

Globalization And Political Economy: Investigating The Interplay Between International Trade And Domestic Politics In India

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ABSTRACT:

Globalization has reshaped the political and economic landscapes of nations worldwide, and India is no exception. This research article delves into the intricate relationship between international trade and domestic politics in the Indian context. It explores how globalization has influenced India's economic policies, trade dynamics, and political decision-making processes. The study delves into various aspects of this complex interplay, shedding light on the impact of international trade on domestic policies, and the role of political institutions in shaping trade policy. In doing so, it seeks to offer a nuanced understanding of the complexities that underlie the interplay between globalization and domestic politics in one of the world's most dynamic and diverse nations.

Keywords: Globalization, international trade, India, domestic politics, economy.

INTRODUCTION:

Globalization, a multifaceted phenomenon encompassing economic, political, and cultural dimensions, has been reshaping the contours of the contemporary world. One of its pivotal aspects is the intricate interplay between international trade and domestic politics, a

relationship that wields profound influence over the economic destinies and political landscapes of nations. In the context of India, a country marked by a rich tapestry of traditions, cultures, and economic diversity, this interplay assumes paramount significance. This article embarks on a journey to dissect the intricate dynamics between globalization, international trade, and domestic politics within the Indian context.

Globalization, often regarded as a force transcending national boundaries, has relentlessly propelled the integration of economies across the globe. The advent of liberalization, privatization, and globalization (LPG) policies in the early 1990s marked a significant turning point for India. These policies, which sought to open up the Indian economy to the world, led to an unprecedented surge in international trade. While the ensuing economic liberalization fostered rapid economic growth, it also sparked intricate political transformations within the nation. To understand the ramifications of this interplay, it is imperative to delve into the economic aspects of globalization. The surge in international trade, characterized by burgeoning exports and imports, reshaped the economic landscape of India. Industries were transformed, new opportunities emerged, and the nation's Gross Domestic Product (GDP) surged. However, these economic transformations were not devoid of political implications. The government's role in regulating trade, crafting trade policies, and negotiating international agreements became a central theme of domestic politics.

Furthermore, globalization transcended economics to permeate the political arena. The democratization of information, communication, and the global flow of ideas empowered new voices and narratives. As India integrated more deeply into the global economy, its domestic politics evolved in response to external pressures and internal demands. Issues like trade deficits, protectionism, and the impact of globalization on local industries became subjects of political discourse and contention.

RESEARCH METHODOLOGY:

This study adopts a qualitative research approach to investigate the interplay between international trade and domestic politics in the context of India. All the information gathered in this research is secondary, and sourced from reliable and publicly available databases, which include the budget report of India, various journals, and other relevant scholarly articles.

As this research relies solely on secondary data, it is subject to the limitations of the data sources used. There may be potential

discrepancies, missing data points, or variations in information across different sources.

LITERATURE REVIEW:

Baccini & Urpelainen (2015) in the article “**International Institutions and Domestic Politics: Can Preferential Trading Agreements Help Leaders Promote Economic Reform?**” examined how domestic politics shape international institutions as well as how international institutions shape domestic politics. Because national leaders create and join international institutions to further their domestic interests, these issues are related to one another. By examining whether preferential trading agreements support liberal economic reform, the relationship between international institutions and domestic politics is brought into focus. When leaders in developing nations want to implement reforms but are unable to do so due to domestic political opposition and a lack of credible commitment, these leaders negotiate preferential trading agreements with major powers like the European Union and the United States. Negotiations for preferential trading agreements encourage economic reform by enabling credible commitment and letting the leader impose conditions on the adoption of liberal policies.

Milner (2010) in the research paper “**Democracy and Trade Policy in Developing Countries: Particularism and Domestic Politics with a Case Study of India**” explained the differences in trade policy between developing country democracies. Examine the interaction between increased particularism (i.e., a shift from a party-centered to a more candidate-centered system and the level of inter-industry occupational mobility of labor and the asset-specificity of industries to affect trade policies in developing democracies. Political particularism is defined as the degree of party discipline and the incentives for politicians to cultivate a personal vote on trade protection. It implies that an increase in particularism induces leaders of ruling and opposition parties to shift trade policy in equilibrium to the optimal preference of the median voter, who in a developing society is a worker; and this means a reduction in trade barriers when labor mobility is high. This conclusion is strongly supported by our data. It demonstrates how the dynamics of a party-centered system operate in India to maintain higher trade barriers.

Eendez & Canal (2018) in the article “**Domestic Political Connections and International Expansion: It's not only 'who you know' that matters**” analyzed the connections and political expertise that the firm gains from the former politicians on the board of directors. Prior studies have primarily emphasized the importance of contacts

without fully appreciating the importance of domestic political knowledge. We demonstrate that domestic political knowledge also influences foreign expansion while the paper's main focus was on the impact of domestic political connections on foreign direct investment. It was emphasized that while former politicians' connections may not be helpful for international expansion, their political acumen may be in countries with discretionary governments and institutional environments similar to those in the home country.

Aklin (2011) in **“Domestic Politics of Trade Policy”** explained International trade policy is influenced by domestic politics, but it is unclear exactly how and why. It reviews recent literature that focuses on how agents' interests are formed, whose interests are organized, and how those interests interact with one another via domestic political institutions to produce trade policy and, more generally, international cooperation over trade. Trade policies then function as a feedback loop. Information produced by international cooperation through treaties, international organizations, and more informal systems has a significant impact on domestic political conflict. We examine each of these issues and recommend a course for further investigation.

Hauk (2020) in the article **“Foreign Influence and Domestic Policy”** explained how economic and political interests invariably cross national boundaries in a connected world. Foreign state and non-state actors are interested in influencing policy decisions in other sovereign countries in their favor because these decisions have external economic and political costs. Foreign influence is a tactical decision meant to internalize these externalities. It typically takes one of three main forms, including voluntary agreements, policy interventions that reward or punish the target country to achieve a particular change in policy, and institutional interventions that try to influence the political institutions in the target country. The new political economics literature on foreign influence as well as work in related fields are organised and evaluated using the framework that is proposed as a unifying theoretical framework to study when and in what form foreign influence is chosen.

Jenkins (2012) in his study **“How Federalism Influences India’s Domestic POLITICS OF WTO ENGAGEMENT”** discussed India's federal structure has had a significant impact on how domestic political forces have responded to the "multi lateralization" of important policymaking domains, particularly agriculture, via World Trade Organisation agreements. Politicians at the state level frequently have a regional perspective on WTO-related issues. Indian federalism has undergone several changes during this process, some of which

are contradictory. This essay examines a single facet of the intricate interaction between federalism and globalization. The multilateralization of national policymaking, a process by which issues that were once solely of domestic concern have become subject to intergovernmental discipline, is one aspect of globalization that the World Trade Organisation (WTO) has come to represent powerfully. The sectoral structure of the Indian economy and the current global balance of negotiating power are just two of the many variables that affect how India engages with the system of multilateral trade governance negotiated and managed through the WTO.

INTERNATIONAL TRADE AND DOMESTIC ECONOMIC POLICIES:

International trade plays a pivotal role in shaping India's domestic economic policies, and this relationship has evolved significantly in recent decades. Globalization, driven by international trade, has had a profound impact on India's economy and policymaking.

Firstly, globalization has opened up vast markets for Indian goods and services. The liberalization of trade policies in the early 1990s allowed Indian businesses to access international markets, boosting exports and fostering economic growth. This globalization-driven export orientation has influenced domestic economic policies, leading to greater emphasis on export-oriented industries, technology advancements, and skill development. Additionally, globalization has exposed India to foreign competition, encouraging domestic industries to become more competitive. To remain globally relevant, India has had to reform its domestic economic policies by improving infrastructure, reducing bureaucratic hurdles, and enhancing the ease of doing business.

Trade agreements and organizations like the World Trade Organization (WTO) also play a crucial role in shaping India's trade rules and domestic policy options. Through bilateral and multilateral trade agreements, India negotiates market access for its products and services while safeguarding its domestic industries. These agreements can influence India's domestic regulations and standards to align with international norms.

Furthermore, India's participation in the WTO sets the stage for global trade negotiations. India's stance on issues like agricultural subsidies, intellectual property, and services trade has a direct impact on its domestic policies. WTO rulings can necessitate changes in domestic regulations to comply with international trade norms.

Hence, international trade, driven by globalization, has transformed India's domestic economic policies by fostering export-led growth, enhancing competitiveness, and influencing regulatory reforms. Trade agreements and organizations like the WTO are pivotal in shaping trade rules and domestic policy options, making India's economic policies increasingly intertwined with the global economy. Balancing the benefits of international trade with safeguarding domestic interests remains a critical challenge for Indian policymakers in this evolving landscape.

THE ROLE OF POLITICAL INSTITUTIONS:

The structure of a country's trade policy preferences is significantly influenced by political leadership in the decision-making process. Trade policy decisions made by the leader have an impact on domestic distribution and elections. So, the choice of whether or not to sign trade agreements is political. To keep their positions of power, leaders are more likely to take the necessary actions to appease their main constituencies. It is assumed in policy-making that a leader's ability to win over constituents in his electoral coalition will determine whether or not he survives in office. In terms of the method and formulation of their policy-making, parliamentary and presidential systems differ qualitatively. The executive and the legislature are frequently connected in a parliamentary system. The legislature occasionally has essentially no independent authority. As a result, the executive managers are the only important policymakers. The president and the legislature, however, continue to have separate powers under a presidential system. Both branches have relevant policymakers, implying that the president should result in higher tariffs. However, if the legislature delegated trade-policy authority to the president, the situation could change. Delegation of trade policy decision authority to presidents and party leaders is significantly related to trade liberalization, it is argued.

Recent democratization has raised the demand for economic reform among leaders. Leaders must provide public goods to large constituencies to compete in elections. Even though vested distributional interests incur a cost, democratization creates incentives to implement economic reforms that generate economic growth and increase the supply of public goods. Democracies have been shown to trade more freely and to be more cooperative when it comes to international commercial policy (Rosendorff, 2006). In a democracy, the separation of powers, electoral accountability, and the presence of veto players played a crucial role in increased willingness to use trade agreements to improve transparency. Pressure Groups have a vital role in this aspect, which is a group of

people actively organized to advance and protect their shared interests and shape public policy. They are crucial in interacting with policymakers, the government, and civil society, influencing policies by communicating the opinions and recommendations of business, Inform the government of the complaints and demands of various sectors and industries, conducting workshops, seminars, business gatherings, and conferences to talk about and debate various current and upcoming government policies. Interest groups can bribe politicians to support their trade policies by donating to their campaigns.

In India, the interaction between international trade and domestic politics is mediated primarily through its political institutions, including the government and legislatures. The Indian government plays a central role in formulating and implementing trade policies that balance domestic economic interests with international trade agreements.

Firstly, the Indian government negotiates trade agreements with foreign nations or blocs, such as the WTO or bilateral agreements. These negotiations involve complex trade-offs, where domestic industries and interest groups often seek protection from foreign competition. For instance, the Indian government has historically protected its agricultural sector, imposing tariffs on certain agricultural imports to safeguard the interests of domestic farmers.

Secondly, the Indian Parliament, composed of the Lok Sabha and Rajya Sabha, is essential in shaping trade policies. Members of Parliament (MPs) represent diverse constituencies with varying economic interests. During trade policy discussions, MPs advocate for policies that align with the interests of their constituents. For instance, MPs from manufacturing-heavy regions may push for protectionist measures to shield their industries.

Interest groups and lobbying also play a significant role in shaping trade policies. For example, industry associations like the Confederation of Indian Industry (CII) and the Federation of Indian Chambers of Commerce and Industry (FICCI) often lobby the government for policies that favor their respective sectors. These groups can influence government decisions through research, advocacy, and engagement with policymakers.

In conclusion, India's political institutions mediate the complex interplay between international trade and domestic politics. The government, legislatures, interest groups, and lobbying collectively influence trade policies to strike a balance between global trade commitments and domestic economic interests. This dynamic

process is essential in navigating the challenges and opportunities presented by the globalized world economy.

WINNERS AND LOSERS IN GLOBALIZATION:

Globalization and international trade have had a profound impact on the domestic economy of India, creating both winners and losers. While trade liberalization has brought benefits such as economic growth and access to foreign markets, it has also exacerbated income inequality, led to job displacement, and accentuated regional disparities.

One significant consequence of globalization in India is income inequality. As the economy opened up to international markets, sectors like IT and services experienced rapid growth, generating high-paying jobs and wealth for a segment of the population. However, this growth hasn't been evenly distributed, leaving many behind in low-wage, informal sectors. Income inequality has widened, with the rich benefitting disproportionately from trade opportunities.

Job displacement is another concern. As India integrated into the global economy, industries like manufacturing faced competition from cheaper imports, which often led to downsizing and job losses. While skilled workers in export-oriented industries gained employment, the unskilled and labor-intensive sectors struggled, contributing to unemployment and underemployment issues. Regional disparities have also deepened. The benefits of trade liberalization have primarily concentrated in urban and industrialized regions, such as Bangalore and Mumbai, while rural and less developed areas have lagged. This has fueled migration from rural to urban areas, putting immense pressure on cities and creating pockets of prosperity amid wider poverty.

Therefore, globalization and international trade have indeed brought economic growth to India, but the distribution of these gains has been uneven. Income inequality, job displacement, and regional disparities persist as pressing challenges. Policymakers must focus on inclusive growth strategies to ensure that the benefits of globalization reach a broader spectrum of the population, address job displacement through skill development and job creation, and implement measures to reduce regional disparities for a more equitable economic landscape in India.

GLOBALIZATION AND DEVELOPING ECONOMIES:

Developing economies, including India, confront a complex set of challenges and opportunities in the age of globalization. Globalization has ushered in increased interconnectedness, but it has also exposed these nations to unique dynamics that can either facilitate development or create vulnerabilities.

One of the opportunities arising from globalization is access to larger markets. Developing countries can expand their exports, thereby fostering economic growth and job creation. India has leveraged its skilled workforce to become a major player in information technology and services, capitalizing on global demand. However, globalization also presents challenges. Developing economies often struggle with trade imbalances and unequal terms of trade, which can hinder economic development. India has faced such issues, with a persistent trade deficit, particularly with China.

Moreover, the vulnerability of developing economies to global economic shocks is heightened. These nations are more susceptible to fluctuations in global commodity prices and currency exchange rates. The COVID-19 pandemic exposed India's reliance on pharmaceutical imports and the need to strengthen domestic manufacturing capabilities. Trade policies and investment in infrastructure and education are crucial to maximizing the benefits of globalization. India's "Make in India" initiative, aimed at boosting domestic manufacturing, exemplifies a strategy to harness globalization for development. However, safeguarding against vulnerabilities requires diversifying trade partners and investing in resilience.

Thus, developing economies like India must navigate the dual nature of globalization. While it offers opportunities for growth and development, it also necessitates proactive measures to mitigate vulnerabilities and promote sustainable economic progress.

FUTURE TRENDS:

Globalization and political economy are undergoing significant transformations, with several emerging trends that have a substantial impact on international trade and domestic politics, including India.

1. Technology's Influence: Technology, especially digitalization, has accelerated globalization. E-commerce and remote work have transcended borders, enabling businesses to operate globally. In India, this has fostered the growth of its IT sector and contributed to economic development.

2. Climate Change and Sustainability: Climate change has emerged as a critical factor in the global political economy. Nations are increasingly adopting sustainability goals and clean energy initiatives. In India, efforts to expand renewable energy sources have not only reduced its carbon footprint but also created jobs and attracted foreign investment.

3. Geopolitical Shifts: Geopolitical tensions have disrupted traditional trade relationships. India's evolving relationships with the United States, China, and other nations have influenced its trade policies and global positioning. Balancing economic growth with diplomatic interests is a challenge.

4. Supply Chain Resilience: The COVID-19 pandemic exposed vulnerabilities in global supply chains. Governments, including India's, are now focusing on supply chain resilience, leading to a reevaluation of trade strategies and localization of critical industries.

5. Economic Nationalism: Some countries are embracing economic nationalism, emphasizing self-sufficiency and protectionist policies. In India, initiatives like "Make in India" reflect this trend, with an emphasis on boosting domestic manufacturing.

6. Digital Trade and Data Governance: Digital trade is growing rapidly, necessitating new rules for data governance and privacy. India is grappling with these issues, working on data localization and privacy regulations that impact global tech companies and cross-border data flows.

7. Global Governance Reform: There's a call for reform in international organizations like the WTO to better reflect the current global economic landscape. India, as a major player, is actively engaged in discussions on reforming these institutions.

8. Health Security: The pandemic has highlighted the importance of health security in the political economy. India's vaccine production capabilities have gained international attention, affecting both its diplomatic relationships and its pharmaceutical industry's global presence.

Thus, globalization and political economy are evolving rapidly, shaped by technology, climate change, geopolitical shifts, and changing trade dynamics. India, as one of the world's largest and fastest-growing economies, is at the center of these transformations. The Indian government faces the challenge of navigating these trends to ensure sustained economic growth and political stability while addressing domestic and global concerns.

CONCLUSION:

The study delves into the intricate relationship between globalization, international trade, and domestic politics within the Indian context. The key findings of this study underscore the dynamic and multifaceted nature of this relationship, emphasizing the imperative for adaptive policy responses.

Firstly, the research elucidates how globalization, characterized by increased cross-border trade and investment, has significantly shaped India's domestic political landscape. It highlights that as India became more integrated into the global economy, domestic political actors and institutions have had to adapt to new economic dynamics. This has led to a transformation in the policymaking process and political discourse within the country.

Furthermore, the study underscores the dual impact of globalization on domestic politics. On one hand, it has led to economic growth and improved living standards, which can bolster the legitimacy of governments. On the other hand, globalization has also exposed vulnerabilities in the domestic economy, leading to social inequalities and political discontent. This duality underscores the need for nuanced policy responses that balance the benefits and challenges posed by globalization.

Moreover, the research findings stress the importance of policy adaptability. Globalization is not a static phenomenon; it evolves. As such, policies must be flexible and responsive to changing global economic conditions. Governments in India, as in other nations, must continually assess and recalibrate their policies to mitigate the negative consequences of globalization while harnessing its advantages.

In conclusion, the study highlights that the relationship between globalization, international trade, and domestic politics in India is complex and ever-evolving. It underscores the importance of adaptive policy responses to navigate this intricate interplay effectively, ensuring that the benefits of globalization are maximized while minimizing its adverse impacts on domestic politics and society.

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