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**The Post-Nuclear Deterrent**

by

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India's decision to abandon the traditional nuclear policy which Padma Desai described in The Financial Times (May 1) as the "Don't ask, Don't tell" (a phrase characterising the US administration's current policy towards gays in the US defense forces) policy of deliberate ambiguity is remarkable in many ways. Given the stereotypical foreign view, beautifully reflected in E.M.Forster's depiction of the complex and nearly tortuous Hindu Godbole as contrasted with the direct and uncomplicated Muslim Aziz in A Passage to India, the irony of the BJP, with its Hindu origins and constituencies, choosing explicitness in favour of obfuscation in our nuclear policy is obvious!

But, quite regardless of whether one agrees with the decision to go explicitly nuclear --- and the 91% approval in the urban areas of the country does not guarantee that it was a wise decision any more than an unpopular measure such as the abolition of capital punishment makes it a deplorable policy ---, the important questions relate to the next steps that India must take. These relate to the nuclear question itself: for instance, whether India should go ahead and sign the CTBT, and whether (as suggested already) India, Pakistan, Russia and China should also enter a regional no-first-strike pact of nuclear powers.

But they also relate, at least as importantly, to the economic policy response that India must now make to the extraordinary, new situation. In particular, the imposition of sanctions by President Clinton raises pointedly two questions: have we shot ourselves "in the head" , as claimed by Senator Jesse Helms on US television; and what should we do to minimise the damage to us from the sanctions and to even turn the sanctions perhaps to our long-term advantage?

## **Immediate Damage from Sanctions**

It is clear that the US sanctions, mandatory under 1994 legislation, cannot inflict serious direct damage on India. First, they are certain to be virtually unilateral in scope. Other countries are not afflicted with the kind of automaticity in sanctions that the US Congress increasingly favours, leaving little discretion to the executive. Besides, for predictable reasons, Russia, France and Britain cannot be expected to go along with the US; and they have not. True, Japan has special nuclear sensibility, because of the use of nuclear weapons against it by the US at the end of the Second World War. But even its suspension of aid is likely to remain confined to the minuscule sum of grants as distinct from loans: after all, the Japanese aid program has historically reflected, quite explicitly, her own export and investment interests and has not been sold to the Japanese people as altruistic. The other nations, such as Sweden, do not count: their suspended aid programs are negligible.

But unilateral sanctions are typically ineffective. If the US Ex-Im Bank withdraws financing from US firms, it is these firms that lose export orders and investment opportunities in India which can immediately turn elsewhere. In fact, the recent worry in the US against the use of unilateral sanctions has been precisely centered around the adverse effect on the US in terms of exports lost while the targeted nations suffer little, if at all. The US newspapers and TV have been full of exaggerated estimates of “losses inflicted on India”; the fact is that these are little more than garbage.

The US will indeed have to vote against loans to India at the World Bank and the IMF. But it does not have an effective veto at either institution. It is also hard to see the US working overtime, and effectively, to get others to go along with it at these institutions when India is a democracy, the nuclear decision has been virtually unanimously supported within India, and the

US administration has fought off domestic demands for sanctions against a communist, authoritarian regime such as China whose record of denial of civil and political rights to its own people is abysmal. Besides, the US itself has failed to sign the Land Mines Treaty, standing up against an even more popular set of proscriptions: its moral outrage against India, and desire to punish it for ignoring “world opinion” should look therefore even more ludicrous and unappealing to other nations.

Besides, even if the IMF and World Bank assistance was discontinued for a year or two despite all this, the costs are not going to be critical. India has prudentially avoided extensive short-term borrowing and is thus not vulnerable to temporary shortfalls in aid inflow, especially of the amounts that we have borrowed from the World Bank in recent years, in the same way that such a shortfall would devastate a country more exposed. But this strength, it must be emphasized, has come from prudence in borrowing short-term. In fact, the decades of autarky in trade and negligible inflow of equity investments, with these afflictions still not ended, have created a weakness that must be immediately taken in hand if the impact of sanctions is to be minimised by our own policies.

### **Opening the Economy Rapidly**

In fact, if the reduced aid flows and public credits are to be met with a firm response, we have to open the economy to trade and equity investments, not close it, in the current situation. This would make our markets far more attractive and thereby induce market-determined increments of export earnings and investment flows. Equally, by getting foreign businesses to develop a greater stake in the Indian economy, we also create the countervailing incentives within the United States to offset the lobbies pushing for continued sanctions. This is a lesson from authoritarian China’s successful containment of the human rights lobbies: businessmen with

packed suitcases on official flights to Beijing, with the glint of profits in their eyes, became the major opponents of sanctions against China for its egregious rights abuses.

If the BJP-led coalition thus uses this opportunity to practice “reactive nationalism” by going outwards instead of inwards, India’s reforms will have accelerated in the right direction. By finally encouraging rapid growth, and thus also helping reduce our poverty (which cannot be reduced by populist politicians with their slogan of “garibi hathao” and defunct economists with their slogan of “social opportunity” ), that would also earn us the respect that we crave from abroad and which no nuclear explosions can earn by themselves.

After all, Russia has innumerable nukes; but as soon as Boris Yeltsin gets out of the room, people snicker at Russia’s decline and economic chaos: we are afraid of Russia, but not respectful of it. Again, if China only had nukes but did not have the huge and sustained growth rates over many years, we would not have any respect for it either. Also, the Far Eastern economies, which have virtually no armies that can frighten anyone, leave aside nukes, have had the world’s respect because they enjoyed three decades of growth, described aptly as a “miracle”.

In the end, the next few weeks are going to decide whether we move to what many of us would like to believe is our tryst with a great destiny, enjoying prosperity and true independence under a regime of far fuller embrace of trade and investment, or whether we continue to be in a state of poverty and dependence, such as is manifest from a mere scanning of the aid suspensions in the last several days. My CNN web-site reveals that Sweden would cancel a \$119 million aid deal; Denmark froze aid worth \$28 million; and so on! As I read this, my head spins: after 50 years of independence, are we still begging for aid from these small, and other large, nations?

Surely, if justice were to be done, we would tie the politicians who followed the wrong policies, and the economists who advised them disastrously, to the next missile the way our

medieval ancestors tied miscreants to the cannons. Today we cannot do that. But we certainly can change our economic ways: and now we fortuitously have a chance that we cannot afford to miss.