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Economic nationalism in motion: Steel, auto, and software industries in India

Anthony P. D'Costa

Asia Research Centre, Copenhagen Business School, Frederiksberg, Denmark

ABSTRACT

With increasing economic interdependence, the scholarly treatment as well as the practice of economic nationalism is either seen as theoretically redundant or practically impossible. Contrary to this conclusion, I argue that economic nationalism is not inconsistent with globalization. States are not only active participants in globalization but they continue to strategically express nationalism in new global settings by supporting national firms and citizens overseas. By redefining economic nationalism from protectionism to the leveraging of national resources to secure economic benefits from the world economy, this paper provides an alternative view of economic nationalism. This paper analyzes economic nationalism as a dynamic concept. Empirically, it takes up three Indian industries (steel, auto, software) since 1950 to understand how nationalism was practiced and how it has changed under globalization. The paper establishes India's pursuit of economic nationalism under globalization through its support of Indian businesses and citizens abroad. Though the coherence of nationalism may be weak, it can still be expressed in looser forms of national 'presence' abroad.

KEYWORDS

Economic nationalism; globalization; India; industry transformation.

INTRODUCTION

With increasing economic interdependence, the scholarly treatment as well as the practice of economic nationalism is either seen as theoretically redundant or practically impossible (Reich, 1992). The flows of goods and services, capital, technology, and the international mobility of people are undermining the nation-state, particularly peripheral ones, which have inherited weak states since the colonial era. The regulatory mechanisms generally available to states are becoming less effective due to the porosity

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of national borders and past inward-looking models of development have been challenged by newer forms of outward-looking competitive strategies in the global economy. Also, IMF-imposed structural adjustment programs in many indebted countries have coerced them to adopt market-friendly neo-liberal policies. These developments suggest that economic nationalism today, as we have known it, is harder to justify intellectually and practically.

Broadly this storyline is theoretically and empirically valid. Both Organization for Economic Cooperation and Development (OECD) and developing countries have adopted a wide range of deregulatory mechanisms and consequently have reduced the state's social policy space. But this reading also suggests that there is a zero sum game between globalization and economic nationalism and that economic nationalism and social development are positively related. I argue that even under globalization, economic nationalism in subtler forms can be practiced. Furthermore, the perception that past economic nationalism has transformed peripheral countries fundamentally is untenable. While policy space designed to enhance national social well-being through welfare-type policies is compromised due to greater conformity with global market imperatives and reduced state prerogative over price discrimination, states could seize new opportunities in the global economy. Such repositioning can be theoretically argued to enhance legitimacy of states and thus create a new basis for social well-being. For example, the Japanese, South Korean, and Taiwanese states have intervened relentlessly to exploit strategically opportunities available in the global economy for national development (Amsden, 1989; Gold, 1986; Johnson, 1982). The Chinese state is similarly situated with its economic success even as it has abdicated some of its social commitment. But economic nationalism continues to be pursued through capital account controls and promotion of Chinese enterprises abroad. As such, it would be difficult to argue that China and the Chinese have not benefited from global participation even as new social challenges continue to confront the state.

The theoretical question is how weakening states in a neo-liberal era can practice economic nationalism, given that states must adapt to global market pressures. It means that states cannot pursue discriminatory policies in favor of national capital and have the same latitude in their social spending priorities. However, this question also rests on the unrealistic premise that states are inherently competent to enact favorable social policies in the absence of global economic pressure. The post-World War II development experience illustrates the tremendous difficulties states have faced in transforming their societies. Also, the poor and the dispossessed in developing countries typically find the state to be unhelpful and therefore weakening states under globalization is a *non sequitur*. The broad experience of most developing countries has been the inability to translate economic nationalism into meaningful social transformation. Hence, the blind faith in state benevolence resulting from expanded social policy space due to economic nationalism could be questioned.

My contention is that, in order to capture economic nationalism in an integrating world, the definition of economic nationalism must be modified – from one of protecting domestic capital from foreign capital to leveraging local resources for extracting economic benefits from the global economy. It is beyond the scope of this paper to address whether the reduction in policy space could be offset by the gains from economic integration. However, it does indicate that economic nationalism could take an offensive form that promotes national capital abroad rather than protects national capital at home. Most developing country states are incapable of making this transition hence the loss in what little protection they enjoyed under economic nationalism becomes highly visible. Those states, endowed with certain inherent state capacities built up from earlier experiences of economic nationalism, are better placed to make the transition to globalization and thus have a greater ability to extract economic benefits from the global economy (see Seers, 1983: 56). Whether the gains from participation are translated into economic and social benefits for the wider society are contingent on both the ability and willingness of the state to commit resources for social purposes. The ability is partly dependent on how well it can leverage its resources to extract gains from emerging global opportunities, while the commitment in a democratic society is driven by the domestic political imperatives of state legitimacy. Hence, distributive justice, notwithstanding its immediate erosion, can be expected to continue to be the hallmark of national purpose.

To account for this new role of the state, economic nationalism, typically expressed in opposition to foreign capital, must be seen as a dynamic concept. This implies that economic nationalism can be consistent with globalization, with the caveat that its practice and subsequent outcomes could be inconsistent with wider social benefits.[1] To demonstrate economic nationalism as a dynamic concept I analyze India, which has historically demonstrated its penchant for conventional economic nationalism but today champions global engagements. Three industry cases from India are used to capture the fluidity of nationalism. These industries – steel, auto, and software – represent a continuum in which the concept of economic nationalism is dynamically captured for India (1950–present). The steel industry represents the classic form of economic nationalism, whereas the software sector is a good illustration of India's global presence. The automobile industry represents an intermediate case where the state's orthodox practice of nationalism was initially reinforced through state ownership before giving way to internationalization. Today, all three sectors are globally situated and variously leveraged by the state for both economic and political benefits.

There are at least three methodological objections to this approach of analyzing economic nationalism. First, individual capitals represented by specific industries cannot equate national capital as a whole. Hence, the promotion of one industry cannot be representative of economic nationalism in general. For example, extending this logic, the promotion and success of the Indian software industry under a liberal regime can be argued to have come at the expense of the hardware sector, which was protected until then. Second, the choice of sectors represent different time periods with varying trajectories in which the policy environment was under flux, one might say progressively becoming more liberal. Therefore, a criticism could be that such a mix of industries is unlikely to reveal any particular pattern. Third, in capturing economic nationalism dynamically there is an inherent danger of definitional looseness, implying that nationalism could be discovered under all circumstances.

These criticisms are on the mark. However, in a mixed economy if we conceptualize the role of the state as one of orchestration of economic activities (including that under the private sector) it is self-evident that some capital will be more influential than others. The state is interested in reproducing the structure of accumulation as a whole, not supporting each and every fraction of capital. Propping up some capital (i.e. leading sectors) could shape the development trajectory. Therefore, industrial restructuring, allowing some sectors such as the hardware industry to disappear and others such as software to emerge, is fairly normal, not only under capitalist dynamics but also from a policy interventionist point of view.[2]

Regarding the second and third objections, I would reiterate that the purpose of the paper is to capture economic nationalism in motion. If it can be demonstrated that the state continues to pursue strategies resting on national resources to secure advantages from the world economy, this shows that there is a continuity of economic nationalism even under changing circumstances.[3] There is no reason to adhere to a rigid understanding of economic nationalism and thus fail to uncover newer forms of nationalism when they do exist empirically. Even Friedrich List, the nineteenth-century orthodox protectionist, was in reality interested in the international economic linkages that would spring from the domestic market. By this logic, economic nationalism via tariffs and subsidies was expected to lead to international competitiveness (Ho, 2005). Under such a scenario the state can be anticipated to pursue new complementary policies that have not been part of the policy repertoire of an earlier form of economic nationalism. For example, today the Indian state is leveraging its expatriate population for investment, remittance income, knowledge transfer, and even to lobby foreign governments on behalf of national capital.

The paper is divided as follows. The next section briefly theorizes the shifting relationship between the state and economic nationalism. The section 'The Indian state and economic nationalism in motion' has three parts.

The first presents the economic rationale for nationalism in India, which is the balance of payments (BOP) concern. The second part briefly analyzes the changing policy contexts for the three sectors chosen to illustrate past forms of nationalism in practice. The third part shows how the three sectors today reflect a new form of nationalism in a globalizing context, namely using national resources to secure economic and political benefits from the world economy.

ACCOUNTING FOR ECONOMIC NATIONALISM UNDER GLOBALIZATION

For the purposes of this paper, the critical question is how economic nationalism can be consistent with globalization. This has been addressed by several authors (Helleiner and Pickel, 2005; Jones, 2000; Marshall, 1996). The basic argument is as follows: states facilitate the process of adjustment to globalization by selective reforms and continued protection of domestic firms (Nayar, 2001). Furthermore, 'the relationship between the nation state and economic nationalism. . . [evolves] over time' (Bhaduri, 2002: 39–40). What these authors do not address is whether the global engagement of the state based on national resources via national firms and citizens can be construed as economic nationalism.[4]

At a rudimentary level economic nationalism is largely about economic security and national well-being in a competitive capitalist world economy. One way of assuring such security is national economic independence from foreign influences and the eradication of economic and social backwardness (Mukherjee, 2002: 432; Seers, 1983). Many developing countries, including India, adopted the import substitution industrialization strategy, which encouraged domestic market development in anticipation of BOP challenges. Proponents such as Raul Prebisch saw both declining terms of trade and lower income elasticity of typical commodity exports as detrimental to national economic development (Seers, 1983: 52).

Recently, other kinds of economic nationalism such as 'monetary nationalism' and 'technonationlism' have emerged due to heightened global competition (Hieronymi, 1980: 11–12; Ostry and Nelson, 1995). Technonationalism is a good example of how an orthodox version of economic nationalism is transformed by a focus on a *national* innovation system but which *encourages* links with global developers of technology in an open economic system (Ostry and Nelson, 1995: 28–35; my emphasis).

Faced with industrial and technological backwardness and heavy dependence on the primary sector, structural problems of BOP imbalances were inevitable and concerned states were acutely aware of this weakness. Persistent trade deficits were not compensated by greater capital inflows due to the nationalist stance on foreign participation. Furthermore, export pessimism added to the BOP concerns (Cypher and Dietz, 2004). However, changes in the new international division of labor, brought about by multinational investments and an export orientation, have induced a rethinking of development policy in favor of global integration. Additionally, the maturity of capitalist economies in selective developing countries has also contributed to their greater global integration, which Hoogvelt (1997) refers to as a 'reconstituted core'. One could hypothesize that former peripheral states such as India and China are nascent members of this reconstituted core. Under these changed circumstances economic nationalism cannot be understood in the usual way. Rather it must be seen as a dynamic concept resulting from policies in a 'specific historical context' (Pickel, 2005: 8). As such economic nationalism is no longer about fending off multinationals but determining how best to collaborate with them (Dicken, 2007).

Theoretically, acquiescing to global expectations theoretically might spell disaster for state autonomy. But this position rests on the assumption that only one kind of economic nationalism, namely, protection of domestic businesses from foreign ones, provides space for social policy. It does not entertain the possibility that gains from global participation could enhance national capital and give the state additional flexibility to utilize its national assets better and also have more resources at its disposal for distributive justice. Thus, economic nationalism must be seen as a process of adapting to market forces or shaping them to the state's advantage (Bhaduri, 2002: 25). This implies that economic globalization does not necessarily weaken the state (Nayar, 2001: 14–15).

Of course, there are costs in making adjustments. In an imperfect world any process of adjustment will entail constraints and it is obvious that some groups pay a higher cost of adjustment than others. However, open political systems are likely to mobilize popular voice to reverse the erosion in social policies and governments can be politically made to respond favorably. The benefits accruing from the global economy could compensate for the losses incurred due to the erosion of state sovereignty.

The possible objection that global market participation results in reduced state sovereignty is nominally correct but only as long as it does not account for what the state does in response to this erosion of social policy space. Consider China's global presence. Its high export growth, and thus massive foreign exchange reserves, gives it considerable spending flexibility in social projects. In India the story is similar on a smaller scale. No political party in India can completely ignore the plight of the poor, given the populist budget passed by the current alliance led by the Congress Party in advance of the general elections in 2009. Furthermore, for the first time there is a 'scramble for Africa' by China and India to secure crucial raw materials on national grounds. This is a reversal of the role of peripheral states, which are leveraging their labor and capital resources akin to the European colonizers to further their accumulation process in the global economy.[5] While there is tension between enhancing capital and trying to meet social objectives through intervention, a committed state could tax and transfer resources across different constituencies.

Several interrelated factors explain global engagement. These are the exhaustion of previous strategies, external coercion, ideological shifts, and new global opportunities. However, one key motivation, which has been underemphasized, is the emergence of new social forces such as the economic maturity of national business, the rise of middle classes and their confidence in exploiting new global opportunities (D'Costa, forthcoming; Mukherjee, 2002: 415).[6] For example, in Japan economic liberalization has been led by Japan's competitive sectors (Hall, 2005: 122). This is not altogether different from the Indian case, where the rise of the Indian middle class has structurally influenced India's greater engagement with the world economy (D'Costa, 2005).[7] As in the Japanese case, where external pressure (*gaiatsu*) has been met through calibrated reforms to sustain a 'national project' (Hall, 2005: 127), I argue that the Indian government is also pursuing economic nationalism today by tapping into new opportunities in the world economy. This is not a result of foresight but of pragmatic responses to changing social structure and geo-economic realignments.

With few reservations one could assert that India's visibility in the global economy today is much greater than it has been in the 1960s and 1970s, the peak decades of economic nationalism. Conceptually then economic nationalism cannot be equated with 'statism' *per se* (Helleiner, 2005: 221). This shift from simple defensive protection of domestic business at home to greater international visibility, albeit unwittingly, is a product of past practice of economic nationalism. It is not that different from the earlier form of nationalism that asserted 'the nation's proprietarial rights' (Burnell, 1986: 2). The property in question then had more to do with the protection of national assets at home, while today it has to do with leveraging of national resources abroad to create a national brand name. Thus, a nation's people at home and abroad (expatriates), their expertise, technological capability, and capital and entrepreneurship can act as the foundation for international visibility.

To show how economic nationalism as practiced by the Indian state has changed I first present a simple framework modifying one form of economic nationalism with another (Figure 1). Then I examine the steel, auto, and software sectors. As can be seen from Figure 1, economic nationalism begins with self-reliance, pursued by regulating private capital through investment limits and output controls, state-ownership and private business protection from foreign countries. This strategy is rooted in BOP concerns. With the changing structure of the Indian economy and an emerging middle class neo-liberal policies, often externally driven, are internalized by the policy-making and academic circles. Not all spheres of social policies are abandoned by the state due to both political exegesis and new found confidence in benefiting from the global economy.

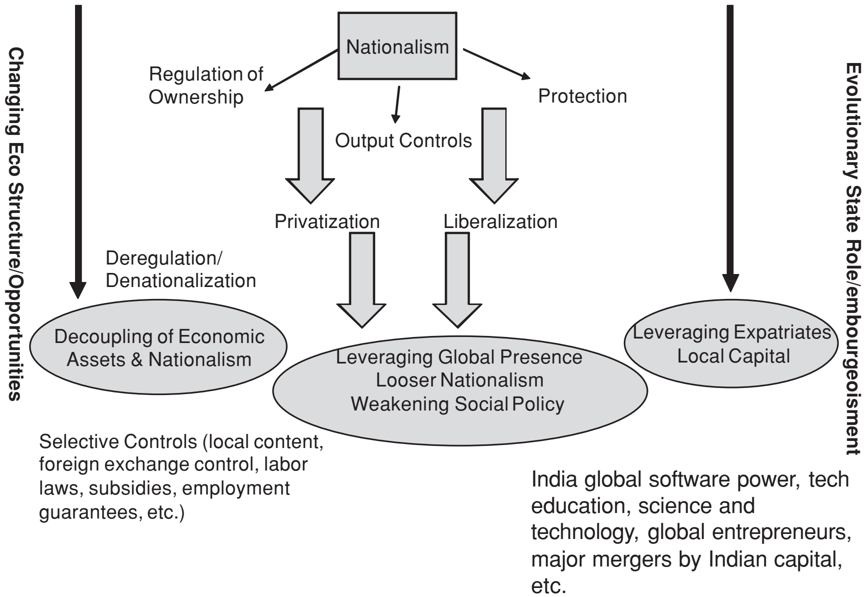

Figure 1 Changing economic nationalism.

With deregulation, privatization, and liberalization, the earlier form of nationalism is diluted. There is a decoupling of national assets from the national economy. However, new global opportunities, such as in the information technology (IT) industry, allow the state to capture economic gains from its expatriate professionals. The success of the Indian IT sector with its vast internationally mobile talent pool establishes the state's global presence. This can be inferred to promote the 'India' brand name, which also leads to inward foreign investments and access to foreign markets, and membership into more exclusive inter-state multilateral groups within the UN, OECD, Association of Southeast Asian Nations (ASEAN), etc. With such developments the meaning of economic nationalism is transposed from the defensive, protectionist stance to one that is subtle but globally more visible.

THE INDIAN STATE AND ECONOMIC NATIONALISM IN MOTION

In this section an evolutionary, historically-contingent understanding of economic nationalism in India is presented. First, one of the basic motives for economic nationalism, a concern with the BOP position, is advanced. Second, the changing policies around the steel, auto, and software sectors are presented to illustrate past economic policies. Finally, how the changing role of the state displays a new form of economic nationalism under contemporary globalization is discussed.

The BOP and the dilemma of economic nationalism

Economic nationalism in the immediate post-independence period was pursued through industrial regulation. The pre-independence 'Statement of Government's Industrial Policy of 1945', followed by post-independence legislation in 1951 (Industries Development and Regulation Act) established the basis for state intervention in the economy. Five-year plans were initiated with the first beginning in 1951 (Marathe, 1989). Regulated expansion of industrial capacity by the state was accepted as promoting the national interest. Subsequently, the Industrial Policy Resolution of 1956 carved up industrial sectors specifically for the state. For example, all new capacity in the iron and steel industry was reserved for the state.[8] However, political expediency also had a hand in the 1969 nationalization of all commercial banks and subsequent monitoring of large domestic business houses under the Monopolies and Restrictive Trade Practices Act (MRTP) and Foreign Exchange Regulations Act (FERA) of 1973. By regulating big firms, the government wanted to limit foreign exchange outflows. However, all of these restrictive policies were relaxed gradually, selectively beginning in the late 1970s, aggressively in the mid-1980s only to be slowed down, and then wholesale dispensed with since 1991 (D'Costa, 2005).

To break out of persistent BOP deficits, India adopted an import substitution industrialization program, focusing on capital and intermediate goods (Griffin, 1991). Through infant industry protection it aimed to limit import dependence and thus stem foreign exchange outflows. However, the actual situation has been different. Inheriting a weak trade and foreign exchange reserve position (see Figure 2) India's economic nationalism did not fundamentally alter the structure of the economy nor enhance its external macroeconomic position. What it did do was insulate the economy from global engagement between 1950 and 1975 and maintain a slow-growing economy, unfortunately exacerbated by exogenous crises of famines and regional conflicts. India's foreign exchange reserve fell from \$2.2 billion in 1950–1951 to an average of \$736 million during 1957–1970 (Government of India, Ministry of Finance, 2001: S69–S70). From the mid-1970s, India's foreign exchange reserves gradually increased until 1990–1991, after which they rose dramatically.

One result of the policies aimed to control foreign exchange spending was the establishment of a basic industrial foundation and a technical-education infrastructure. However, India fell behind the global technology frontier due to the autarkic and sometimes dysfunctional regulatory policies (Bhagwati, 1993). The policies designed under economic nationalism could not tackle India's BOP challenges because India's export capabilities

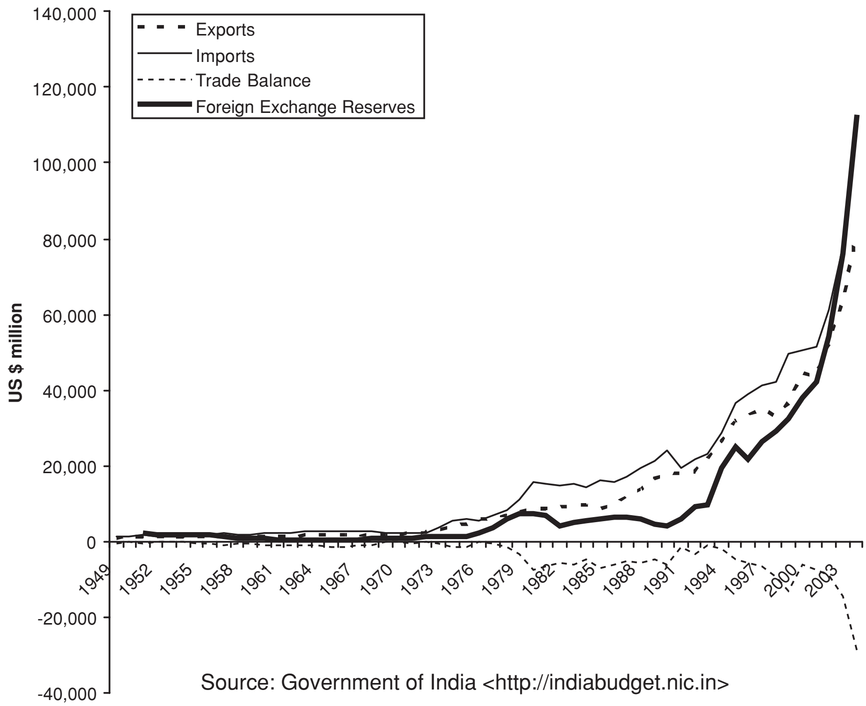

Figure 2 India's trade balance and foreign exchange reserves (1949–2005). *Source*: Government of India <http://indiabudget.nic.in>.

were limited due to shoddy products in an intensely competitive global economy and India's special relationship with the former Soviet Union as a captive market (Mehrotra, 1990). Barter trade with the former Soviet Union seriously impaired India's ability to compete internationally. India's exports remained in primary products and labor-intensive semi-finished manufactures using materials such as leather, jute, textiles, carpets, precious and semi-precious stones, and metals. In 1970–1971, nearly 40% of its exports were in such manufactured goods (D'Costa, 2005: 77). Since the early 1990s, this share rose to roughly 70% (Government of India, Ministry of Finance, 2008: A86).

Paradoxically, India witnessed persistent deficits in its international financial position, the very outcome that economic nationalism was expected to avoid (Sen, 2000). Hence, the ideological anti-capitalist, anti-globalization stance behind economic nationalism was exhausted as domestic politics, combined with the rise of the Indian bourgeoisie eroded the practical feasibility of the more orthodox version of economic nationalism (D'Costa, 2001, 2005).

The three industry cases

The steel industry at the commanding heights. The steel industry illustrates a hard case of economic nationalism whereby state ownership was pivotal to escape from economic backwardness (D'Costa, 1999; Gerschenkron, 1962). Furthermore, the nationalization of bankrupt firms was also part of this nationalist sentiment.[9] Neither foreign ownership nor new private domestic players were permitted, although foreign technical collaborations were sought. The Indian Industrial Policy Resolutions of 1948 and 1956 reserved all *new* capacity in the iron and steel industry for the state and denied the Birlas, one of the largest family-owned, highly diversified business houses, an entry into the steel business (Krishna Moorthy, 1984: 60). Through its five-year plans the state increased its share of the country's steel capacity (Table 1).

As a recipient of foreign aid India obtained financing and technology from the UK, West Germany, and the Soviet Union. However, a steel project with the US as a participant failed as India refused to allow US Steel to have managerial control for 10 years. The state, with greater resources, directly participated in large-scale, integrated mills and overcame the capital and technology barrier faced by private firms.[10] Also, the government, by virtue of a nationalized financial system since 1969, also owned 37% of TISCO's shares, the only private integrated steel company during the 1970s and 1980s (Krishna Moorthy, 1984: 308). After several years of disastrous performance in 1972, IISCO, a private firm, was nationalized to save jobs. Roughly 60% of total steel output was under state-owned mills (Steel Authority of India Limited, various issues). In the mid-1980s, the share was even higher at 70%. In India state ownership in 1996–1997 stood at 56% (D'Costa, 1999: 84).

State ownership and regulation of the steel industry as integral to the practice of economic nationalism at the time created a necessary infrastructural base but also led to severe financial hemorrhaging. Various construction delays and operating losses led to a precarious resource position (Steel Authority of India Limited, 1987: 25). Between 1982 and 1984 the state steel company SAIL racked up net losses of over Rs. 3 billion. A price hike was the only way that SAIL could redress its financial predicament (personal interview, Joint Plant Committee, New Delhi, July 1987), undermining the very mechanism by which the national economy was to be nurtured. It was only in 1992 that the steel industry was deregulated as part of the overall process of economic liberalization.

The auto industry from curtailment to internationalization. Similar to the steel industry, the Indian auto industry was highly regulated until the mid-1980s. The difference, however, was that the steel industry was promoted by the state whereas the auto industry, under private ownership, was

Table 1 Investment and expansion of India's integrated public and private sector steel industry

Five-year plan (FYP)	Overall allocation (Rs. billion)	Share of public sector outlay to total outlay (%)	Share of public sector steel outlay to total outlay (%)	Share of public sector steel to total public sector outlay (%)	Annual rated capacity of crude steel at the end of FYP (million tons)		
					Public sector	Private sector	Total
1st (1951–56)	37.60	52.13	0.88	1.68	–	1.5[a]	1.5
2nd (1956–61)	77.20	60.52	4.53	7.49	3.0[b]	3.0[c]	6.0
3rd (1961–66)	126.71	67.69	5.29	7.81	5.9	3.0	8.9
4th (1969–75)	247.59	63.73	4.53	7.10	6.9	2.0	8.9
5th (1975–81)	671.45	59.72	3.33	5.58	8.6	2.0	10.6
6th (1981–85)	1722.10	56.62	2.32	4.10	9.4	2.2	11.6
7th (1986–90)	3481.48	51.70	1.84	3.57	12.4	2.3	14.7
8th (1992–97)	7980.00	45.24	1.83	4.04	14.9	3.1[d]	17.9

Notes: Total of six public sector integrated plants and one private sector plant; –, negligible; [a] two private sector plants (TISCO 1.0 mt and IISCO 0.5 mt); [b] three 1.0 mt public sector plants; [c] capacity expansion TISCO 2 mt and IISCO 1 mt; [d] IISCO's capacity phased out to 0.45 mt, new greenfield Vizag with 3.0 mt commissioned.
Source: Steel Authority of India Limited (1996).

deliberately curtailed as autos were considered a luxury product. For the auto industry, concern about BOP problems was also the driving force behind protection. In 1949 the government of India banned the import of completely built vehicles and since 1953, under the aegis of the Tariff Commission, refused permission to Indian manufacturers to assemble imported vehicles without increasing local content. A gradual but mandatory increase in local content, termed 'phased manufacturing program' (PMP) was in force since the 1970s and was revamped in the 1980s. The new PMP regulation stipulated a local content ratio of 90% to be attained in 5 years. With this measure the government reduced the number of assembly firms from twelve to five (Kathuria, 1990: 2).

In the early 1980s, the convergence of political exegesis and social forces such as an emerging middle class gave way to a curious partnership between the Indian state and Suzuki Motors of Japan (D'Costa, 1995). Paradoxically, while other sectors were targeted for liberalization, the auto industry was suddenly infused with new investments from the state. The nationalization of the privately-held Maruti completely transformed the Indian auto industry within the next decade and a half.[11] Despite the entry of a foreign player (Suzuki Motors) economic nationalism did not disappear. There were local content rules, technology transfer requirements, and Indian management representation until recently (D'Costa, 2005). The auto industry was completely deregulated in 1995.

The deregulation of the auto industry was introduced incrementally. After the energy crisis of the early 1970s, the Indian government encouraged unlimited production capacity for 'non-luxury' vehicles produced by companies that were not classified as MRTP and FERA companies. These were mostly commercial vehicle and two-wheeler producers (Pinglé, 1999: 99). The market for two-wheelers exhibited considerable growth, reflecting the realization of pent-up consumer demand. Imports were also liberalized by initially allowing the imports of capital equipment for replacement as long as net foreign exchange outflow was zero. This reflected persistent BOP concerns and implied an export commitment of some sort by the importers of machinery. In addition to raising the amount of permissible imports, the bureaucratic process of permits for imports was significantly simplified. Furthermore, the liberalization of the automobile industry also targeted the components manufacturing segment, a sizeable share of which was previously reserved for the officially defined small-scale sector. Fostering the small-scale sector to promote employment was seen as consistent with economic nationalism. However, their lower productivity and poor quality created the pressure to modernize the components industry.

In 1982, the Government of India created Maruti Udyog Limited (MUL), a public sector company as a joint-venture with Suzuki Motors Corporation of Japan. The government owned 80% of the equity. For the first time the state became an investor in a car project and a successful monopoly

(D'Costa, 1995).[12] The selection of Suzuki Motors as a partner, aside from the routine technical and financial criteria, was also based on its specialization in small cars and fuel efficiency. The government of India was concerned about its oil import bill. With the entry of MUL the structure of the Indian car market changed perceptibly (Table 2). In 1984, 2 years after it was established, MUL manufactured over 12,000 cars, mainly from imported completely knocked down (CKD) kits. In 1990 MUL produced over 50% of all passenger vehicles produced in India, a higher share if only passenger cars are included, while India's output of cars increased by nearly 400%. By the next decade, India's output more than doubled, while MUL held on to an average of 53% of the car market in 2001 (calculated from Automotive Components Manufacturers Association (ACMA), 2002: 10).[13]

The hyperglobalized software sector. There is a popular perception that the highly globalized Indian IT industry developed without the visible hand of the state. While it is true that the government did not get into production or intervene in the day to day matters through regulatory policy, the origin of the Indian IT industry can be traced to the state in the 1970s (D'Costa 2002; Evans, 1995; Sridharan, 1996).[14] The vision of the Indian government has been to promote a viable IT industry despite the challenges of establishing a competitive electronics industry in the 1970s. But the IT industry, until global opportunities became available, was very much part of an import substitution strategy. Witness the expulsion in 1977 of American company IBM and the British company ICL from India in the late 1970s (Encarnation, 1989; Grieco, 1984). However, IBM and other IT multinationals are back with a vengeance, using Indian skills for their global growth strategy (D'Costa, 2004b; Rai, 2006).

With regard to economic nationalism, the Indian state has continued to play an important role in the IT industry, notwithstanding the industry's globalization. The state continues to support the development of IT infrastructure and the supply of highly trained technical professionals. Both of these serve the highly successful export model for software services, which rests on the caliber of Indian professionals who are increasingly mobile internationally (D'Costa, 2003, 2008). Consequently, the Indian state now finds itself in a position to leverage India's human capital in a big way to extract economic benefits from the world economy.[15]

Public funding of research institutions for industry and defense has been an important catalyst for the growth of IT in Bangalore (Naidu, 2003).[16] Through a series of interrelated investments, the government of India unwittingly created the modern technological hub of Bangalore. For example, since 1954 Bangalore has been the headquarters for the Indian Air Force, while the Ministry of Defense established Bharat Electronics Limited in the city. Other technology-related public sector units were established

Table 2 Changing market structure of car and utility vehicle production in India (1955–2001)

	HM		PAL		SMP		SAL		M&M		MUL		TELCO		Others		
	# of units	Mkt. share	# of units	Mkt. share	# of units	Mkt. share	# of units	Mkt. share	# of units	Mkt. share	# of units	Mkt. share	# of units	Mkt. share	# of units	Mkt. share	Total
1955	4874	37.9	3581	27.8	1526	12.0	–	–	2864	22.3	–	–	–	–	–	–	12,865
1960	9217	37.5	6616	26.5	3364	13.7	–	–	5501	22.4	–	–	–	–	–	–	24,598
1970	22,703	51.0	12,054	27.0	448	1.0	–	–	9334	21.0	–	–	–	–	–	–	44,539
1980	21,752	47.7	8729	19.1	6	0.0	51	0.1	15,068	33.0	–	–	–	–	–	–	45,606
1990	26,204	12.0	42,737	19.5	–	–	924	0.4	32,706	15.0	116,194	53.1	265*	–	–	–	218,765
1997	24,059	5.0	14,169	2.9	–	–	–	–	69,277	14.3	349,780	72.0	6302	1.3	22,545	4.6	486,132
2001	23,987	3.5	0	0	–	–	–	–	56,380	8.3	356,608	52.7	82,195	12.2	157,076	23.2	676,246

Notes: *1991; see list of firms and acronyms for full name of auto firms; others include Daewoo, General Motors, PAL-Peugeot, Mercedes-Benz and 1999 onward Hyundai and Fiat; in 2001, Daewoo, Fiat, PAL-Peugeot, and PAL had stopped operations; in 2001, Hyundai and Toyota had 57.3% and 18.1% of 'Others' shares respectively.
Sources: Association of Indian Automobile Manufacturers (various years); Automotive Components Manufacturers Association (various years).

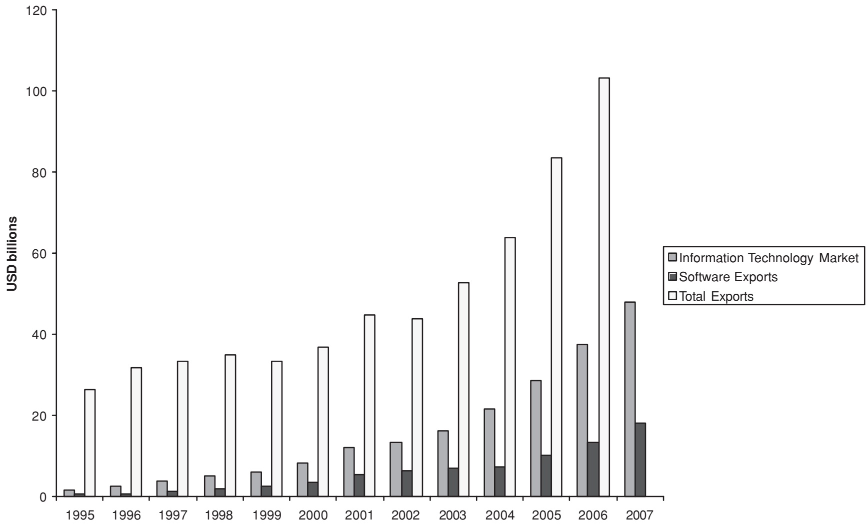

Figure 3 Globalization and expansion of India's IT industry. *Source*: NASSCOM (various years); Government of India, Ministry of Finance (various years).

such as the Indian Telephone Industries, Hindustan Aeronautics, and various R&D centers.[17] The establishment of the Department of Electronics in 1970, rechristened the Department of Information Technology (DIT), has been instrumental in providing a state-supported technical infrastructure supporting the Indian IT industry. For example, the National Informatics Center, Computer Maintenance Corporation (CMC), the National Center for Software Development and Computing Technology, and regional computer centers were established.

The government itself, through DIT, became an important importer of computer hardware through several of its public sector organizations. In addition to establishing key public sector units in the electronics industry, more recently the state has been responsible for building infrastructure for the IT industry, especially for export promotion. The government provides satellite-based communication systems, establishes standards, testing and quality certification processes, and established the internet-based education and research network (ERNET) with UNDP.

This research infrastructure has been complemented by state-sponsored tertiary education. There are nearly 10,000 schools (compared with less than 1500 in 1961) that are above the degree level. Seventy percent of these are focused on general education, while about 20% are professional and technical schools. Of India's 2428 degree- and diploma-granting technical institutions, nearly half are found in the three southern states of Andhra

Pradesh, Karnataka, and Tamil Nadu, which are home to leading software cities of the country. Since the 1950s, a total of seven Indian Institutes of Technology have been established. These along with Regional Engineering Colleges (RECs) or now the National Institute of Technology (NIT), and the private but subsidized renowned Birla Institute of Technology and Science (BITS) are the elite technical institutions of the country. The Indian government also established several elite Indian Institutes of Management (IIM) in the country. These educational institutions serve the Indian export-driven IT industry as well as multinationals. The success of India's software exports led to the establishment of the Indian Institute of Information Technology (IIIT) in two key IT cities—Hyderabad and Bangalore. Behind the two IIITs are the government of India, the Indian software industry association (NASSCOM), state governments of Karnataka and Andhra Pradesh, and multinational IT companies. The partnership between the state and private foreign capital is indicative of a new kind of state activism aimed at creating international competitiveness.

WHAT'S LEFT OF ECONOMIC NATIONALISM UNDER GLOBALIZATION?

This brief exposition of three Indian industries over time shows that economic nationalism in India has strong roots but one which has been undergoing change. Even in the IT sector, which is highly integrated with the global economy, many of the core foundations of the industry have been state-led. However, as the external and internal pressures for international economic integration have increased the Indian state is pragmatically moving in promoting, if not protecting and directly owning, national capital and other assets in a highly competitive economy.

In the first instance the practice of economic nationalism has disappeared if we look for conventional indicators such as state ownership, protectionist policy instruments such as tariffs, and regulation of capital in general. Consequently, the state has also lost its political autonomy to intervene in favor of domestic capital and vulnerable social groups through redistributive policies. The reasons are well-established. With integration the Indian state must abide by the 'rules' of globalization. Under these rules discrimination in favor of national capital is generally not permitted. More importantly, Indian capitalists have matured and thus the classic form of state protection has become redundant. But as nation states continue to endure, the significance of reproducing a viable national economy does not diminish. Consequently, the state is compelled to reinvent itself by supporting national capital at home and abroad and not by reining it in. This is a different reading of economic nationalism in practice as viewed from the experiences of the steel and auto sectors. If economic nationalism is redefined as the state leveraging national resources for economic gain at the global level the software sector fits nicely with this new understanding. In practice it translates into state support for foreign market and technology access and the harnessing of, and not preventing, foreign investment for national economic development.

This new approach of the Indian state can be seen operating selectively for the three industrial sectors discussed earlier. For example, the Indian steel industry today is globally recognized. While the Indian state has not had any direct role in its contemporary global standing, the prominence of the Indian industry abroad is noteworthy because it gives the Indian state a new recognition in global economic matters.

Consider Mittal Steel, currently the world's largest steel company. It was started by an Indian who left the country in the 1970s from Calcutta, once the bastion of the classic form of economic nationalism, and at the height of state business regulation in India. Since then the company has grown by leaps and bounds through purchases of state-owned mills around the world to become the world's largest producer of steel. Its global commercial success, while largely self-driven from abroad, has been supported by several government leaders, including that of the UK. Its acquisition of Arcelor in 2006, the world's second largest steel company, was greeted with varying nationalist sentiments. The French government appeared alarmed over the merger, while the Indian government expressed its open support for the merger. The Indian Prime Minister and the Commerce Minister wrote to the EU on behalf of Mittal Steel.

While this can be seen as a simple case of influence peddling, at its core it is an expression of the new kind of economic nationalism, which lends support to national capital and resources abroad. The fact remains that Mr. Mittal still retains his Indian citizenship and the Indian government is using Mittal's global status to its own advantage. He has announced plans to invest more than $10 billion in steel and steel-related projects in Orissa and Jharkhand, which will complement Korean the Pohang Iron and Steel Company's (POSCO) investments in another major steel project.[18] The state is expected to play an important role in infrastructure provision. Although it is too early to predict the impact of such mega projects in the impoverished but mineral-rich state of Orissa, such investments are likely to have an important employment impact, an outcome consistent with the earlier forms of economic nationalism.

Similarly, the takeover of Corus Steel by the Tata Group evoked nationalist responses on the part of the state. While the Indian state did not extend any particular assistance, the much sought after merger was supported by both the government and Indian citizens. Both the public and the state saw the efforts of Tata as a national effort.[19] Tata of course is an Indian company with mostly Indian operations, hence its successful acquisition resonated even more in India. Once again the Minister of Commerce and Industry boasted of Tata Chairman Ratan Tata saying that the takeover 'is the first step in showing that Indian industry can step outside its shores into an international market place as a global player' (Thillaivarothayan, 2007). On behalf of the Indian government, the Minister of Finance, Mr Chidambaram also gloated over Indian industry's confidence in becoming global.

The Indian auto industry presents a different kind of economic nationalism from the steel industry. Unlike the steel industry there was no state ownership (except the failed Scooters India Limited). However, the transformation of the Indian auto industry began with state-ownership of the joint-venture with Suzuki Motors. It was only in 1993 that the industry was fully liberalized and until May 2007 the government held 18% of the share of Maruti Udyog, down from 80% since inception of the company. By selling its holdings to financial institutions the government of India has no direct ownership stake in the company, although one of the managing directors remains a civil servant. Maruti Suzuki can claim to have induced the development and growth of the Indian auto components industry, new flexible industry practices, and a base for compact car exports. Today almost all multinationals are present in India. Yet, the industry has contributed to many of the same goals that economic nationalism earlier aimed to accomplish such as exports and foreign exchange earnings, manufacturing capabilities, and the development of a competitive components sector and thus employment. In this instance the public sector has played an important role in the industry's transformation.

Thus far the auto industry has relied on the expanding domestic market, but it is now poised to tackle the international market. The recent launching of the Tata Nano, the world's most inexpensive car at 2500 dollars is a reflection of Indian manufacturing capability.[20] Tata's takeover of Daewoo trucks in Korea and its recent acquisition of Jaguar and Land Rover from Ford is also evidence of capitalist maturity. Nurturing and transforming the Indian auto industry through state involvement has contributed to India's ability to benefit from the world economy.[21]

When the Indian passenger car segment was completely delicensed in 1993, Indian companies, for competitive reasons, tied up with foreign ones (D'Costa, 2004a). This, of course, is a form of denationalization. However, the industry has expanded at unprecedented growth rates, including exports. From August 1991 to April 2002, the auto industry garnered 5.48% of the total foreign direct investment approved during this period (Government of India, Ministry of Commerce and Industry, 2002). Of this, 0.8% was for the components sector, which was equivalent to 10.75% of the transportation sector. Today, 100% foreign equity is permitted with no local content requirement. The Indian auto industry produces nearly 1.8 million passenger vehicles (nearly 50% by Maruti Suzuki) and supports a registered components industry worth $18 billion with exports of $3.6 billion in 2007–2008 (ACMA, 2007). Components exports have been projected to be $6 billion by 2009 (ACMA, 2007). In 2005–2006, India exported 13% of its passenger car production (ACMA, various years). This is a clear sign of India's increased participation in the global economy and dramatic denationalization of the auto industry. But it is also an outcome of a proactive state in the industry that employs a sizeable share of semi-skilled workers.

The software industry also shares a common initial state-led development thrust. This may appear to be less glaring relative to the other two sectors, given that the sector is highly globalized with an aggressive export-driven business model, multinational involvement, and considerable international mobility of Indian technical talent. However, the roots of the industry have been very much sown by the state as part of its overall import substitution strategy of self reliance and more recently its efforts to nurture strong partnerships with private business in high technology sectors (Sridharan, 2004). The government of India has established the Software Technology Parks of India (STPI) to promote exports. Since 1998 Indian IT firms in STPI have received a 100% tax holiday until 2009 for firms exporting all of their output. To support the industry the state worked with private and multinational partners to establish the new Indian Institute of Information Technology as well international technology parks in major software exporting states.

It is clear that the role of the state in extracting benefits from the world economy is different for different sectors. Unlike the Indian steel and auto industries, the software industry is highly globalized with a heavy reliance on export markets. More importantly, as the volume of off-shoring has increased and the global demand for Indian professionals has expanded, the Indian state is able to take advantage of a large pool of technical talent for export revenues. While Indian students and professionals are serving the global IT industry from home and abroad, Indian expatriate professionals are also returning to India. This circular movement of talent gives India an advantage in extracting economic and non-economic benefits from the global economy.

To take this further, the presence of highly educated Indian professionals overseas gives the Indian state an extended presence in the global economy. India holds a large share of the global technical talent pool (D'Costa, 2008). India's current stock of young talent is roughly 14 million, which is roughly one and a half times the stock of the US and double that of China (Bound, 2007: 11). Even at the PhD level in science and engineering India is rapidly increasing its doctoral pool. The number of Indian PhDs in the US increased from 8383 in 1991 to 13,733 in 2003 (US National Science Board, 2006: A2–123). During 1983–2003, 30% of science and engineering doctorates earned by foreigners in the US were earned by students of Chinese and Indian origin (US National Science Board, 2006: Figure O-32). Whether these students remain or return, they represent India overseas economically and technologically in an influential way. Those who return home often establish commercial links between the domestic and export markets, thus contributing favorably to India's BOP position and innovative capability.

With the demand for foreign workers growing, as evident by the large share of Indian H1B and L1 employment visas for the US, economic nationalism is extended abroad in a big way. Between 1997 and 2006 India's share of H1B visas increased from 39% to 48%. Interestingly, some of the leading sponsors (or visa petitioners) in 2006 were Indian-owned firms (www.myvisajobs.com, 2006). Thus, not only are there Indian firms in the US but they are also engaged in bringing Indian professionals to the US under such visas. Furthermore, the government of India, under World Trade Organization (WTO)'s Mode 1 and Mode 4 clauses, is pressing OECD governments for easier visa access for its IT professionals (*Business Standard*, 2008). The benefits of this transnationalization are the flows of profits, dividends, remittance income, investment capital, employment, and transfer of commercial and technical knowledge back to India.[22] Currently the IT industry employs about 1.6 million with revenues of $64 billion. India was the largest recipient of remittance income globally in 2007 with $27 billion and India's foreign exchange stood at $200 billion by 2006–2007 (*Business Standard*, 2008; Reserve Bank of India, 2007; World Bank, 2008).

This reaping of economic benefits from the global economy is possible partly due to India's diaspora of expatriates, professionals, and students. Far from being passive, the Indian state today is pragmatically recognizing the commercial, technological, and intellectual contributions of these Indians and claiming a nation abroad through its émigré population of doctors, engineers, entrepreneurs, and students in certain countries (Dickinson and Bailey, 2007). The growing visibility of successful Indians abroad has prompted the Indian government to leverage its presence overseas for both economic and national security purposes. The Indian government effectively lobbied non-resident Indians in the US after it refused to sign the Comprehensive Test Ban Treaty (Narlikar, 2006: 73). Beginning with various financial incentives for non-resident Indians (NRIs), the government of India has extended many of the benefits to its expatriate communities. Two schemes to encourage expatriate Indians to engage themselves with the Indian economy and society are Persons of Indian Origin (PIO) and Overseas Citizen of India (OCI) with 15-year and life-long visas respectively. The state's recognition of the diaspora is motivated by the desire to 'influence and control . . . transnational ties and connections' (Dickinson and Bailey, 2007: 758). A special Ministry of Overseas Indian Affairs has been created to look after the overseas interests of the Indian diaspora, which includes emigrants and migrant employees whether they are citizens or not. In addition to awarding prominent Indians overseas for their professional contributions, there is also an annual public national celebration of expatriate Indians in India. These state-led activities suggest that economic nationalism is quite consistent with globalization, albeit in a modified form.[23] All of these activities can be seen as a form of deployment of national resources overseas for long-term economic benefits and national prestige (Nayar, 2001: 43).

CONCLUSION

This study began with the proposition that economic nationalism can be practiced under globalization even if states must yield some autonomy over social policy space. This kind of nationalism weakens the earlier ideological link between development and social policy. Instead the state pursues economic nationalism by concentrating its energies in supporting national capital and resources overseas. To capture this, the conventional definition of economic nationalism was modified from protecting domestic capital to mobilizing national resources for economic gain from the world economy. This understanding demands that economic nationalism be seen as a dynamic concept, historically contingent on new social forces. In India the rise of the Indian middle class and the maturity of businesses have been the principal social forces behind deregulation and liberalization.

In this evolutionary process the role of the state changes fundamentally from one of direct intervention against foreign capital to one of supporting national accumulation at the global level. In playing this game of international competitiveness crude forms of protection are largely dismantled and instead explicit policies supporting national capital at home and abroad are pursued. The state continues to provide economic incentives to national business but this time in terms of penetrating global markets rather than helping to keep foreign firms away from national markets.

Three industry cases from India were presented to capture the fluidity of economic nationalism in practice. All three industries have been subject to deregulation, privatization, and international integration, which have altered the relationship between the state and capital. It is no longer as antagonistic as it used to be. Rather they are partners in the accumulation process at the global level. Economic nationalism is less about state ownership and absence of foreign firms and instead about global economic engagement for national accumulation. This is not a complete break with the past as all three sectors display state-led vestiges of nationalism. These sectors have also produced outcomes that are not inconsistent with earlier economic goals of growth, foreign exchange earnings, employment, and manufacturing capabilities.

The most severe casualty is the decoupling of economic nationalism from its social policy commitment. In some ways this is not unanticipated, since the motives for economic nationalism in most peripheral societies were rooted in building a viable, national *capitalist* system with social well-being as an outgrowth of capitalist development. Today it is unabashed promotion of national capital's integration with global capital. In this sense there is no coherent vision of economic nationalism today. Instead it is expressed in looser terms of national 'presence' at home and abroad. Witness the state's position on Indian acquisitions of steel companies around the world and its support for internationalizing the auto industry. Similarly, the IT industry is heavily leveraged to promote India overseas as the software capital of the world. The millions of expatriate Indians living and working abroad, especially the highly visible professionals in industry, research, medicine, and academia are seen as India's 'presence' abroad. Such a link is perceived to benefit the national economy through family ties, remittance income, and transfer of knowledge. Similarly, the pursuit of Mode 4 under the WTO by several developing countries (with India playing a leading role), which would allow the temporary movement of service providers to OECD economies is another version of market access and national 'presence' in the global economy.

The Indian state has not completely abdicated its responsibility toward its highly politicized economically deprived citizens. For example, shelving labor market reforms, protection of small-scale retailers, and the provision of minimum employment entitlements to rural workers are indicative of the continued relevance of political influence over the state. While the rejection of conventional economic nationalism has eroded state autonomy, the benefits gained through global participation should not be underestimated. Few developing countries have this option of transforming economic nationalism in this manner since past state experience in the practice of economic nationalism is critical to formulating new ways of promoting it rather than being hostage to it. But if nationalism entails a shared history and common destiny, winners, which number many in India today, should compensate the losers (Reich, 1992: 304–305). Only political activism for redistributive justice can make the state serve its national purpose while expanding its reach overseas.

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NOTES

1 To presume that earlier practice of economic nationalism, which provided policy space, produced equitable outcomes is debatable. But that is another

discussion. Some exceptional cases such as Singapore display how broad-based social gains are not incompatible with global interactions.

2 It is beyond the scope of this paper to address why the hardware sector, even in a period of intense economic nationalism, failed to become world class. In this context one might mention that several globally successful software companies such as HCL, TCS, and Wipro transformed themselves from moribund national hardware companies. And today there is a confluence of economic and political forces that makes the establishment of a large semiconductor and other hardware manufacturing industries feasible.

3 It has been already suggested that past experience in economic nationalism gives the state better capabilities in managing globalization. Nayar (2001: 261) suggests that the adjustment process since the 1991 reforms in India was swift precisely because of a 'self-reliant economic base' constructed in the past.

4 Japan and Japanese firms for various reasons keep a low international profile even as they become important sources of overseas development aid (ODA) and foreign direct investment. Their overseas nationals are less visible except in Brazil and Peru but they are nationally Brazilian and Peruvian first in the eyes of the Japanese.

5 I acknowledge that there is a danger of reducing firm objectives to state goals, especially when we know profits earned overseas could be reinvested anywhere. However, firms are nationally embedded institutions and are not that footloose (Dicken, 2007).

6 The literature on state-society interaction suggests a varying relationship from which nationalism may be aggregated (Evans, 1995; Kohli, 2004; Poulantzas, 1973; Scokpol, 1985) or state interests independently projected (Miliband, 1983; Sen, 1984). But that change comes from state initiatives only has been challenged by those who see non-state actors as important (Chowdhury, 1999).

7 In the literature India's economic nationalism ends and globalization begins with the 1991 economic reforms. This is factually incorrect since reforms were initiated incrementally since the late 1970s.

8 Assurance was given to existing private firms, such as Tata Iron and Steel and Indian Iron and Steel, that there would be no nationalizations of their industry.

9 Witness the 2008 bailouts of financial institutions by the US government, no doubt motivated by nationalist concerns.

10 The entrepreneur Jamshed Tata, the founder of Tata Iron and Steel Company (TISCO), failed to raise capital in London at the turn of the century but could do so later in India itself (Étienne *et al.*, 1992: 49).

11 Due to the death of the founder Sanjay Gandhi, son of Indian Prime Minister Mrs. Indira Gandhi, Maruti was nationalized.

12 The government in the 1970s had established Scooters India Ltd. to capture the lucrative two-wheeler market. However, it failed miserably because of industrial strife, managerial incompetence, and technological obsolescence (Nayar, 1992).

13 A similar picture is obtained for commercial vehicles (D'Costa, 1998: 307, 2004a, 2005: 93–98).

14 Computer Maintenance Corporation (CMC) was an exception. It was a major state-owned IT firm, which took over the servicing of IBM machines after IBM left India in 1977.

15 Of course what is national welfare may be hard to pin down. But increasing growth and its distribution via employment, and locally retained value of production can be seen as supporting national welfare.

16 For Bangalore's institutional arrangements in the IT industry see D'Costa (2008b).

17 The Department of Atomic Energy and the Electronic Corporation of India (ECIL), located elsewhere, the civil aviation industry, and the information broadcasting sector all sourced electronic components from BEL located in Bangalore. Later ECIL itself served the computer needs of India.

18 There are of course social and environmental challenges with such mega projects in impoverished mining areas. But that is partly the nature of large-scale industrialization.

19 Similar attachments to nationalist sentiments have been also expressed by the collapse of the merger between Bharti telecom and South Africa's MTN Group, when Mr Bharti remarked that '. . . Bharti's vision of transforming itself from a homegrown Indian company to a true Indian multinational telecom giant, *symbolizing the pride of India*, would have been severely compromised' (Timmons, 2008; author's emphasis).

20 There have been some setbacks in the completion of the Nano factory due to a local politically-charged dispute over farm land.

21 Of course some firms of the industry had to go as part of restructuring but the industry as a whole has been energized. See D'Costa (2005). There are also challenging dilemmas of oil dependency, ecological impacts, and public versus private transportation.

22 Of course, one must be aware of the downside of relying too heavily on remittance income since immigration policies as well as economic conditions could induce volatility in remittance income flows (D'Costa, forthcoming: 70–71; Seers, 1983: 65–66).

23 The government of India has justified the logic of globalization when mollifying irate US white collar workers who claim job losses due to global outsourcing of IT to India.

NOTES ON CONTRIBUTOR

Anthony P. D'Costa, formerly of the University of Washington is a Professor of Indian Studies at the Asia Research Centre, Copenhagen Business School. He has researched the steel, auto, and software sectors for the last two decades. He is the author/editor of five books and is currently writing on the dynamics of international mobility of talent, global capitalism, and nationalism.

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