Economic nationalism has returned to the fore of scholarly and policy debates. The concept has taken on renewed significance in the wake of the global financial crisis as countries sought to respond to the domestic effects of the economic disaster. Nationalism has long been seen as an important factor underpinning the rise of protectionist policies from the pre-modern mercantilist era through the period after World War I that marked the end of the ‘first’ globalization. In the post-war era, economic nationalism was typically seen as a developing country phenomenon as newly independent states sought to assert control over economies that were previously controlled by colonial powers. However, in the current post-crisis period it is primarily industrialized countries, not least former imperial powers in Europe, that have been enacting nationalist responses. These developments have generated significant angst amongst liberal observers, with The Economist being particularly polemical in its characterization of this state of affairs, warning ominously that “…the re-emergence of a spectre from the darkest period of modern history…Economic nationalism…is both turning the economic crisis into a political one and threatening the world with depression. If it is not buried again forthwith, the consequences will be dire.”

Theories of nationalism are a mainstay of comparative and international political economy, historical sociology and international management (Hymer, 1960; Gellner, 1983; Calhoun, 1997; Brubaker, 2004; Bonikowski, 2008). However, while economic nationalism is regularly deployed to explain external economic policies by academics, policy analysts and the media, with few exceptions (e.g. Abdelal, 2001; Bandelj, 2011) it is often ambiguously conceptualized and in the worst instances, such as The Economist quote above, merely serving as shorthand for protectionism. Theories of nationalism have benefited from the ‘cultural turn’, which has brought analytic rigor to earlier conceptions that ascribed protectionism to countries’ ‘taste for nationalism’ as a preference for ‘psychic income’ at the expense of material returns. However, while theories of economic nationalism are pervasive in scholarly and policy discourse, conventional approaches tend to offer relatively simple and uni-dimensional conceptions of nationalism that fail to explain diverse policy responses in the face of common external economic phenomena. This constitutes a major challenge to a range of disciplines as conventional approaches may generate misleading predictions about economic policy processes and ensuing regulatory and market outcomes.

This article aims to anchor economic nationalism on firmer conceptual ground. To do so, it analyzes puzzling contrasts in policy approaches to regulating foreign investment in post-war India and Brazil (1945-1960), the ‘Golden Age’ of development when the industrial foundations of two countries predicted to be amongst the five largest economies in the world by 2050 were established. Despite many similarities in size and capabilities, as well as being considered to epitomize economic nationalism in Latin America and South Asia, respectively, Brazil and India adopted radically different approaches to regulating foreign investment. Brazil welcomed multinational firms into its manufacturing industries such as automobiles and encouraged them to take central roles, but severely restricted foreign firms in natural resource extraction industries such as oil; by contrast, India heavily regulated foreign firm entry into manufacturing, including its nascent automobile sector, yet allowed the ‘nefarious oil majors’ to dominate its petroleum sector. This pattern of variation within and across both countries is summarized in the table below. The paper thus addresses the following puzzle: why did India and Brazil regulate foreign investment in such strikingly different ways?

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The paper provides a novel explanation for variation in foreign investment policies within and across these countries cases. It argues that this puzzling pattern of variation is not readily explained by structuralist approaches based on these countries’ positions in the global economy nor pluralist theories resting on the organizational power and material resources of competing interest groups. State actors played crucial roles, but statist theories predicated on vague ideas of the ‘national interest’ provide inadequate conceptions of policy preferences. Instead the paper argues that policymakers’ preferences were shaped by contrasting beliefs in the role of foreign capital in industrial development. These beliefs were generated by socio-historical experiences and political processes during the colonial period that led to radically different forms of economic nationalism amongst powerful groups of state and societal actors. The paper thus seeks to move beyond debates on material versus ideational sources of policy preferences to strengthen theories of economic nationalism by showing how cultural, material and organizational factors interact to produce policy outcomes. These issues not only have theoretical significance for our conception of economic nationalism, but also empirical importance as they generated distinct patterns of domestic and foreign ownership and
control of industry that continue to shape contemporary market structures in these two emerging economies.

India and Brazil serve as excellent cases for comparative analysis. Not only did both countries occupy similar structural positions in a global economy that was being remolded following the massive disruptions of the Second World War, both were also seen as highly ‘nationalist’ relative to their Latin American and South Asian peers. This case selection thus allows direct consideration of a range of alternative materialist, cultural, organizational, and interest group-based explanations from competing perspectives in political science, sociology and international management. To address these questions the paper leverages a diverse sources of data including primary historical material from business and government archives along with industry and firm-level data to show that, despite having similar industrial development goals, facing similar financial and technological challenges in promoting industrial development, and confronting the same global economic environment (both the aggressive post-war expansion of US and European multinational firms as well as official development assistance that was predicated on geopolitical tensions arising from the Cold War), India and Brazil adopted radically different approaches to regulating foreign capital. This is so even as policymakers in both countries where exposed to similar economic ideas and pursued similar development goals within the same import substituting industrialization paradigm that prevailed around the world in the post-war period.

**The Argument in detail**

The paper identifies the sources of these radically different approaches to regulating foreign investment in contrasting socio-historical beliefs in the developmental role of foreign and domestic actors in the domestic economy. However, while the argument rests on the role of cultural conceptions of economic actors, it not only challenges structural-material theories of economic interests and policy preferences but also conventional cultural and ideational conceptions of economic nationalism by showing how these beliefs systematically vary across different industrial arenas of the economy. The paper argues that economic nationalism in both countries was predicated on different historical experiences and ensuing cultural logics. Indian economic nationalism emerged in the late 19th century based on the belief that pre-modern manufacturing skills had been destroyed under British colonial policies of free trade, which derailed India from following its ‘natural’ course to its own industrial revolution. Nationalist goals were thus understood in terms of was based on **regaining** this lost manufacturing prowess and **returning** India to its ‘rightful’ position as a global industrial power by **re-establishing** the manufacturing sector. Ensuring domestic manufacturing industry remained in Indian hands was thus crucial as British firms were seen as essential imperial instruments in perpetrating colonial free trade policies by facilitating destructive trade and refusing to engage in manufacturing activities. By contrast, Brazilian policymakers – even those at the forefront of nationalist agitations – had no similar social memory of past manufacturing glory. They concurred with the imperial view that ‘industry in the tropics was unnatural’ (Evans, 1979). Instead, economic nationalism in the Brazilian case was rooted in the national security objectives, beginning with late nineteenth century efforts by the nascent Brazilian military to clearly establish and defend the borders of its massive territory from
its neighbors, and later in the early twentieth century to protect what was widely believed to be a wealth of natural resources from neo-imperial powers, even though much of this ‘wealth’ in Brazil’s vast interior was speculative and unproven. These nationalist beliefs then shaped contrasting approaches to regulating emerging industries based on natural resources and manufactured inputs.

These socio-historical factors are not only crucial for understanding how nationalist beliefs interacted with the organizational power and material interests of domestic and foreign groups, but also for addressing theories that rest on the importance of colonial legacies. A quick glance at market shares across the manufacturing sector in both countries reveals consistently higher domestic shares of manufacturing industry in India as compared to Brazil. However, rather than simply concluding that India was more ‘nationalist’ due to its more recent and repressive colonial experience under the British as compared with Brazil’s more distant and benign experience with the Portuguese, the surprising outcome is that India was quite liberal to foreign investment in typically sensitive natural resource-based sectors such as oil allowing the ‘nefarious’ oil majors to gain dominant market positions (even though, like Brazil, there was widespread belief that India had large oil deposits) while restricting foreign ownership and control in manufacturing industry such as automobiles. By contrast, Brazil actively encouraged foreign firm entry to launch the automobile industry that was to be the political and economic centerpiece of its post-war industrialization drive, but at the same time enacted stringent regulations to keep the multinationals out of the petroleum industry, even though its reserves were unproven.

Finally, an intimately related question during this period concerned the balance of private versus public sector ownership in these crucial emerging industries, an issue which cannot be understood outside of the neo-imperial context of the Cold War and the delicate strategic balance that both countries sought to strike between partnership and non-alignment with the Soviet Union and the United States. The steel industry, which was widely seen as standing at the ‘commanding heights’ of modern industry, serves as an intermediate case through which to tease out the role of state versus private as well as foreign versus domestic ownership and control of industry in both country cases. The development of the steel industry also preceded petroleum and automobiles in both countries, and thus served as an important source of experience in regulating these other industries. The paper thus leverages significant within-case variation to identify the socio-historical origins of nationalist beliefs and the implications for foreign investment policy and industry, market and firm-level outcomes across both countries.

Analyzing Industry-Level Variation

Automobiles
Brazil is well known to have actively encouraged foreign firm entry as a central part of its strategy to establish a motor vehicle assembly industry. However, this effort involved little effort to promote domestic private producers. Instead, private Brazilian firms were incorporated in limited and subordinate positions as minority partners in assembly firms and as component suppliers, also often in minority joint ventures with MNCs. The
Brazilian state also took minimal role as market actor (FNM), but ultimately sold the firm to foreign investors.

By contrast, even though multinational firms like GM had established an initial presence in India from as early as the 1920s (albeit through CKD assembly), private domestic firms such as Birla, Tata and Premier Motors were promoted as vehicle assemblers and component suppliers. MNCs allowed only as minority partners with private Indian firms. Additionally, the state had no role as market actor in the post-war period.

Oil
The oil sector produced an entirely different approach to engaging with FDI as a means of establishing the petroleum industry. While the Brazilian state welcomed foreign firms into the automobile industry, multinationals were completely excluded from the petroleum sector, albeit after extensive political wrangling over foreign firms’ role. Instead, the state-owned Petrobras was created as exclusive monopolist in exploration and refining, even though widely-held optimism about the possible existence of large oil reserves were completely unproven by the available data at the time.

India took precisely the opposite approach. Simplistic assertions about India as bastion of anti-colonial and anti-FDI sentiment fail to explain why the Nehru government allowed the foreign oil majors, the most nefarious of multinationals, to take a lead role in exploration, refining and distribution. Further, materialist explanations might challenge this comparison on the basis that Brazil is now a major oil producer. However, just as in Brazil there were widely-held (if unfounded data from exploration efforts at the time) beliefs that India may have large oil reserves.

Steel as an Intermediate Case
Finally, the paper considers the development of the steel industry as an intermediate case that facilitates a discussion of the logic of state ownership and control of industries that were seen as occupying the ‘commanding heights’ of the economy in the post-war period. In Brazil, the industry was initially launched early in the century with small-scale private foreign ownership but ended as a state-controlled sector. A private foreign solution with US Steel sought under Vargas in the 1930s but low MNC interest resulted in partnership with US government after German option also extensively explored in the tense years leading up to World War II. Ultimately, the state-owned steel works CSN was founded in the early 1940s with US Export-Import Bank funds.

The India steel industry made a similar transition from private to state-owned, but in contrast to Brazil the Indian steel was launched in the late 19th century by the domestically owned Tata group which dominated the sector until the entry of state-owned firms after independence. Crucially, just as in Brazil India sought partnerships with US steel but ultimately rejected the opportunity due to differences in contractual terms governing managerial control. Instead, the state-owned steel firms were launched with Soviet support.