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China and India in the Age of Globalization: Sectoral Variation in Postliberalization Reregulation

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Abstract

In recent years, China and India have extensively liberalized their economies. They have departed from the East Asian developmental states, which have restricted foreign direct investment (FDI) to protect domestic industry, and the liberal FDI strategy of Latin America during a similar stage of development as they have eschewed dependent development. Instead, they have taken a "liberalization two-step," which follows liberalization with reregulation that varies across industrial sectors. Country and sectoral case studies demonstrate the perceived strategic value of a sector, sectoral characteristics, and the organization of state institutions shape the ways in which reregulation varies. Insulated from political pressures, the Chinese state shifts from universal controls on the aggregate level to selective controls at the sectoral level and adopts a bifurcated strategy in its reregulation. In India, the government liberalizes FDI according to state goals but reregulates as a function of sectoral interests arising from the legacy of its postindependence economic strategy.

Keywords

liberalization, reregulation, sectors, FDI, China, and India

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Scholars have debated the role of the state in confronting economic internationalization. Among scholars, some depict the retreat of the state; others argue the state has retained its capacity to make policy.[1] Yet other scholars have found cross-national variation in the state's responses to globalization.[2] Most agree governments today must contend with some form of integration. In their integration into the international economy, China and India have engaged in a "liberalization two-step." They combine market liberalization at the aggregate level with reregulation at the sectoral level. Different political logics explain how each country reregulated with distinct priorities and methods. National and sectoral variation in regulatory reform is rooted in how each country views the strategic value of a sector. China, an authoritarian country less beholden to sectoral interests, pursues independent state goals that reflect the government's subjective understanding of strategic value to maximize the benefits of liberalization. India, in contrast, is more beholden to sectoral interests that postindependence ideologies have nurtured and pursues what is more consistent with sectoral goals. Structural sectoral characteristics further shape the actual substance of reregulation, and the organization of state institutions reinforces the relative political weight of bureaucratic and corporate stakeholders during phases of reform.

To make these arguments, I compare how the Chinese and Indian governments have liberalized and reregulated, and modes of governance in telecommunications and textiles within these countries. This cross-national and cross-sectoral approach maximizes analytical leverage to study the relative importance of state agency, institutional legacies, and economic and technological conditions inherent in sectoral organization in explaining national models of reregulation in developing countries. I investigate telecommunications and textiles, which represent variation in institutional development and political legacy and structural attributes.[3] An analytical heuristic introduced in the second section facilitates the comparison of regulatory reform across countries. The next section discusses how each country's subjective understanding of the strategic value of a sector shapes the dominant patterns of reregulation following market liberalization. Sectoral characteristics and the organization of institutions further affect the complexity of reregulation in practice. The fourth section's case studies, which combine in-depth interviews with data from other primary and secondary sources, substantiate this discussion. The fifth section concludes. By comparing countries and structurally and institutionally diverse sectors and subsectors within the same country, I offer a new perspective that combines agential, institutional, and structural factors to understand a country's integration into the international economy.

Conceptualizing Regulatory Reform

This article conceptualizes regulatory reform to systematically identify state goals, relationship with industry, and methods of control. This conceptualization incorporates ideational (state goals) and institutional (relationship with industry and methods of control) dimensions and determines the scope of state control when goals are similar but state–industry relations and policy measures differ.[4] I define liberalization as policy- and company-level measures that introduce competition and influence and enhance the role of markets.[5] Reregulation is defined as the reformulation of old rules and creation of new ones to enhance state control. These definitions of regulatory reform imply that liberalization and reregulation are not dichotomous; rather, liberalization entails explicit actions taken by the state, often requiring reregulation, to undermine the role of the state and enhance markets.[6] Measures of state control include rules on or affecting ownership, market entry, and business scope and technical, production, and service standards. I use "regulate," "reregulation," and "regulatory" in the literal sense of the state formulating and creating rules to govern industry and do not mean to invoke the developmental state literature's usage of a regulatory state, which regulates as a referee and does not intervene beyond that.

Liberalization Two-Step: Variation In Reregulation

China and India have both engaged in what I characterize as "liberalization two-step." Since the Open Door Policy in 1978 and accelerating in the 1990s, China has taken a much more liberal approach toward foreign direct investment (FDI) than the developmental states of Japan, Taiwan, and South Korea during a similar stage of development.[7] After decades of pursuing insular economic policies, the Indian government began to relax its restrictive trade and FDI regime in the 1980s and unleashed economy-wide liberalization in 1991. Moreover, as members of the World Trade Organization (WTO), both countries made commitments to further liberalize their economies. Figures 1 and 2 show the steady increase of FDI inflows in China and India, respectively, as they pursued market liberalization.[8]

Significantly, reregulation has inevitably followed liberalization in both countries. Scholars of regulation in Asia have found countries are "push[ing] back on regulatory practices that are inconsistent with existing regulatory systems or with traditions and norms."[9] China and India are no exception. However, they have pursued opposing strategies toward reregulation

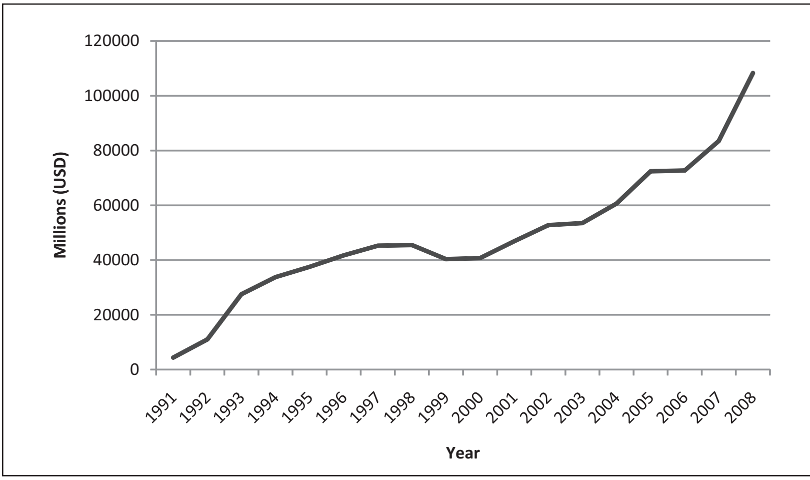

Figure 1. FDI inflows to China (1991–2008)
Source: United Nations Conference on Trade and Development (2010).

despite a similar starting point in initiating liberalizing reforms. The Chinese government dismantled the Ministry of Textile Industry and ended the telecommunications monopoly in 1993; yet, in 2010, whereas sector associations govern market activities in textiles, despite liberalization commitments made in China's WTO Accession Protocols in 1999, state-owned telecommunications carriers operate basic services and a centralized ministry manages infrastructural development and market access across subsectors. In contrast, in India, reregulation completely liberalized telecommunications services and equipment by the early 2000s but continues to strictly regulate textile production and retail.

What Explains Variation in Reregulation?

What explains the variation in how China and India, the world's most populous countries and leading emerging economies, have reregulated? Neither country has pursued the East Asian developmental state model that restricted FDI, decoupled technology and investment, and used market-conforming mechanisms to spur industrial development.[10] Nor have they adopted the development model of Latin America, where macro liberalization permitted FDI to form coalitions with governments to exploit physical and natural resources without contributing to industrialization.[11] China and India have embarked on different paths in combining market liberalization with reregulation.

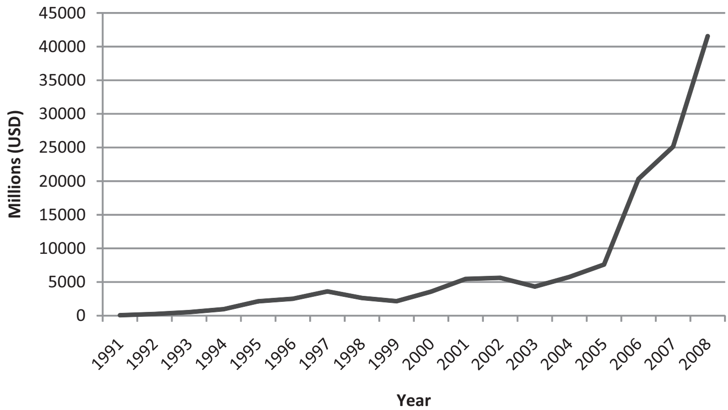

Figure 2. FDI inflows to India (1991–2008)
Source: United Nations Conference on Trade and Development (2010).

What explains cross-country variation in the nature of regulatory reform? In the literature on comparative and international political economy, scholars argue that international organizations play a crucial role in affecting issue-specific regulatory reform.[12] Other scholars maintain markets and interest groups explain why countries undertake deregulation.[13] Some scholars argue that accounts of the impact of government failure, technological advances, and globalization of markets in undermining regulation in favor of neoliberal policies contain an ideological impulse.[14] Empirical studies demonstrate cross-national variation exists in the adoption of liberal economic ideas and policies.[15] In a 1996 study of the reorganization of government control in advanced industrialized countries, Steven Vogel argues state orientation and organization explain variation in how governments have introduced competition through both deregulation and reregulation.

Investigating both domestic and international factors, China scholars debate the relative importance of the liberalizing influences of China's participation in international organizations and forums;[16] the entrepreneurial or predatory nature of the local developmental state;[17] institutional reforms;[18] participation in global supply chains, which activate the direct involvement of domestic and foreign sectors; and the role of nonstate interests in shaping policy and institutional change.[19]

Scholars of India's political economy also debate the impetus for economic liberalization, which followed decades of an import substitution strategy and severe fiscal and balance of payment crises.[20] Deemphasizing immediate economic conditions as the cause of liberalization, they contend the following factors explain why India liberalized: formal and informal institutional arrangements and decentralization,[21] international economic marginalization as a function of India's postindependence insular policies,[22] and proliferation of nonstate interests as a result of competition in the political system, including identity politics,[23] and party and interest group politics.[24]

These common forces experienced by all industries within each country explain initial liberalization but fall short in explicating the nature of reregulation or the dominant sectoral patterns of reform across time. A fledgling literature examines the reregulation found in each country. Scholars debate the role and capacity of the central government; the state continues to possess interventionist tendencies but lacks regulatory capacity, is increasingly rationalized as an adept regulator, or has transformed to account for local agency.[25] The regulatory regimes these scholars describe provide a good starting point in understanding the nature of reregulation but do not explicate sectoral variation in state control.

I contribute to the existing country-specific and international and comparative political economy literature by incorporating cross-sectoral and cross-time analysis to understanding the varying ways in which these two important developing countries are recalibrating regulatory instruments in their integration into the international economy. A systematic cross-national comparison of telecommunications and textiles, industries with different institutional legacies and structural attributes—the former a technologically advanced sector with new political stakeholders and the latter a labor-intensive and politically and developmentally established industry—provides analytical leverage in examining the true nature of market reform.[26] Comparing the same industries across countries allows me to control for sectoral characteristics, and comparing different industries within a country allows me to control for country-specific characteristics. Variation in regulatory outcomes for the same industry across countries will reflect differences, including ideological, political, and institutional, in how China and India have reregulated. Likewise, sectoral variation within the same country will reflect the importance of sectoral attributes.

Perceived Strategic Value of a Sector

The findings presented below demonstrate that the perceived strategic value of a sector explains variation in how and why each country has reregulated to enhance state control in certain industrial sectors and relinquish state control in others. A sector's strategic value shapes how the central government formulates the goals and determines the scope of state control, which authority controls economic policy, and what kinds of measures are employed. The guiding expectation for the extent (high or low) and approach (deliberate or incidental) of state control is the higher the degree of strategic value, the more likely the state will exercise deliberate control, and the lower the degree of strategic value, the more likely the state will exercise incidental control. Objective measures of strategic value include a sector's contribution to the national technology base, application to national security, and contribution to the rest of the economy.

But exactly how Chinese and Indian leaders and policy makers assess strategic value and how the state regulates in response provide additional information about the goals and means of the state. A subjective understanding of "strategic" becomes salient as we attempt to understand what may appear to be idiosyncratic decisions to intervene based on economic or political criteria. The subjective assessment of "objective" values confirms and complements the national and sectoral case studies presented below.

Sectoral Characteristics

Equally as important, sectoral characteristics also shape the state's particular approach to regulation. In other words, the core characteristics of an industrial sector (generic features and country-specific features) provide information on how a sector's strategic value to the state translates into state control. Sectoral characteristics—such as type of commodity chain dominant in an industry, position in the global product cycle, extent of integration in global manufacturing chains, economic contribution to the domestic economy, and relative political power within bureaucratic hierarchy—shape modes of governance.[27] Governments formulate state goals and methods according to their understanding of how governance structures foster combinations of technological innovation and how these structures alter the sectoral composition of the economy to reduce a country's vulnerability to the risks associated with global integration.[28]

Organization of State Institutions

The preexisting organization of political economic relationships, which are predisposed to solve certain types of technologically complex problems and create political interests, further shapes the actual substance of reregulation across time within dominant patterns of state control. The critical importance of institutional legacies demonstrates markets are institutions embedded in society and culture.[29] Even as the perceived strategic value of a sector explains dominant patterns of cross-national variation in reregulation, the organization of state institutions and the politics it generates shape how government and nongovernment stakeholders with entrenched interests influence industrial reform and the manner in which state policies are implemented and enforced during different phases of market reform.

By combining agential, structural, and institutional factors in my examination of cross-national and sectoral variation in market reregulation, this study provides a new perspective that emphasizes the role of state agency across time. At the same time, it validates the findings of the historical and neo-institutionalist literature on the causal resilience of existing ideas and institutions. It further finds that structural sectoral characteristics affect actual regulatory outcomes in large developing economies, such as China, where multiple sectors are linked to the international economy through global production systems and supply chains. The national models of sectoral integration introduced in the cases demonstrate how and why countries adopt new rules in response to state imperatives, which reflect objective and subjective views on the strategic value of industrial sectors. They further show how state–industry relations and state methods become long-term regulatory patterns, which adjust in incremental ways as a function of institutional and structural responses to economic conditions.

China and India: National Models of Sectoral Reregulation

The case studies in this section reveal that China and India's international integration follows a logic based on each respective government's subjective understanding of an industrial sector's strategic value. In conducting regulatory reform, the Chinese government shifts away from ideologically driven state control to exercise a *bifurcated strategy*. It relinquishes control of what it perceives as nonstrategic industries and enhances its control of those industries considered strategic because of their contribution to national security and the national technology base. In contrast, the Indian government exercises a strategy of *recalibrated sectoral legacies*. India reregulates to protect industries associated with Gandhian and Nehruvian ideas of political economy; it liberalizes those without a political constituency associated with the founding of an independent India and in which the government seeks to develop infrastructural capabilities and promote economic growth. Beyond these dominant patterns of reregulation, institutional and structural sectoral

Table 1. National and Sectoral Patterns of Reregulation

Country	China		India	
Sector	Telecoms	Textiles	Telecoms	Textiles
Reregulation strategy	Bifurcated		Recalibrated sectoral legacies	
Perceived strategic value	Strategic	Nonstrategic	Nonpolitically strategic	Politically strategic
State goals	Deliberate	Incidental	Mixed	Deliberate
State–industry relations	Enhance state control	Undermine state control	Generate mixed outcome	Enhance state control
State methods	Emphasize reregulation	Emphasize liberalization	Emphasize liberalization	Emphasize reregulation

factors elucidate the full complexity of actual methods of state control of FDI and industry. Table 1 summarizes the national sectoral patterns of reregulation expounded in the case studies.

China

Scholars of the Chinese political economy have argued that initial market reform rested on empiricism and relied on trial and error.[30] Although experimentation might have marked the first decade of reform, an examination of the reregulation that accompanied economy-wide liberalization shows that in the ensuing decades, the Chinese government introduced competition on the aggregate level but retained centralized control of industries strategic to national security, including geopolitics and internal stability, and with a high contribution to the national technology base. The government adopts a deliberate orientation toward these industries, such as telecommunications, retains competition between state-owned and select players, and consolidates industrial management in a supra-ministry. In nonstrategic industries, such as textiles, which contribute little to defense interests and technological infrastructural development, the government adopts an incidental orientation. It completely liberalizes market entry and relinquishes economic decision making to lower levels of government. Insulated from political pressures and in spite of the alternation between soft-liners and hard-liners in top Communist leadership, post-Mao reformers have pursued this *bifurcated strategy* to maximize the utility of market and nonmarket instruments.

Telecommunications. The introduction of competition since the 1990s in China has granted foreign and domestic economic actors access to the world's largest and fastest growing telecommunications market. Yet the number of market players and their business scope in the Chinese telecommunications industry remain well calibrated and tightly controlled. A foreign telecommunications networking equipment executive explained, "The Chinese bureaucrats have no basic understanding of the liberal economic model. China's telecoms policy process is very Soviet; very top-down Soviet-style decision-making with nationalistic impulses, protectionism, and a desire to create national champions."[31]

In 1978, the Ministry of Post and Telecommunications (MPT) owned and operated the telecommunications monopoly, managed provincial telecommunications administrations, and supervised equipment procurement. Its bureaucratic competitor, the Ministry of Electronics Industry (MEI), managed the development of the equipment sector. In the late 1980s, to upgrade the national technology base, the Chinese government began to selectively permit foreign equipment collaborations and technology transfers. In 1993, to modernize telecommunications networks, the government introduced state-owned competition by licensing China Unicom, a carrier operated by the MEI. The State Council also incorporated China Telecom and separated it from MPT. Between 1993 and 1998, a period of de facto FDI liberalization, China Unicom competed with China Telecom by courting FDI to build next-generation networks.

The Chinese government quickly followed liberalization with reregulation predicated on the perceived strategic value of telecommunications. The organization of institutions and the politics it generates shaped how the government enhanced its control even as it introduced competition; sectoral structural characteristics determined the actual methods of reregulation across subsectors. In 1997, weary of fierce competition between the service and equipment ministries and eager to manage network development for national security purposes, the State Council merged the ministries to create the Ministry of Information Industry. Less than a year after consolidating ministerial control, top Communist leadership ordered the divestment of FDI in basic services. By permitting FDI between 1993 and 1998 but eventually cracking down on "illegal" ownership structures, the government developed second-generation networks through FDI partnerships and retained control of basic services and financial profit in state hands.[32] In contrast, regulatory practice permitted FDI in value-added services (VASs) despite an official ban because VAS providers operate on state-owned and -managed network infrastructure.

In the late 1990s and through the 2000s, the State Council sought to create internationally competitive and state-owned carriers through restrictive investment rules and corporate mergers and divestments. Leading up to WTO accession, China made liberalization commitments in telecommunications services that, as of 2010, it has yet to honor. Because it views the telecommunications infrastructure as first and foremost critical for national security, the government's eagerness to mobilize investment for building infrastructure extended only as far as allowing equity but not direct investment, which would entail granting ownership, control, and management rights to nongovernment operators. Even so, private domestic entry is prohibited and foreign equity investment in fixed-line and mobile services remains less than 10% in each carrier. In addition, to stop the fierce price competition between state-owned carriers that affected service quality and profitability, the government conducted several rounds of business restructuring and regularly rotated the executive management of carriers. In 2008, the government restructured the fixed-line and mobile duopolies into integrated carriers and further consolidated its policy and regulatory authority with the creation of the Ministry of Industry and Information Technology.[33]

In the less strategic telecommunications equipment and VAS subsectors, the Chinese government decentralized licensing and certification to provincial offices of the central ministry and encouraged private and foreign investment. According to a director at the High Technology R&D Center under the Ministry of Science and Technology, "The government considers [these subsectors] less strategic than basic services because on their own they do not operate China's telecommunications infrastructure."[34] But they are important components of it—to control information dissemination, the government has increased its discretion over the business scope of foreign-invested VAS providers and regularly delays their licensing. Furthermore, to promote and control indigenous technology, the government manages the setting of technical standards through state-owned enterprises and strategic partnerships with private domestic and foreign companies. It also delays licensing new technology to incubate domestic initiatives, such as TD-SCDMA, a homegrown networking standard. In addition, the state-owned carriers balance equipment procurement among all market players, and sector associations, strictly controlled by the government in strategic industries, promote domestic equipment makers through technical standards and supply chain alliances. Foreign equipment makers predict shrinking market share for FDI within this market context.[35] To ensure market share, foreign equipment makers remain in joint ventures, no longer legally required, with state-owned equipment makers.

Textiles. "China does not have an industrial policy in clothing manufacturing. China's attitudes toward textiles, particular clothing production, and telecommunications differ like day and night," explained Julio Arias, a European Union representative who supervised the EU-China WTO Project.[36] Less concerned about controlling products or services that do not contribute to the national technology base or have applications for national security, China completely liberalized market entry and business scope in textiles and relinquished economic decision making to local governments. Local governments court private investment, including FDI, through infrastructural and fiscal incentives. FDI from East Asia and around the world floods China to build export-oriented productive capacity, and foreign brand marketers seek cost-cutting contractors. The central government retains the discretion to intervene only when social stability becomes a concern in this labor-intensive and polluting industry.

"The textile industry is China's most marketized industry," remarked Zhao Hong, a former textile bureaucrat and currently deputy vice president of the China National Textile and Apparel Council.[37] The relinquishing of state control in textiles commenced when market reforms and the decentralization of decision making introduced in the 1980s granted local governments a significant role in the management and operation of textile enterprises at the town and village levels. Further devolving regulatory control, the State Council dismantled the textile ministry in 1993.

The state's concern toward the global competitiveness of the Chinese textile industry and the organization of state institutions and the politics it generates explain state entrenchment between 1998 and 2001, shortly before China's WTO accession. Former textile officials, still powerful within state hierarchy, convinced central leadership that oversaturation in fiber processing and the slow development of technical textiles required the restoration of the textile bureaucracy. Soon thereafter, textile bureaucrats entered mills to destroy spindles and forced the closure of failing manufacturers, mergers of weak and strong companies, and industrial upgrading across subsectors.[38] The floods of 1998 in central China further justified central calls to strengthen productive capacity in industrial textiles.

The emphasis on developing technical subsectors reconciles with the strategic value logic of reregulation. In technical sectors, such as man-made fibers and geosynthetics, which have applications for construction, aviation, and military uses and contribute to the national technology base, related central ministries, such as the Ministry of Construction and Ministry of Science and Technology, regularly deploy resources to subsidize local research and development and production. They also collaborate with local stakeholders to set technical standards that impede the market access of foreign companies.[39] "The textile industry is marketized but there is still industrial policy," explained an official charged with supervising technical fabrics at the construction ministry.[40]

In 2001, immediately before WTO accession, a national sector association replaced the textile administration and local textile bureaus became business associations. These enterprise-level organizations in nonstrategic sectors regularly lobby the central government on behalf of member companies, initiate supply networks, and organize trade fairs. Moreover, in compliance with WTO commitments, the government introduced laws and regulations to liberalize foreign participation in textile trade and distribution. Although the commerce ministry retains oversight of import and export licenses and quotas, local governments administer the actual distribution. Furthermore, local authorities license and regulate business scope; the central government has retired resources to stem production or manage industrial development. The implementation of trade and market liberalization occurs according to local interests that range from maximizing FDI and local employment to protecting the local economy.

India

In contrast to China's *bifurcated strategy*, India follows economy-wide liberalization in 1991 with reregulation, which reflects a political interpretation of a sector's strategic value. Its strategy of *recalibrated sectoral legacies* is motivated by successively elected governments' interpretation of postindependence legacies for political gain. This strategy protects markets and preserves government control in small-scale, labor-intensive sectors and introduces competition in high-tech services and manufacturing sectors. Motivated by Jawaharlal Nehru's vision of indigenous technological development for the collective good and responding to an international liberalizing coalition in high-tech sectors, the Indian government exercises a mixed type of incidental and deliberate control to introduce competition and promote domestic capacity in telecommunications. In contrast, responding to the rural and agrarian interests championed by Mahatma Gandhi and intense trade unionism, the government strictly regulates competition and prohibits FDI in textiles, which is dominated by small-scale, labor-intensive manufacturers. Over time, these sectoral interests attain the political power to advance economic policies that reconcile with India's dominant patterns of reregulation.

Telecommunications. Today, the Indian telecommunications industry exemplifies the apex of a globalized India. Few regulatory barriers and an independent regulator govern competition between market players. Between 1943 and the 1980s, India's telecommunications infrastructure was underdeveloped and its equipment sector protected from foreign investment. One analyst explained,

> Adhering to Gandhian critique of technology as luxury . . . for a nation where the vast majority of citizens live in poverty in rural areas, social policy dictated public expenditure prioritized other infrastructure—such as roads and power, as well as social services like sanitation, education, and health—over expanding telecommunications.[41]

In addition, Nehruvian technonationalism nurtured state-owned carriers and domestic equipment makers and imposed limits on foreign equity and restrictions on technology imports and investment.[42]

Government policy shifted in the 1980s, setting the stage for sweeping liberalization in the 1990s. Eager to expand existing networks to rural areas with a large electorate and responding to a liberalization coalition of government technocrats and returnees from abroad, the Rajiv Gandhi administration's liberalization discourse combined Nehruvian technonationalism with the logic of markets. It also connected Gandhian values of self-reliance, village autonomy, and social equity with "appropriate technology . . . the great social leveler second only to death."[43] Rajiv Gandhi appointed Sam Pitroda, a nonresident Indian, to carry out FDI liberalization and mobilize private entry. Liberalization proved less contentious since few sectoral constituencies existed in government-owned services. Pitroda also set up the Center for Development of Telematics, which developed and licensed to private producers rural automatic exchanges for villages and larger switches for small towns. In addition, the administration sourced from domestic private enterprises and corporatized a state-owned carrier.[44]

In the 1990s and the 2000s, successively elected governments reregulated to introduce competition amid a pluralistic landscape of stakeholders, including both those opposing liberalization and those demanding network modernization and expansion.[45] India also honored and went beyond WTO commitments by liberalizing international long distance, Internet telephony, and infrastructure. Sunil Dhar, founder of the Global Internet Group, explained, "Once you open the Pandora's box of economic liberalization, it's very difficult to put it back in. Politicians want to stay in power and one way to do so is to satisfy interests in telecoms."[46] The Indian National Congress Party liberalized VAS and basic services to private domestic players and sanctioned limited foreign competition between 1992 and 1994. The Bharatiya Janata Party (BJP) government separated policy and regulatory functions in

1997 and liberalized Internet service provision the following year. The 1999 New Telecom Policy further liberalized FDI in services, rationalized the tariff structure, and introduced a revenue sharing regime. The policy also extended universal coverage when Public Call Offices converted to Public Teleinfo Centers that offered multimedia services.[47] In 2000, the BJP government liberalized market entry in national long distance service, created a Telecom Dispute Settlement Appellate Tribunal to arbitrate technical standards, and corporatized another public carrier despite resistance from state workers and their supporters in other state-owned enterprises.[48] In 2002, the government permitted a fourth mobile service carrier and issued a Universal Service Provision Guideline. At the end of the 2000s, to diversify services, bureaucrats from the Telecom Regulatory Authority of India took trips abroad to auction spectrums and seek input from those involved in global telecommunications.[49]

Market reform also liberalized equipment by reducing import duties and licensing requirements.[50] Licensing procedures and technology transfer agreements, holdovers from the Nehruvian period of techno-nationalism, however, continued to shield domestic manufacturers from foreign competition, and the Tenth Five-Year Plan's Telecom Policy provided subsidies to promote indigenous capacity and defense interests. But developments in the mid-2000s foreshadowed favorable terms for FDI. Between 2005 and 2006, the Indian government liberalized networking equipment after the Department of Telecommunications of the Ministry of Communications and Information Technology, which promoted CDMA networks, warmed toward GSM out of efficiency concerns.[51] Moreover, foreign venture capitalists have invested in Indian equipment makers producing micro base stations with solar panels that address energy concerns in underdeveloped areas.[52]

All the same, the organization of state institutions shapes how reregulation varied across subsectors. Domestic equipment makers, long protected by the state, have lobbied for protections against FDI in network procurement and market entry. Furthermore, liberalization has proven unevenly streamlined and rationalized in practice. "The sheer ambiguity of the [liberalization] process provides ample scope for politicians to engineer the transition in ways beneficial to themselves and associates."[53] The government regularly licenses the highest bidder and imposes high charges for interconnection between public exchanges and private ones, and corruption at low levels in state-owned carriers runs rampant.[54] Furthermore, continued state ownership of incumbent carriers conflicts with the regulator and an asymmetry of market power exists between new entrants and incumbents. Finally, although the introduction of private competition attracted the interests of FDI, foreign investors have withdrawn because of the lack of appropriate local partners, transparency in the licensing and tendering processes, and market demand.[55] Enforcement issues stifle FDI entry, not failure to comply with WTO commitments, nontariff barriers, or anti-FDI regulation.

Textiles. In contrast to the Indian telecommunications industry, which witnessed private sector liberalization and foreign competition in the past two decades, and the extensively liberalized Chinese textile industry, the Indian textile industry remains one of the most protected industries in India. Adhering to the Gandhian legacy of protecting small-scale industry and maximizing rural employment and self-sufficiency (*Swadeshi*) and emphasis on handwoven cloth (*khadi*), the Indian government deliberately protects textile producers and markets by updating old rules and creating new ones. One analyst explained that Gandhi's populist commitment to "love the small people" combined with Nehru's "socialist proclivities," which advocated the production of cheap cloth for mass consumption, cast a long political shadow on India's textile policy.[56] "India's nationalist imagination" of "the destruction of small-scale household-based textile production at the hands of modern textiles" reinforces that policy.[57]

The growth and modernization of the Indian textile industry, which developed capacity during British occupation, stalled after independence. To promote small-scale industries and maximize employment, the Indian government issued policies that curtailed the development of textile mills in favor of the nonmechanized, labor-intensive weaving sector restricted by British policy.[58] Regulation up to the late 1980s controlled the production type and volume of the organized mills, prevented the expansion and modernization of integrated mills, and prohibited FDI. Moreover, the government required large mills to provide a significant portion of their output to poor consumers at controlled prices. When less efficient producers faltered, the government nationalized them "to end the misery of workers."[59] These restrictions also slowed the development of garment manufacturing; they curtailed robust participation in textile chains and the market penetration of global retailers.

Market liberalization, which began in 1985 and accelerated in the 1990s, lifted some economic controls on the textile mills, but reregulation after each phase of liberalization favored low-tech, labor-intensive subsectors. The textile ministry, created in the 1980s, eliminated heavy excise and custom duties on synthetic products and instituted the Textile Modernization Fund, Soft Loan Scheme, and Rehabilitation Fund for workers. In addition, the government instituted mechanisms to enforce the Multi-Fiber Arrangement (MFA) and bilateral trade agreements and opened export windows to promote trade. To protect domestic industry, however, prohibition against FDI across subsectors continued. Man-made fibers remained underdeveloped partly because of opposition from the protected cotton sector. Other measures that benefited handlooms and disadvantaged mills included price controls on yarn, promotion of mixed and blended fabrics, subsidization of marketing facilities, and a thrift fund for workers.

In the 2000s, to enhance Indian textiles' global competitiveness and, at the same time, continue promoting small-scale rural industry, the Indian government attempted to maximize comparative advantage in handicraft textiles.[60] The New Textile Policy of 2000 "de-reserved" garment manufacturing from small-scale industry. The 1999 Technology Upgradation Fund Scheme, 2001 Finance Bill, and 2003–2004 Union Budget provided fiscal and infrastructural incentives and subsidies to invest in value-added, high-tech production; promote textile and apparel exports; and support the modernization, design capability, and flexibility of small batch production.[61]

Notwithstanding these deliberate policies to modernize the unorganized sectors, FDI in textile manufacturing and retail and distribution remains prohibited. "We do not want big brands entering India to displace existing traditional shops and retailers," a textile merchant based in Rajasthan rationalized.[62] Foreign participation in textile manufacturing is limited to production partnerships and technology transfer agreements. In retail, foreign entry is constrained to high-end, branded apparel and other textiles sold in Indian-owned franchises.

The long-term institutional protection of the unorganized sector and the India-specific structural attributes of the textile industry shape the nature of reregulation. The emotional appeal of Gandhi and Nehru's ideological commitments to a large, predominately low-skilled, rural electorate ensures support across the political spectrum for protecting the unorganized sector. Local small-scale producers routinely seek regional protection against fiscal incentives that make certain textile products less competitive to foreign investment.[63] In addition, sector and business associations and the textile bureaucracy strike bargains to compensate for new rules designed to modernize the unorganized sector. Furthermore, to circumvent protectionist policies and in response to worker strikes that crippled the strengths of textile mills, mill owners have for decades invested in the unorganized sector. The mill owners' financial interests in the handlooms and power looms reinforce the dominant pattern of reregulation in Indian textiles.

National Sectoral Reregulation in Globalization

Now that liberalization has "settled" in the developing world, the Chinese and Indian cases presented in this article expose the nuances of the ways in which the state is recalibrating its regulatory instruments.[64] These countries do not passively conduct market liberalization—they have taken a "liberalization two-step." But more than that, regulatory developments question conventional wisdom on liberalization's implications for state strength, capacity, and autonomy in the developing world. They also validate existing research on the impact of state agency and institutional legacies on the nature of reregulation in advanced industrialized countries.[65] By taking my study to the sectoral level, I further show sectoral attributes mediate the state's ability to forge industrial development in complex, modernizing economies. What is more, the Chinese example demonstrates that a country could adeptly adopt liberal economic and state interventionist instruments selectively across industrial sectors and subsectors to achieve state goals all the while inviting foreign capital and influence into domestic markets.[66] In contrast, the Indian case reveals the path-dependent effect of sectoral legacies even after what most analysts would acknowledge as a "Big Bang" break from India's political economic past.

The Chinese and Indian examples allow us to evaluate how the strategic value framework (the strategic importance of industrial sectors and the construction of this importance) explains cross-national patterns of reregulation. The evidence further reveals how country-specific and generic sectoral characteristics shape the actual substance of reregulation; the organization of institutions and the politics they generate explain variation in reregulation across time. In a context of globalizing pressures from within and without, China and India have combined liberalization with deliberate reregulation, which varies by sector. Objective measures dominate the construction of strategic value in reform-era China. This period is marked by a de facto break from ideological constraints, despite propaganda justifying market reform with "socialism with Chinese characteristics." Thus, the Chinese government reregulates with a *bifurcated* strategy, enhancing its control of industrial sectors strategic to national security and the development of the national technology base. It further relinquishes control of industries that are labor intensive, are less mechanized, and have few implications for internal or external security concerns.

The introduction of calibrated competition combined with centralized regulation of telecommunications led to the construction, modernization, and expansion of China's network infrastructure. Moreover, Chinese carriers are winning international contracts to provide services in other developing countries. Chinese equipment makers, such as Huawei and ZTE, sell their products around the world. Yet the Chinese government's micromanagement of the setting of technical standards, postponement in introducing next-generation networks, and strict oversight of carrier services delayed technological upgrading and limited domestic sector development. In addition, restrictions on content dissemination and the business scope of VAS providers disrupted the development of VAS markets. These rules have proven less effective in controlling the effects of the information revolution on ordinary citizens even as government control of the telecommunications infrastructure mediated and postponed exposure to information.[67]

The decentralization of economic decision making, unleashing of market reforms, and selective state intervention in value-added textile subsectors created an agile and flexible export-oriented manufacturing base in China and developed domestic capacity in technical textiles. All the same, myriad stakeholders, including FDI and domestic private interests, navigate a regulatory regime with unpredictable enforcement, which varies according to local interests. Moreover, market saturation prevails as private entrepreneurs enter and exit unregulated markets. Yet it is clear the long-term effects of the Chinese strategy of bifurcation have created comparative advantages in industrial development. It has allowed the Chinese government to deploy limited resources in sectors and issue areas that matter the most, thereby enhancing regulatory capacity. It has also ensured the continued survival of China's authoritarian regime. Not all authoritarian governments choose bifurcation, but the Chinese government is more insulated from sectoral interests than most because of the long-term patterns of this bifurcated strategy.

In India, where the most revered nationalist leaders came to power through struggles for independence and postcolonial nationalist narratives, successively elected government leaders assess strategic value based on national institutional legacies and power distributions. Reregulation in India, a democracy beholden to electoral interests, is thus motivated by a *recalibration of sectoral legacies*. On the one hand, the government relinquishes control of markets in previously state-owned infrastructural sectors without politically strong sectoral constituencies, to develop the national technology base and satisfy a transnational liberalization coalition. On the other hand, it continues to combine export liberalization with protectionist policies for small-scale producers and retailers, politically active sectoral interests dating to the Gandhi and Nehru periods of industrial governance. Extensive liberalization to modernize and expand telecommunications networks to rural areas in service of social equity and infrastructural development has "at each stage of the liberalization process been marked by the awarding of contracts and licenses to those with most access to the state's decision-making processes, along with many court battles and scandals."[68] Moreover, open competition in telecommunications services has resulted in inadequate provision of universal services as new entrants cherry-pick and focus investment in profitable VASs. In addition, micro-level protections, such as complicated licensing procedures and contracts awarded to domestic equipment makers, have developed domestic capacity in equipment but resulted in court rulings affirming charges of nepotism in regulatory enforcement. All the same, carriers mandated by spectrum options to expand to rural areas cooperate with the booming VAS sector to introduce new services to reach farmers and fishermen. Furthermore, VAS providers based in India have expanded globally.[69]

Market liberalization has lifted many of the controls that limited the development of large-scale mechanized textile mills and promoted growth in apparel exports. Continued protection of the unorganized sector from competition, however, has limited the development of flexibility and variability in design and lean retailing and led to the overexpansion of handlooms and power looms.

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Notes

1. See Strange (1996), Rodrik (1999), and Grande and Pauly (2005) on the former. On the latter, see Gourevitch (1978, 1986), Katzenstein (1978), Garrett and Lange (1986), Milner and Keohane (1996), Weiss (2003), Kahler and Lake (2003), Paul, Ikenberry, and Hall (2003), S. K. Vogel (1996, 2006), and Levy (2006).
2. See Zysman (1983), Kitchelt (1991), S. K. Vogel (1996, 2006), Hall and Soskice (2001), Guillen (2001), and Wilensky (2002).
3. This research is based on in-depth fieldwork conducted between 2002 and 2008 in eastern coastal and western interior provinces in China and in January and February 2006 in Delhi, Uttar Pradesh, Haryana, and Rajasthan in India. I also

conducted interviews with Indian telecommunications industry insiders in Silicon Valley, United States, in 2009 and 2010.

4. Hsueh (2011), a cross-sectoral study of China's emerging regulatory state, elaborates this conceptualization of state control with a typology.
5. See S. K. Vogel (1996). Also see S. K. Vogel (2006) for an institutionalist definition of markets. Among others, Zysman (1983) and Chaudhry (1993) have studied the intentionality of market building in advanced industrialized and developing countries, respectively.
6. This understanding of liberalization and reregulation follows S. K. Vogel's (1996) finding of "freer markets, more rules."
7. See Lardy (2002), Guthrie (1999, 2006), Zweig (2002), Huang (2003), Steinfeld (2004), and Gallagher (2005) on China's openness toward FDI as compared to Japan, Korea, and Taiwan during a similar stage of development.
8. Though China receives more FDI annually than India, this article does not seek to explain this difference.
9. See Gillespie and Peerenboom (2009, p. 9).
10. I do not classify Singapore and Hong Kong as developmental states because they did not restrict FDI. Korea and Taiwan restricted the level and guided the distribution of foreign capital, which entered in the form of foreign aid and equity investment and foreign-invested joint ventures. On the characteristics of the developmental state model, see Johnson (1982), Amsden (1989), Haggard (1990), Wade (1990), E. Vogel (1991), Evans (1995), and Woo-Cummings (1999).
11. See Bauer (1976) and Evans (1979) on the Latin American model. See Cheng and Haggard (1987), Evans and Stephens (1988), Balassa (1988), and Wade (1990) on the economic impact of the Latin American and East Asian models.
12. Combining large-*N* statistical analysis and case studies, Rodine Hardy (2005) argues that membership in international organizations is one crucial factor in explaining the timing and creation of separate telecommunications regulators. In an earlier study of textile trade, Vinod Aggarwal (1985) finds that the degree and direction of trade flows among producers, the degree of cognitive consensus on principles, and norms explain the nature of globally organized "liberal protectionism."
13. Soederberg, Menz, and Cerny (2005) argue that domestic actors and coalitions have manipulated and internalized global trends to shape the creation of hybrid social and political models that adhere to neoliberal ideas and confirm the receding autonomy of the nation-state. Also, Note 1 of this article references studies on the varying impact of globalization on government policy autonomy. For a review of the scholarship on deregulation, see chapter 1 of S. K. Vogel (1996).

14. Stiglitz (2002) examines the effects of the export of the "Washington Consensus," initiated by international institutions and hegemonic countries, such as the United States, on developing countries.
15. See S. K. Vogel (1996) on Japan and the United Kingdom, Murillo (2002) on Argentina, Chile, Mexico, and Simmons and Elkins (2004) for a large-*N* study on variation in extent of adoption of liberal reforms. Also, Snyder (2001) has observed that to the chagrin of neoliberal reformers the introduction of competition in Mexico has led to the formation of new governance institutions.
16. See Jacobson and Oksenberg (1990), Shirk (1993), Fewsmith (2001), Peerenboom (2001), and Yang (2004) on China and international organizations.
17. See Oi (1992) on local state corporatism and Perkins (1986), Nolan and Dong (1989), Parris (1993), Oi (1992, 1999), and Blecher and Shue (1996, 2001) on the local developmental state.
18. These studies include Montinola, Qian, and Weingast (1995), Lau, Qian, and Roland (2000), and Qian and Weingast (1997) on federalism, Chinese style. Also see Mertha (2005a, 2005b) on the "soft centralization" of the 1990s. He builds on studies of "fragmented authoritarianism" by Lampton (1987), Lieberthal and Okensberg (1988), and Lieberthal and Lampton (1992).
19. See Kennedy (2005), Zweig (2002), Gallagher (2005), and Mertha (2008) on the role of nonstate interests in shaping FDI liberalization.
20. See Joshi and Little (1994) and Frankel (2004) on the extent of insularity of India's economic policies across time.
21. See Jenkins (1999) and Sinha (2004), respectively, on how informal political institutions and regional state capacity and societal relations explain economic reform.
22. Nayar (2005) argues that India's economic marginalization, a consequence of postindependence insular policies that aggravated political and military vulnerabilities, provided the impetus for economic reform.
23. Varshney (1999) explains that a political logic induced by explosions of communal passions gave reformers room to pursue policy change.
24. Desai (1999) argues that political competition, a rise in demands on the state, and the external debt crisis explicate liberalization.
25. See Pearson (2005) and Yang (2004) for varying accounts on the regulatory scope and capacity of the Chinese government. On India, see Rudolph and Rudolph (2001a, 2001b) on a post-1991 central government, which serves as regulator and fiscal disciplinarian. Sinha (2003, 2004), in contrast, finds central rules, provincial strategic choices, and subnational institutional variation explain the nature of reregulation.
26. Studies on Chinese telecommunications include Mueller and Tan (1997), Lu and Wong (2003), Harwit (2008), and Wu (2009). Moore (2002) and Alpermann (2009) have studied the textile and cotton industries, respectively. Studies on Indian

telecommunications include Singh (1999), Sethi (2006), and Desai (2006). Misra (1993), Bedi (2002), and Bagchi (2004) have studied Indian textiles.

27. Gereffi (2001) argues that the characteristics of producer-driven and buyer-driven commodity chains shape variation in governance structures, and Kurth (1979) argues that how an industry fits into global markets affects industrial preferences, which shape modes of governance.
28. See Kitschelt (1991) on how certain governance structures foster certain combinations of technological innovation and Shafer (1994) on how attributes of the sectors through which states are tied to the global economy explain the relative interests and capacities of public and private actors and the state.
29. Polanyi (1944) suggests that economic rationality is culturally conditioned and the market system does not spontaneously arise, but governments actively create national markets.
30. These studies include Naughton (1995) and Shirk (1993).
31. Interview on December 8, 2005, with a foreign telecommunications executive in Shanghai.
32. Interviews between 2005 and 2008 with former and current bureaucrats of the Ministry of Information Industry (MII), the National Development and Reform Commission, and the Ministry of Science and Technology (MOST) and managers and executives of state-owned carriers and foreign-invested companies.
33. Interviews in September 2008 with MOST and MII bureaucrats and former China Unicom and China Telecom executives.
34. Interview on September 14, 2006, with a government official at MOST.
35. Interviews between 2005 and 2008 with managers and executives of telecommunications equipment makers based in Beijing, Chongqing, and southern China.
36. Interview on February 24, 2006, in Beijing.
37. Interview on March 1, 2006, in Beijing.
38. Interviews in 2006 and 2008 with former officials of the Ministry of Textile Industry.
39. Interviews with and factory visits to Chinese and foreign manufacturers of non-woven fabrics and geosynthetics in 2006.
40. Interview on March 2, 2006, with an official at the Ministry of Construction (renamed in 2008 to the Ministry of Housing and Urban-Rural Development).
41. See Chakravartty (2004, p. 233).
42. See Singh (1999) for the nurturing of domestic equipment makers during Nehru.
43. Pitroda, quoted in Chakravartty (2004, p. 238).
44. The carrier also separated from government bureaucracy. See Desai (2006).
45. See Singh (2000, 2005) and Sethi (2006).
46. Interview on January 29, 2010.

47. Privately owned Subscriber Trunk Dialing (STD) stations, many of which have transformed into Internet cafes, also proliferate India.
48. Singh (1999) and Chakravartty (2004) argue that disconnected from the low castes that dominated the telecommunications bureaucracy, the BJP pushed through privatization and FDI liberalization in the face of a massive national telecommunications scandal, a series of strikes by organized labor and service and equipment trade unions, and public interest cases launched by civil rights groups, regional rights groups, and others. Moreover, Varshney (1999) contends that passions espoused by identity politics both facilitated and limited the scope of economic reforms.
49. Communication with Indian industry insiders based in Silicon Valley in fall 2009.
50. Kohli (2004) interprets the Indian government's liberalization of private competition in information and communications technologies as a type of strategic intervention.
51. See Mukherji (2008).
52. Interview with an Indian industry insider based in Silicon Valley in January 2010.
53. See Jenkins (1999).
54. See Desai (1999).
55. See Jenkins (1999, p. 99) and Desai (2006, pp. 47-53).
56. See Kohli (2004).
57. See Kohli (2004, p. 269)
58. See Goswami (1990), Roy (1998), Misra (2000) and Bagchi (2004) on the development of the "unorganized" weaving sector—handlooms and power looms—under protectionist policies. The organized sector comprises large-scale, mechanized mills specializing in fiber processing and spinning, and producing inputs for the industry.
59. See Kohli (2004, pp. 276-277) and Nayar (1989, pp. 309, 352).
60. Interviews and conversations with Rajasthan- and Haryana-based garment and textile producers and merchants in 2006.
61. See Verma (2002) and Tewari (2006) on export competitiveness and post-MFA adjustments in India's textile and apparel industry. See Tewari (2006) on modernization of small-scale, unorganized sectors.
62. Conversation with a small-scale cloth maker and merchant on January 24, 2006, in Jaisalmer.
63. See Jenkins (1999) for details on bargains between producers and local governments.
64. I am grateful to an anonymous reviewer for identifying this particular contribution to the scholarship on economic liberalization.
65. See S. K. Vogel (1996).
66. Hsueh (2011) applies the strategic value framework to examine the nature of reregulation in China's other strategic and nonstrategic industries, in addition to telecommunications and textiles.

67. See Zhao (2002), Harwit (2008), and Zheng (2009) on the ways in which the proliferation of Internet and mobile users is poised to change the political landscape in China.
68. See Singh (2000, p. 899).
69. Interview on January 29, 2010, with S. Dhar, an industry consultant who worked closely with an Indian VAS provider that signed contracts in South America with Vodafone.

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