and tended to admire rather than question the Indian government's policy choices. Moreover, as India is such a big country, the challenges posed by its environment were all relatively small and could be ignored. The only real enemy—Pakistan—was more a nuisance than a serious threat. Besides, Pakistan, but also China, performed poorly when it came to modernization. The situation only changed substantially when India's most important international compass, China, started along the path of modernization.

In all the instances of Asian modernization, the countries responding to the environment did so by connecting themselves stronger to the economic global market. The substance of this market varied over time. Starting around 1500 AD, the various regional markets were for the first time in history connected by European ships sailing the oceans of the world. In a way, the so-called European expansion was the beginning of the process of globalization. At first the size of this international market was small indeed, but this was relative to the much smaller populations of the day. However, the importance of this interconnected world market started to grow, and made a major leap



forward at the time of the first industrial revolution, starting in Great Britain in the eighteenth century. These economic changes were among the causes of the age of imperialism. In Asia, Japan stood out in resistance to the European advance.

The international market kept on growing in the twentieth century, although during the first half its growth was slowed down by two world wars and a major economic depression. It was only after the Second World War, in around 1950, that the world economy started to grow seriously. The period from 1950-1973 recorded the fastest economic growth in world history.<sup>38</sup> The centre of this economic golden age was the booming economy of the United States. Especially the countries that were newly producing for the international market, such as the first emerging economies in Asia, could profit from this. They could profit even more from the huge American market because of the preferential access that they received for being American allies in the Cold War. While production in the United States became more sophisticated, the Asian tiger economies started making simple products, in line with the theory of stages of economic growth that was promoted by American academics at the time. The governments of the newly developing states in Asia played a prominent role in their countries' economic development by supporting certain industries through various measures, ranging from supplying cheap credits to key industries to excluding competitors from their home market.

This active role by state institutions in promoting development has given rise to the concept of the 'developmental state'. This concept was first coined in 1982 by the American economist Chalmers Johnson while analysing the rise of modern Japan.<sup>39</sup> In general it refers to the important role played by Asian states in development, a role that can be interpreted as a natural adaptation to the traditional central place of states in Asian society and economy. This role becomes even more understandable when it is taken into account that in Asia the motivation to modernize started within the states. The main objective of the project was to strengthen the state (and not to give people a better life). This new role of the state was discovered by trial and error. In many ways the Asian developmental state is a pragmatic instrument of state intervention in economic life, with the particular purpose of creating new viable industries. These selected industries received state support that other industries lacked, in the form of temporary measures. The aim was to prepare 'infant industries' for a life on their own on the big, competitive world market. Japan and the tigers succeeded in 'raising' many baby industries in this manner.

The developmental state differed from both the Western industrial state and from the communist or socialist state. In contrast to the Western

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38) Maddison, *Monitoring the World Economy 1820-1992*, pp. 73-78.

39) Chalmers A. Johnson, *MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925-1975* (Stanford CA: Stanford University Press, 1982).

industrial state, which in principle used the same policies for all of its industries (policies that were usually only regulatory in nature), the Asian developmental states had real industrial policies that were based on strategies to enhance the nation's competitive strength in the international arena. Western industrial states had no substantive industrial policies, whereas the Asian developmental states had strategic industrial policies. Industrial policy (or economic policy in general) had an even higher status in the communist or socialist states, that of an ideological norm. Such socialist states, and from independence onwards India had been one of them, did not only intervene in economic life—they sought to control it. Of course they thought that this would benefit their inhabitants, but when it became clear that it did not, the approach was not changed.<sup>40</sup> Such systems do not change; they collapse. In contrast, when the policies of developmental states fail (such as Taiwan or South Korea), they are changed. The ultimate aims of the developmental states' policies are success and strength. They could therefore without problems also effectively regulate the market in their own countries. This did not contradict with their planning approach, because the aims of the planning and the market were the same. At the end of the twentieth century these states also quite easily transformed into more Western-style regulatory states that were ready to play their role in the world of globalization, although some fundamental differences remained.

A crucial difference in the economic role of the state between India and Asia's first modernizers concerns the general vision on economic development. After the Second World War, almost all poor nations, inspired by what at that time looked like the success of the Soviet Union, went for import-substituting industrialization. This policy was fuelled even more by dependency theory, postulated during the 1950s, which stated that poor countries did not have a real chance on the international market. The poor would be kept poor by the rich, so they had better keep away from international competition and try something on their own, behind high tariff walls. Because India did relatively well among the countries that followed this model, it has been suggested that India was an example of a country that proved itself able to reduce poverty without being integrated into the world economy. True or not, this road was not sustainable, as India ran into increasing financial difficulties.

It was Taiwan that in the late 1950s made the change which would prove the ideas of import substitution to be fundamentally wrong. Against all the odds, Taiwan's economists succeeded in convincing their government to change radically the island's economic policy. Taiwan would from then on concentrate on the activities that it could do well compared to others, and not (as is the case in import substitution) on activities that others could do better.

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40) According to Rothermund, in India import substitution, with indiscriminate protection, was pursued 'for its own sake', as an ideology, not out of pragmatism. See Rothermund, *An Economic History of India*, p. 144.

The new policy was an immediate success. It was soon followed by South Korea, Hong Kong and others, and would become the basis of Asian development.

India, on the other hand, continued with the increasingly outdated theory of import-substituting industrialization, with detrimental consequences for its population, which literally had to pay a high price for products of bad quality that were 'Made in India'. But the price paid by the economy as a whole was even higher. Protected by numerous government measures Indian private business had survived, and it can also be argued that it has helped India to build up its own industrial capacity. Part of Indian business has even prospered, for example the conglomerates of the Tata and Birla families. But because competition with the outside world was almost totally banned, the urge for improvement was lacking. For four decades after independence, Indian productivity remained at the extremely low levels of colonial times.<sup>41</sup>

By that time, at the end of the Cold War, the world was moving into the age of globalization. The world market had become of overwhelming importance in creating prosperity for peoples around the globe. Nations competed heavily to attract international capital for investment in their industries and services. As the rules of the new World Trade Organization laid out, it was no longer acceptable for governments to give some of their industries an advantage over others. All companies should compete on a level playing field. Policies like those implemented by Japan and the tigers in the 1950s and 1960s in their role as developmental states were therefore no longer possible. India had to do without these policies, which was probably an advantage, because it would have meant a very different kind of planning than it had used in the past: one directed towards the market, instead of away from it. The Indian government, like those of other countries entering the world market in the age of globalization, had the advantage that it could advance the economy by doing less instead of more. It could simply stop doing many of the harmful things that it had done for decades, and the economy would improve just by itself. Although there still remained much for states to do, the age of the developmental state was essentially over at the time of globalization.

So whereas in the early days of Asian development it was the authorities that looked for the best ways to capture part of the growing international market, during the age of globalization (after the end of the Cold War) it was the companies themselves that had to do it. The Indian government could concentrate on what further tasks it would abolish, while the Indian entrepreneurs searched the market for a niche that would suit them. This resulted in another difference with Asia's early modernizers. Japan and the tigers had started their economic take-off following the theories of Rostow and others, who advised to start first with the most simple products and later move on to more sophisticated goods. It had worked well for the tigers, but

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41) Maddison, *Monitoring the World Economy 1820-1992*, table 2-7b, p. 47.

for India it did not. Although Indian productivity was finally improving (almost doubling since 1991), the country was still not well enough equipped to mass produce simple items. Indians found that they could compete much better in the market of services, especially in the relatively new area of ICT. In this particular field India almost immediately surpassed other Asian countries that had been modernizing for a much longer period. The world of globalization gave a much higher bonus to flexibility than the earlier international environment that the tigers had entered, and it was here that Indian firms had a competitive edge.

To enter the world market in the age of globalization had other consequences as well. After the end of the Cold War many poor countries experienced a wave of democratization. Countries that until then had been considered unsuitable for democracy, for example because they had a largely illiterate population, officially became parliamentary democracies. It meant that the orthodox sequence of socio-economic development first and subsequently political development became reversed: first political development and then socio-economic development. Because this development is still so recent, hard empirical evidence is still lacking as to whether this will prove successful. The most important case that might suggest that it is indeed possible is India. However, we have to be cautious because of two characteristics of the Indian case.

First, India is not a new democracy, established after the end of the Cold War. It is rather an old democracy, which came into being at independence. Its roots are even older than that, linking age-old authentic Indian democratic institutions and procedures with, on the one hand, newly developed democratic practices at the time of the anti-colonial struggle, and on the other hand many formal characteristics of the British Westminster model. This intriguing mixture proved to be extremely resilient. To the surprise of many, Indian democracy survived all possible upheavals. Under the difficult circumstances of independent India, with its lack of socio-economic development and its bewildering ethnic, religious and lingual composition, it has become one of the world's established democracies. India is therefore a rather untypical example of how a democratic poor country can find its economic way unto the world market.

Second, the way that democratic India entered the age of globalization seems rather peculiar if the decision-making process is evaluated. Reading Gurcharan Das's 'The Golden Summer of 1991' carefully, it might be concluded that India 'stumbled into' the historic reforms. The way in which three highly intelligent and clever people—Narasimha Rao, Manmohan Singh and Palaniappan Chidambaram—supported by a small staff of loyal followers, mastered the implementation of far-reaching measures (see the section entitled 'The Start') reminds us more of how the start of modernization was brought about in other Asian countries than with the open and transparent decision-making process of parliamentary democracies. It was the will of a small group, who pushed policies through regardless of the possible wishes of

the wider elite and the population in general. In that sense there was not an important difference between the way in which the 1991 reforms were brought about in India and, for example, the way in which the oligarchs in Japan started their reform programme in the nineteenth century, or the way in which generals Park Chung Hee (in South Korea) or Suharto (in Indonesia) got their countries' economies going. Each time the necessary reforms went against the vested interests of many and the traditions of almost all. It was rowing against the tide, which will not be easily successful in a truly democratic environment.

The examples of Japan, South Korea and Indonesia show that in several cases, indeed the majority of cases, the reforms that brought Asian countries on the track of modernization were implemented by military leaders or at least supported by them. In India, however, there was no military involvement whatsoever in the process. Most countries that still need to implement the necessary reforms before they can successfully enter the world market are at least officially democracies. It might be worthwhile for them to study closely how India's leadership managed to do so successfully in 1991.

There seems to be less need for other countries to study how India maintains its society's social cohesion, because India might not have much to offer in this respect. Just like Asia's earliest modernizers, especially the tigers, India had equity as one of its main policy objectives. Its success, however, was less than that of the tigers. Apart from Hong Kong, where the British authorities kept the Chinese population happy with *laissez-faire* policies, the governments of Taiwan, South Korea and Singapore all considered themselves in the Confucian tradition to be heads of families responsible for the welfare of all the children. Their policies that were geared at economic growth were supplemented by policies to support the potentially vulnerable in society. This included massive job creation, setting a limit on top incomes and an effective provision of social services by the authorities. In this respect the tigers were also extremely successful. The gap between high and low incomes did not become wider, as is often the case during a modernization process, but indeed became smaller. The lower strata of society profited just as much, if not more, from the changes as the higher strata.

For two reasons—one international and one national—such a harmonious development is not happening in India. The first relates to the ongoing process of globalization, with its emphasis on liberalization and deregulation. In the early decades after the Second World War, there was still plenty of room for states to play their part in regulating the economy and society, as was successfully done by Asia's developmental states. But over the years, and especially during the economic depression of the 1980s, economies recovered by providing more space for markets and private enterprise. Also in East and South-East Asia, states retreated from their traditional active role in economic and social development, and became 'leaner and meaner'. The world market, on which the welfare of more and more people came to depend, increasingly set the boundaries for governments' policy options.

Governments had to make their economies competitive, with the punishment for failure being loss of income. Not enough market politics or too large a social sector might harm national competitiveness. To attract the best captains of industries, limits on top incomes were avoided. The sky became the limit. So under the conditions of globalization, income distribution within societies tended to become more unequal than before.<sup>42</sup>

This might also be happening in India—which typically is modernizing under globalization—although no academic consensus exists on this issue.<sup>43</sup> The disagreement mirrors the discussion on the pace of poverty reduction (see the section entitled ‘The Start’). The report on poverty prepared for the Indian government concludes that there is no trend towards more inequality in India.<sup>44</sup> The picture, however, is mixed: the good news (less inequality) is coming from rural areas; the bad news (more inequality) from most cities. There was more good news: social differences between ethnic and religious groups were decreasing, as was gender inequality. Especially in education, the position of girls has improved quickly.

Regional inequality, however, has without doubt increased. Over the last two decades the variety in general income between Indian states has become much larger. The average income of the inhabitants of the richest state in India—Punjab—is now five times as high as that of the poorest state—Bihar. With liberalization and deregulation at the federal level removing many of the controls that were exercised earlier by the central government, the influence of state governments has increased. Some states have done much better than others. States in the south have done especially well, although not all, and in the rest of India there are also quite a few states that have improved the standard of living of their inhabitants significantly. States with low initial levels of development have often done poorly compared to states with better starting conditions. For example, West Bengal, in north-east India, does very well, but its neighbour, Bihar, remains a serious concern. Other states that perform well are Gujarat and Maharashtra, both in west India. The significant factor seems to be success in attracting private investment, while the amount of public investment had very little impact on variations in growth.<sup>45</sup>

I have no way of concluding whether in general India’s social gap is widening or narrowing. Whatever the trend, for the moment the gap is

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42) It is, however, important to note that the countries with the poorest populations, especially in the lower strata of society, were the countries that stayed out of the globalization process. The poor in countries that opened their economies for international competition increased their income more than the poor in countries that stayed closed. See, among others, Johan Norberg, *In Defence of Global Capitalism* (Stockholm: Timbro, 2001).

43) See, for example, Gaurav Datt and Martin Ravallion, *Is India’s Economic Growth Leaving the Poor Behind?*, Policy Research Working Paper, World Bank, May 2002.

44) Bhalla, *Not as Poor, Nor as Unequal, As You Think*.

45) Montek S. Ahluwalia, *State-Level Performance under Economic Reforms in India*, paper presented at the Center for Research on Economic Development and Policy Reform, Conference on Indian Economic Prospects, Stanford University, May 2000.

obviously still very wide. This could be partly a consequence of certain characteristics of Indian society and religion. While Confucian Asia had its image of society as a family, Hindu India had clear distinctions, separations and even exclusion in society. Under Hinduism, each Indian had particular rights and obligations depending on the caste in which he or she was born. There was no particular responsibility of the wealthy or mighty to take care of the poor and needy. The latter's bad luck had nothing to do with the former. It was an individual matter, determined by how one had lived in an earlier life. Rich people could, of course, give handouts to poor people, but this remained a matter of choice—there was no moral obligation. In many ways social action in India still takes place in the context of charity.

The common acceptance of differences in wealth and social position between people is probably wider in India than in most other countries. It is certainly wider than in East Asia or Western Europe. Over the centuries social unrest has brought down imperial dynasties in China, while India's princes have survived widespread famines in their lands without significant social upheaval. In the age of globalization this peculiarity might prove to be of importance to India, because social unrest will start later than in other countries experiencing such a wide social gap within society. Even under harsh social conditions that would be unacceptable in other places, the Indian authorities probably still do not have to worry much about a societal backlash.

When it comes to corruption, India is not an example to be followed either, and is quite at variance with the earliest modernizers in Asia. With regard to the prevalence of corrupt practices—both major and minor—in Asian society over the last few decades, much the same picture appears as with the width between rich and poor, or the social gap. The authorities that brought about the first transformations to modernity in Asia—Japan and the tigers—carefully avoided corruption (and a loss of social cohesion). In the countries that followed the tigers on the road of modernization—first the South-East Asian countries and then China—corruption remained strong or took hold (and a wider social gap appeared). In India the same is true.

There seems to be a correlation between corruption and a wide social gap, although a causal relationship is not clear. It may be that poor people, realizing that they are being left behind financially and otherwise, would be motivated to obtain money in other (corrupt) ways. But then, corruption is usually just as big at the top, where people must have different motivations. Usually corruption spreads through the whole of society, capturing both rich and poor. Two factors seem important: first, the authorities' attitude towards corruption, for if they practise it themselves, corruption will certainly spread through society, because the leaders will be setting the wrong example; second, authorities that indulge themselves in corruption will not be credible and effective in fighting it. And, of course, the other way around: if they remain strong on corruption, also in the age of globalization, then they provide an excellent example for the rest of society, an example that will be effectively supported by harsh punishments for perpetrators. In such

countries, with Singapore and Hong Kong as the prime examples, levels of corruption remain low.

So why has India not followed this example? Part of the answer may be that the start of modernization in India, just as in several other countries (including China) was caused by a government doing less instead of more. The general direction in these formerly overregulated countries was *laissez-faire*, of getting rid of rules and regulations, both at the top and throughout society. People experienced new freedoms and it was not immediately clear where the new boundaries, including moral boundaries, were drawn. It looked as if everything was suddenly possible, and to use the new space was indeed stimulated by the authorities. Besides, new money was available. People became tempted to lay their hands on it, even if this involved actions that were not proper. The leadership had no motivation to stop this, because they profited most from it. So why not continue a bit longer with corrupt practices and keep one eye shut? If everybody takes a bit, who would be harmed? Moreover, would it not seem strange for a government that has retreated from economic life to make a strong comeback only on the corruption issue? Perhaps this would not be understood or appreciated by society. And to end the list of potential excuses for governments not to act: as soon as corruption becomes a major obstacle to further development, effective anticorruption measures can still be taken. At the political level, corruption has certainly increased over recent years, including tolerance for it.<sup>46</sup> Obviously, the Indian government lacks incentives to really fight corruption.

But even with a high corruption incidence, development seems to be on track. This questions the theory that is widely held in the West and by Asia's earliest modernizers: that corruption is the most important single obstacle to development in poor countries.<sup>47</sup> India and China clearly do well with a very substantial incidence of corruption. Of course this does not mean that corruption is beneficial for development, but at least development seems possible with high levels of corruption. It may be considered proof of a shift in the general attitude towards development between the earlier modernizers in Asia (Japan and the tigers) and the latest (China and India), with the South-East Asian nations somewhere in between. Another interpretation might be that societies that have always had a high prevalence of corruption will remain corrupt when modernizing, whereas societies in which corruption has always been rare will remain relatively free of corruption in their modernization and modern phases.<sup>48</sup>

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46) Jalan, *The Future of India*, p. 183.

47) It was as such included (as number 2) in 'The Ten Commandments for Poor Countries in the 1990s' by Singaporean top diplomat Kishore Mahbubami, in his *Can Asians Think? Understanding the Divide Between East and West* (Singapore: Times Books International, 1998), pp. 188-190.

48) This conclusion may be drawn when interpreting the Corruption Perception Indexes for Asian countries, published annually by Transparency International. The changes in



Clearly, cultures are transforming themselves under modernization. Although Asian cultures remain much more collectivist-oriented than Western cultures, the direction of people in Asia who become richer is also to become more individualistic and consumerist. Several Asian governments have tried to influence cultural traits in their societies in the direction of more discipline in life, more hard work and more thrift. Most noticeably, the former prime ministers of Singapore and Malaysia, Lee Kuan Yew and Mahathir bin Mohamad, tried with quite some success to Protestantize the dominant Confucianist and Islamic cultures of their countries respectively in this Weberian sense (although they, of course, stated that they merely build on such existing cultural traits).<sup>49</sup> The Indian government never ventured in this direction. Nevertheless, aspects of India's traditional asceticism could play such a role and encourage the development of capitalism: what historically may have helped peasants to accept their suffering can under the right economic conditions become something like Max Weber's Protestant ethic, leading to disciplined and thrifty lives. This seems to be the new lifestyle of part of India's middle class.

Finally, let's broaden our international picture for comparison a bit further, to include all of Asia and not just modernizing Asia. Looking at the whole continent of Asia from the perspective of modernization, India cannot be considered a latecomer. In the final analysis, which may be drawn around 2050, India may very well end up somewhere in the middle. Quite a few countries have barely or not at all started on the road of modernization, including almost all of India's neighbours. In fact, looking at South Asia, India is playing a frontrunner's role. Pakistan, Nepal, Bhutan, Myanmar, Bangladesh and Sri Lanka—they all have a very long way to travel on the road to wealth creation and poverty reduction. Some of them are even stuck in violent internal struggles related to the definition of the state. These countries do not yet seem ready to use the energy of their populations in economic activities aimed at playing a role on the world market. Also in this respect, India, with its enormous cultural diversity, might provide examples of how to build a stable state under difficult circumstances.

It goes beyond the scope of this paper to discuss the peculiarities of each of the countries of South Asia. Perhaps such a discussion is not even necessary, because the history of development in Asia shows that it is the international environment of states—or rather an important neighbouring country—that usually creates the conditions to which political leaders have to respond in the right way. This outside influence can be either negative (a

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(perceived) corruption over the years in a particular country are much smaller than between countries, and there seems to be no relationship with modernization.

49) Singapore's Lee Kuan Yew has spoken and written in this manner on countless occasions. For Malaysia, see R. Lee and S. Ackerman, *Sacred Tensions: Modernity and Religious Transformation in Malaysia* (Columbia SC: University of South Carolina Press, 1997), p. 36.

threat) or positive (a stimulant to follow on the path of competition). India's size and geographical position make it a perfect candidate to have such an influence on South Asia's other countries. In Pakistan, India's development may be regarded as a threat, but to all the others it will be seen much more as the positive stimulant of competition. India's increasing wealth creates a huge consumer market right next door for all of these neighbouring countries. India, in turn, could benefit by selling products in its own region. The stage seems set for highly beneficial economic relations among South Asian nations in the coming decades. After the start of development in East and South-East Asia, it is now the turn for South Asia.

## VI. The Future

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Fifteen years after the momentous reforms of 1991, India's future looks bright. Even though two important changes of government have taken place—from coalitions led by the Congress Party to the BJP in 1998 and back to the Congress Party in 2004—policies have not substantially changed. This means that a wide consensus exists among people in power, of whatever political signature (even including the communists in West Bengal), that liberalization, deregulation and integration in the world market is good for India. In parliament, members of opposition parties will criticize such policies on various grounds, but this has little political significance. The political direction of India looks stable. The speed of growth may not be compared to a tiger, but it is strong and steady, more like an elephant. In the meantime the government is trying to speed the economy up further. In February 2006 when finance minister Chidambaram presented his most recent budget, he stated that the government would try to provide India with the right national environment (through extra investments in infrastructure and energy supply) for an annual economic growth rate of 10 per cent, thereby matching China's spectacular development. The latest figures show that this must indeed be considered possible: over the first semester of 2006, India's economy grew by 9.3 per cent.<sup>50</sup>

The government's efforts to make the elephant run faster will undoubtedly be followed by new investments from abroad, as the international contribution needed for this record growth. In general,

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50) *International Herald Tribune*, 1 June 2006, p. 15.

international confidence in India is high. When the rise of Asia is discussed nowadays, people speak of China *and* India. Through the new direction, India has finally succeeded in obtaining major power status. Ever since independence, India has tried to find a role fitting its size and history, but on the whole has failed.<sup>51</sup> India's spiritual value was recognized, but when important issues were at stake, India could be ignored. India was humiliated militarily by China, and economically by most nations in East and South-East Asia. Military capability is based on economical prowess, and India's economic development does much more to separate it from archrival Pakistan than weapons could ever do. It projected India into a new role in the world. The visit of US President Bush to Delhi in March 2006 was a clear signal that India had been rediscovered at the highest level.

Politicians will never be free of vanity, and it may well be that India's new international status is the prime motivation for India's leadership to stay on the present course. Naturally, this course is also supported by important groups within Indian society, such as entrepreneurs, intellectuals, employees who owe their jobs to the liberal policies, citizens who want to move up the social ladder and all the others who for whatever reason rebelled against the old order. It seems that the mindset of millions of Indians (in India everything is counted in millions) has changed over the years. This new mindset is based on true self-reliance (in contrast to the old self-reliance of the state). It has the spirit of freedom and looks for opportunities for enrichment, especially in a material sense. The widespread introduction of the television, not only in urban areas, but also in the countryside, leads to new desires and ideas.<sup>52</sup> Consumerism has become a new way of life for many Indian citizens. It increases the demand of the Indian internal market from year to year, acting as an engine for further economic growth. It is the spirit of the growing middle class that is rapidly becoming a new and stabilizing factor in Indian society, although it remains uncertain how big this new group at the moment actually is. It has been predicted that on average between 30 and 40 million people enter the Indian middle class every year.<sup>53</sup>

It is also uncertain how many millions of Indians have so far benefited from the reforms. It must be a huge number, but it is at the same time unlikely that a majority of India's inhabitants do indeed support the liberal policies. There might be several reasons for a sceptical attitude: they might not benefit from it (or the new policies might even cause greater hardships); they might dislike the capitalist ideas (and prefer socialist ideas); they might feel uncomfortable with the stress of modern ways; they might dislike the invasion by foreign products and ideas, and feel anxious about the loss of tradition, and so on. It seems as if Indian voters, just like the electorates of

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51) B.R. Nayar and T.V. Paul, *India in the World Order: Searching for Major-Power Status* (Cambridge: Cambridge University Press, 2003).

52) 'The Plot Thickens', in: *The Economist*, survey on the Indian economy, 31 May 2001.

53) N.K. Singh, quoted in Varma, *Being Indian*, p. 193.

modern societies, are searching for the most conservative option: the parties that promise to keep things the way they are. In India a clear anti-incumbency factor has appeared. It brings the mass of voters into conflict with most politicians, who during election campaigns might promise to fulfil the people's wishes but who will most likely do differently when in power. The new combination of globalization (with its emphasis on increasing economic competitiveness) and democracy will probably lead, in India and elsewhere, to many incumbent governments being voted out by a disappointed or angry electorate. This will not necessarily destabilize the political system or the state. India's democracy has survived many heavy storms and it will probably also survive this one.

India's society is heavily rocked by the new economic dynamism. The gap between rich and poor may be widening and the gap between states in the federation is certainly widening. In a large country like India this is difficult to avoid: clearly some people will use the new opportunities to increase their wealth, while at the same time large groups in society do not (yet) have opportunities to improve their livelihoods, for example because they are not connected by infrastructure to the outside world, so they necessarily remain at the same level of poverty. The government can influence the width of the gap by policies in the fields of education, health care, infrastructure, labour laws and so on. Asia's earliest modernizers have a solid reputation in this field, but they started modernization with much smaller populations. It was easier for them to reach the poor in their societies than it is for the Indian authorities to reach the hundreds of millions of poor Indians. Nevertheless, it looks as if the central government in New Delhi, as well as state-level governments, could do much more to alleviate hardship for the poorest segments of society without endangering the budget or economic growth.

Just as social disparities put a strain on society's cohesion, so do cultural changes. People will act differently and acquire new values.<sup>54</sup> Most of the time they will do so by choice, but the loss of tradition nevertheless causes mental hardship. Some groups in society might reject the changes completely and instead embrace tradition in a fundamentalist spirit. The Hindu revivalist movement must be seen from this perspective. Because Islamic fundamentalism is growing at the same time, although in India maybe not as fast as in some other countries, there is a danger of violent conflicts erupting, as they indeed have done in India.<sup>55</sup> The national leadership as well as community leaders share a responsibility to minimize the potential for such conflicts or for a fundamentalist backlash against modernization. As seen in Iran under the last Shah's regime, too rapid modernization, especially when it is brought about from top to bottom, might lead to a popular revolt that can

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54) Ronald Inglehart, *Modernization, Cultural Change and Democracy* (Cambridge: Cambridge University Press, 2005).

55) For example, in 2002 in Gujarat, where more than 2,000 people, mostly Muslims, were killed in communal riots.

set the country back for decades. Nevertheless, such a turn of events is unlikely to happen in India. The modernization process is not based in the Indian elite, but has deep roots in Indian society. Besides, Indian society is rather tolerant to change. Moreover, the Indian state seems to be strong enough to place and enforce boundaries between what it feels is acceptable and what is not. It provides a solid framework for the difficult road ahead.

With an average per capita income of between 500 and 600 dollars per year (which is not even 2 dollars a day per person), India remains a terribly poor country. When it comes to achieving the millennium development goals, the picture is mixed. India is an early achiever on some goals, is on track on others, is making slow progress on still others, but is also regressing on some. Clearly it has to tackle numerous problems, ranging from poverty and environmental degradation to widespread corruption, and from an oversized, non-functional and unresponsive bureaucracy to cultural cleavages and lack of infrastructure. Indian business, which has achieved so much over the last two decades, also faces numerous obstacles.<sup>56</sup> Nevertheless, India will continue its modernization and become richer and stronger in the process. What kind of society develops will largely depend on the role that the government is going to play in order to maintain cohesion in society. If India's leading sectors of growth develop into independent economic islands—connected to other parts of the modern world, but separated from the rest of Indian society—then it might become too hard indeed for millions of Indians to escape from poverty.

The main challenge for the Indian government (as well as for the many governments at state level) is to stimulate further economic growth while at the same time keeping society together. This will be even harder if the current favourable international economic situation changes into an economic depression, hurting Indian exports and growth. Under a worsening international climate, India might decide to revert to protectionist measures. Of course the worst scenario for India would be the combination of a worsening international economic climate and a deterioration in the quality of governance.<sup>57</sup> India's ICT might survive even under such difficult circumstances, but other sectors will not, and poverty will not be further reduced. In this dark scenario India will remain for a long time the country with the largest number of poor people in the world.

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56) 'Now for the Hard Part', in: *The Economist*, survey on business in India, 1 June 2006.

57) Growth rates and quality of governance are the two most important variables identified by a workshop organized by the Royal Netherlands Embassy in New Delhi, May 2005, on scenarios for India's future.

But for the moment there is no need to consider the worst scenario. The international economy is doing quite well, thanks also to India. The government in New Delhi seems ready for the challenge to continue both the high economic growth rate—and indeed increase that growth rate—as well as to invest in society so as to strengthen the basis of India's modernization. It may well lead to India becoming a new player on the world stage, and to a new and better life for India's people.





## VII. The Lessons

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From the start of development in India and building on comparisons with other countries in Asia that preceded India, as well as Western countries, many conclusions about development in general could potentially be drawn—some specific, some more general. I have chosen a few that are related to international relations and that are based on my suspicion that they—for various reasons—are not (yet) generally accepted. This selection might therefore stimulate further discussion on international development policy. For the same reason I will put them provocatively, although I know that on all of the ‘lessons’ offered below, a more nuanced stance would be possible from an academic point of view (and from a political point of view this would be preferable).

The first lesson looks rather obvious, but among students of development it nevertheless seems not to be self-evident: development starts with economic growth. Growth is the most important factor in determining whether a country will be able to start on the road of modernization or not. We have seen this everywhere in Asia. All countries that have succeeded over the last few decades in increasing their populations’ income have done so on the basis of economic growth. And the other way around: no country has been able to raise standards of living without economic growth. There is no way around the fact that people have to become more effective in their economic doings. Their productivity must increase, one way or another. If they do not succeed in making products more competitively, they will not succeed in selling more and will therefore not earn more money. Increasing the competitiveness of the

economy is vital. Only then will the economy grow.<sup>58</sup> This will only happen when the incentives for private business are placed right. There has to be competition in markets. Governments have to take their responsibility to make this happen. Clearly, political measures, especially changes in economic policy, have the power to generate economic growth.

The most important policy lesson is therefore that governments of poor countries should be encouraged, even urged, to install market economies in their countries, of course with characteristics – for example with regard to specific protective or stimulating measures – depending on the local circumstances. Furthermore, when you have a choice of measures to take, each with their own (expected) effect on economic growth, choose the one that will most stimulate growth. And the other way around: do not expect much of policies that are known to have no or little effect on growth.

To be more precise, look for measures that will increase the productivity of investments, both public and private. This does not only hold for things that the government should not do (for example, create or continue red tape), but also for things that the government should do, such as investing in society, in education, health care or infrastructure. When the aim is long-term development, not enough attention has been paid to the economic effects of such investments. It is often thought that any investment might have a positive effect on development—the more investment the better. The historical record, however, shows that many investments have not paid off when it comes to stimulating development. They might have had a positive humanitarian effect (and could on this ground be defensible), but they have not contributed to growth. Such investments are often supposed to create the preconditions for development, but it is hard to see their developmental value—apart from their humanitarian contribution—if growth does not occur. Perhaps such investments, whether they originate from inside the country or from outside (in the form of international development assistance), only have developmental effects in a situation of growth, and not before growth.

Basic education is probably the best example of this. From a moral and humanitarian point of view, its importance is accepted by all. Nevertheless, India has neglected this field to the extent that between a third and half of its inhabitants—hundreds of millions of people—are still illiterate. So far this has not hindered India's growth and integration into the world economy. There are predictions that the lack of basic education will increasingly become an obstacle for further growth, but this remains speculation. Besides, there are quite a few examples of sustained excellent basic education and high literacy rates—Tanzania, Cuba and Vietnam—without any noticeable positive effects on the economy. Should basic education therefore (from a strictly

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58) For the sake of simplicity, I refrain here from the possibility of letting the economy grow by making more in the same manner. This will only work in certain situations and for a limited period of time. It cannot be the basis of sustained economic growth.

developmental point of view) be given priority most of all in a situation of economic growth, and not before?

This line of reasoning, which is based on the evidence from India and other Asian countries, leads to the recommendation that in a situation without substantial economic growth, when a choice has to be made—again assuming that funds and attention are limited—among economic, political, judicial, social, cultural, technological or still another focus, it should fall on the first mentioned: economic. Economic growth stimulates economic changes, which have the strength to change the rest of society, from its political institutions to its culture. Changes in other fields seldom have a long-term effect on the economy and are therefore, generally speaking, less effective ways of promoting development. India provides important clues for this assertion, most strikingly in the struggle to ban the phenomenon of ‘untouchability’ from society. In India’s first constitution, drawn up at independence, the caste system and untouchability were officially outlawed. In reality, however, this meant very little. Life in India’s villages and cities continued pretty much as it had before, without a substantial change for the better for the lower castes and untouchables. The opportunity to escape from the forbidden but still rigid social system only came after the government opened up the economy in the 1990s. New job opportunities, often geographically away from the traditional setting, offered prospects of a new life that was much less restricted by the centuries-old social system.

It is not clear whether agricultural development should precede industrial development. Of course there have been countries that developed rapidly without a significant role for agriculture—Singapore, for example, does not even have agriculture—but most Asian countries (starting with Japan, Taiwan and South Korea) seem to follow the sequence first witnessed in European development: of rising productivity in agriculture followed by rising productivity in the other economic sectors. This sequence is also visible in India (with its ‘green revolution’ around 1970), but the connection with the rest of the economy remained marginal. Instead of following the gains made in agriculture, Indian industry went into recession.<sup>59</sup> Although a productive agricultural sector is certainly an asset, it seems reasonable to assume that India could also have made its later successful integration of services and industry in the world market without it.

It is also difficult to conclude that India’s democratic political system was an advantage in its efforts to modernize. Before India, almost all Asian governments that succeeded in starting development did so under authoritarian conditions. Decisions to implement the necessary tough measures were usually made by a small and dedicated group that neither asked for nor needed broad approval. The decision-makers involved—often military people—thought that they knew what was best for the country and went ahead. In India, because of its political system, this road could not be

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59) Rothermund, *An Economic History of India*, pp. 138-162.

travelled. Most people with political power were of the Nehru-Gandhian anti-capitalist tradition. Because of the colonial trauma and the supposed link between colonialism and capitalism, India never had warm supporters of market policies in political positions. In the decisive year of 1991, India more or less stumbled into reform. The people who took the decisions did so because they knew it was the right thing to do, but they never ventured to sell the package to their fellow politicians or to the public at large, because they knew that they would not be able to convince them. Instead, they tried to sell the reforms as being in line with earlier policies, a marketing trick that succeeded.

To some extent this curious situation still exists, with politicians who know that they should not change the successful new policies, but who are reluctant to support them openly or push the reforms further. The real democratic debate is thus evaded. In democratic India the reforms have been pushed through in a way that brings to mind the confined, small group politics of earlier Asian reform governments. It is difficult to see how the political establishment of India, with its vested interests in the socialist economy, could have decided on radical liberalization when all normal democratic procedures had been used. Democracy in India probably made the start of development more difficult, but it is also true that it did not make it impossible. The wider lesson might be that development can be started under various political systems. And apart from the arguments of development, democratization is of course a very legitimate objective to be pursued in its own right.

With regard to India's special emphasis on ICT, comparison could be made to the more general Asian attitude towards science and technology in the context of development. It is the sometimes very explicit policy of copying activities and methods in poor countries that catches the eye. This copying has often attracted critical observations, also because the more sophisticated and advanced work in the field is left to the richer North. The main economic argument must be viewed in the context of dependency theory, which postulates that the rich North keeps the South in a dependent position, with the consequence that poor countries remain poor. With regard to India's ICT industry, it is said that the 'real stuff' of ICT—the innovations and work that bring the biggest profit—still takes place in the United States, and that only the simple stuff is being delegated to India, just to save money. In this theory India is just being 'used' to support the development of high technology in the rich world. Even words like Coolie Valley (instead of Silicon Valley) and software colonialism have been used.<sup>60</sup>

History has clearly proven this economic criticism to be false, and not only on the argument of comparative advantage. In copying others, of course there will remain at least for some time a distance with the country or industry

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60) De Vos, *Grenzeloos India: De achterkant van de globalisering* (Leuven: Elmar/Van Halewyck, 2005), pp. 102-104.

that is being copied. But it also brings about a growing distance in the poor country with the situation before the copying started. People get richer through copying and, even more important, they learn. The learning value of copying is often overlooked, so that the great success of developments that started by simple copying is not easily understood. How could, for example, Japan develop from copying to becoming a first-class innovator in the same field? The secret lies in the learning, not only of rationality in production processes, but also, almost unconsciously, of the principles of the scientific method by going over relatively simple procedures again and again. This is the fastest way of opening up the world of advanced science and technology, and it helps a society to acquire one of the four essential institutions, according to William Bernstein, for development—one that is often overlooked—namely, the use of the scientific method.<sup>61</sup>

Another argument against copying is of a more emotional nature, stating that poor countries should go their own way in development and refrain from following the successful path of others, because it might place them in the inferior position of a pupil or they might be regarded by others as pupils. Such arguments have been heard ever since Japan started openly to copy modern ways in the second half of the nineteenth century. History, of course, cannot refute an emotional argument. It all depends on your overall objective. If you want to remain yourself, do not copy others (and do not be surprised that as a consequence you will remain poor). If you want to develop, copying the success of others has proved to be an effective method. Besides, successful development through copying probably has a more positive influence on the self-esteem of peoples than continued poverty. In all Asian countries, including India, this business of copying has generated a strong economic momentum, both for ordinary workers as well as for entrepreneurs.

More generally, India and other Asian countries have succeeded in escaping from their pre-modern ways by making entrepreneurship more attractive. It became more profitable to become economically more active. The incentive structure was substantially improved. Rent-seeking behaviour by the authorities and others was reduced, in India very clearly for example by almost completely ending the Licence Raj in 1991. A lesson for other countries should therefore be to look for ways to make entrepreneurship easier, more attractive and above all more profitable. Rent-seeking relationships and situations should be avoided for the same reason. This is one of the most difficult aspects of policy-making in poor countries, because the decision-makers are usually the greatest rent seekers. Not many people in power will use that power to harm their own positions for the benefit of the general good. It takes special situations to get this done, as is clearly shown by the case of India. Outside pressure to open up the market—militarily, as was

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61) Bernstein, *The Birth of Plenty: How the Prosperity of the Modern World Was Created* (New York, Chicago and San Francisco: McGraw-Hill, 2004).

the case in Japan, Taiwan and South-Korea, or financially in the case of India—can be very helpful and may indeed be decisive.

However, the creation of a stressful or even dangerous environment for authorities in countries that are looking for an escape from poverty is an unlikely objective for donor governments that are trying to support that effort. Donor activities usually have the effect of making life easier for recipients. The collateral damage may be that this reduces the urgency in poor countries to implement necessary reforms. In such situations, it will not be easy to find ways out of the existing pre-modern patterns. The Asian experience does not provide examples of how to escape from poverty through massive aid. Aid has had a beneficial impact in some countries—especially in Taiwan, South Korea and Indonesia—but that was each time under a highly committed political leadership that would have persisted on the road of economic growth no matter what happened with regard to assistance from abroad. The mindset of the people in power is vital when it comes to development. Under such circumstances, aid could be used as extra gas in the engine of development—it makes the engine run faster—but when no start has been made with modernization, there is still no engine, and gas poured into the machine will be lost for development purposes.

In India this played only a minor role, because the amount of international aid was small compared to the size of the economy. Under India's traditional socialist policies, its international economic relations were limited, with the Soviet Union being the most important destination for its products. It was not the kind of arrangement that offered opportunities for an early start in the modernization process. Around the end of the Cold War, it even brought financial problems for India. These problems became a crisis when the First Gulf War broke out and the price of oil, which India had to import, sky-rocketed. To avoid bankruptcy, the Indian government had to listen to the IMF before it could receive loans, leading to a curious but very important episode in India's history. In a way, India needed the 1991 crisis to give the IMF a chance to save India from itself.

Such a conclusion, however, would be superficial, because it does not give enough credit to the Indian people. India is developing on its own strength. It took several decades to overcome the traumas of a thousand years of foreign domination. Such historical experiences matter; they can have an overwhelming impact on the policies that a country implements in the economic field and elsewhere. India now seems ready to face the world again. It is rapidly attaining a new position in the world order that is more in line with its size and historical status.

The extraordinary chain of events that started development in India suggests one final lesson: that in the end it is impossible to predict how other, still poor, countries will find the key of modernization to open their pre-modern locks. Nowadays, it is especially Africa that captures the attention when the miseries of poverty are highlighted. Africa's current tragedy is much

like the ‘Asian drama’ described by Gunnar Myrdal in the 1960s.<sup>62</sup> Then, it looked as if the countries of Asia were captured in some kind of poverty trap. Asia’s future looked grim indeed. Now, only four decades later, we are trying to learn from Asia’s spectacular success. Whatever we learn, the promise for the future will always be great, including for countries and peoples still living in poverty.

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62) Gunnar Myrdal, *Asian Drama: An Inquiry into the Poverty of Nations* (New York: Pantheon, 1968).