Chapter 12

Economic Diplomacy

Evolution of India's Economic Diplomacy

In dealings with most countries beyond India's immediate and strategic neighbourhood, India's foreign policy goals are primarily economic. India's strategy for developing partnerships with the rest of the world has evolved in response to the transformations in the global environment and India's own changing developmental needs.

Before 1991, India's interaction with the outside world was marked by a defensive and protectionist mindset, which arose out of domestic economic policies that restricted imports and foreign investment, a very modest level of foreign trade—of which a fairly large share was rupee trade with the Soviet Union and countries of East Europe—and an undiversified export basket consisting of mostly raw materials and semi-finished products. The focus of India's economic diplomacy was on export promotion, on canalized imports of critical commodities and products through public sector organizations, and on getting more bilateral and multilateral development assistance. At a multilateral level, India concentrated on South–South cooperation through organizations like the G–77 and, later, the smaller G–15. India had a very marginal role in multilateral trade negotiations within the framework of the General Agreement on Tariffs and Trade (GATT).

With the onset of economic reforms in 1991, India's challenge was to convince other countries that its economic policies were changing. The priority task of economic diplomacy in the 1990s was to attract foreign direct investment, made much more difficult because of domestic opposition. Considering themselves comparatively disadvantaged because special facilities were being given to foreign investors, many Indian industrialists—the so-called 'Bombay Club'—wanted a level playing field, without which they feared that they would be wiped out. This was a period of transition as India adjusted to the changed post-Soviet world. In India's quest for new investments, markets and technologies, the West became much more critical for India, while the importance of the former Soviet bloc countries and the relevance of organizations like G–77 and G–15 sharply declined. Its search for new partnerships led India to become a Dialogue Partner of ASEAN and a member of organizations like the Indian Ocean Rim Association for Regional Cooperation (IOR–ARC) and Bangladesh–India–Myanmar–Sri Lanka–Thailand Economic Cooperation (BIMST-EC) (since renamed as the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation [BIMSTEC]). However, India failed to get membership of either the Asia–Pacific Economic Cooperation (APEC) or the Asia–Europe Meeting (ASEM). In the Uruguay Round of multilateral trade negotiations (1986–1994), India participated more actively than before but its approach remained defensive.

It is only in the 21st century, as its economy matured, as its business community gained self-confidence, and as India began to integrate with the global economy, that India began to see more opportunities than challenges in the ineluctable process of globalization. Within India, the dismantling of the 'licence raj' and the process of economic reforms gathered momentum, resulting in fundamental and irreversible changes in the economy, government policies, as well as in the outlook of business and industry. A growing number of Indian companies became globally competitive and outward looking, and the new generation of Indians more ambitious and self-confident. Buoyed by comfortable foreign exchange reserves, both the public and private sectors of corporate India started making tentative forays into investing abroad. Gradually increasing inward flows of foreign direct investment and foreign institutional investment enabled India to cut back on its reliance on foreign aid for budgetary support and economic growth. The revolution in information technology opened up new opportunities for India's exports of services. From having a primarily agro-based economy, India emerged as an increasingly service-oriented one. As India opened up, the rising numbers and purchasing power of the Indian middle class transformed India into a large and attractive market for foreign companies. The changed scenario required India's economic diplomacy to shift gears dramatically.

In addition to export promotion, India's new economic diplomacy priorities became more diversified. Now the stress was on trying to attract more foreign direct investment, preferably for greenfield infrastructure projects, as well as foreign institutional investment in India's stock markets; to facilitate Indian investment and joint ventures abroad for profit as well as to gain access to much needed resources, raw materials and technologies; to protect and promote India's economic and commercial interests in multilateral and regional trading arrangements; to influence other countries' economic and commercial policies to create a more favourable environment for Indian business; and to use India's technical and economic assistance programme to foreign countries more effectively to serve larger foreign policy goals. Energy security, intellectual property rights, environment issues and climate change became important new areas of economic diplomacy. The increasing role of the private sector in India's economic development and foreign trade required government and private industry to work in tandem in pursuing India's economic interests vis-à-vis the rest of the world. Decentralization of economic power required that the states also be taken on board in crafting an overall strategy for economic diplomacy.

The success or otherwise of economic diplomacy depends not merely on objective realities; perceptions are equally important in 'selling' India. The stereotyped image of India is one of heat and dust, of crowds and poverty, of snake charmers and elephants, of spirituality and culture. These no longer tell the full story. Side by side, there is a new image of India that has taken shape since 1998—of a nuclear weapons power; of a politically stable and determined India; of a technologically advanced India; and of an economically vibrant India that remained unaffected by the Asian financial crisis of 1997. India's achievements in the hi-tech sectors whether they are in the nuclear and space sectors, or in information technology and biotechnology, have caught the attention of the world. Once the world saw India's teeming millions as a liability, but today India's large pool of trained manpower and knowledge workers and its youthful demographic profile make this country an attractive long-term partner. India's democratic systems and institutions, its legal system and the widespread use of English in business are seen as providing a stable, predictable and comforting framework for the rest of the world to engage India. India's entertainment industry testifies to the imaginativeness, dynamism and innovativeness of its people. Indians prospering abroad have helped to create a new image of Indian intellectual and managerial capabilities. Working together, the Indian government and private industry have also given high priority to burnishing India's image abroad.

India and the WTO

In recent years, one of the biggest challenges for India's economic diplomacy has been how to protect India's interests in the ongoing Doha Round of Trade Negotiations (Doha Development Round) under the World Trade Organization (WTO). It is important to understand the genesis and importance of WTO and GATT, its predecessor. Against the background of the Great Depression of the 1930s and the resultant trade wars after the end of the Second World War, the West established GATT (1948–1994) as a treaty intended to promote trade and economic development by reducing tariffs and other restrictions. Under GATT rules, global trade was conducted on a Most–Favoured–Nation (MFN) basis, the essence of which is that all countries grant the same trade advantages, including tariffs, to all other countries. The agenda was clearly set by the West. The biggest beneficiaries were countries whose economies were tied to the West. Communist countries with non-market economies like the Soviet Union and China were excluded. The rest of the world was mostly either under colonial rule or had just become independent. Items of interest to the developing countries like textiles and agricultural products were excluded from the ambit of GATT. Gradually, as the developing countries' economies grew stronger, they sought greater market access from the West for their competitive labour-intensive products. In the Tokyo Round of trade negotiations (1973–79) they managed to get two principal concessions in this regard—the 'non-reciprocity clause' which exempted developing countries from giving reciprocal tariff concessions to the developed countries, and the Generalized Scheme of Preferences (GSP) that permitted developing countries to export their products to the developed countries at less than the MFN rate. In the quid pro quo, developing countries had to concede some crucial matters that reduced market access for their competitive products in the developed world. The 1974 Multi Fibre Arrangement (MFA), also called the Agreement on Textiles and Clothing, established quotas on the quantities that developing countries could export to the developed countries. Non-tariff barriers became the new instrumentality of the developed countries to protect their highly subsidized domestic agricultural sector from competitive agricultural exports of developing countries.

India is a founder member of GATT, but till the Tokyo Round it played a passive role in its deliberations. India's limited agenda was to look for derogations from the MFN principle through non-reciprocal concessions and market access for its products. As India, like other developing countries, had no experience in multilateral trade negotiations and little bargaining power, it had no realistic option but to accept the rules set by the more influential members of GATT. It was only during the Uruguay Round (1986–94) that India became an active participant in the negotiations. India was still comparatively inexperienced and lacked clout, but there was a much better understanding both within the government as well as among the general public of the long-term stakes for

India in the outcome of the negotiations. After seven-and-a-half years of negotiations, at times marked by high drama and brinksmanship, the Final Act of the Uruguay Round trade negotiations, collectively consisting of about 60 agreements, annexes, decisions and understandings running into 550 pages, was signed by 123 countries at Marrakech, Morocco in April 1994. It represents the most far-reaching and wide-ranging reform of the global trading system since the setting up of GATT in 1947. The traditional definition of international trade underwent a drastic change. International trade rules now covered not only trade in goods outside a country's national borders, but new areas that impinged on domestic policy choices. The backdrop to this aggressive attitude of the West was the hubris that had overcome it after the collapse of the Soviet Union.

The outcome of the Uruguay Round was not the best deal from India's perspective of the mid-1990s. Through agreements like TRIMs, TRIPS, GATS and the Agreement on Agriculture, India was obliged to take on commitments in new areas such as foreign investment, intellectual property, services and agriculture for which it was not yet ready. However, India had no choice in the matter since the main players insisted that all the agreements were part of a whole and indivisible package—the so-called single undertaking. There were some gains too: India got greater market access; there was a commitment to end the MFA by 2005; the Dispute Settlement Understanding (DSU) provided a new more effective mechanism for settling disputes. The legal commitments of the Final Act provide the framework and the rationale for the considerable economic legislation, policies, rules and regulations introduced by India over the last 14 years or so. The Uruguay Round also decided that GATT should be succeeded by the WTO on 1 January 1995. While GATT was a treaty that laid down a set of rules agreed to by its members, WTO is an organization that is responsible for negotiating and implementing new trade agreements, and is in charge of policing member countries' adherence to all WTO agreements.

With every passing year since the setting up of the WTO, the battles within the WTO have become progressively sharper over the divergent priorities of the developed and developing countries. The Uruguay Round agreements contain timetables for new negotiations on a number of topics primarily of interest to the developed countries. On the other hand, the developing countries want the focus to be on the 'unfinished business' of the Uruguay Round and on getting the developed countries to meet the commitments they have already made. Trouble started almost immediately after the WTO came into existence. The West insisted on including areas like labour and environment in the trade agenda. At the first Ministerial Conference of the WTO in Singapore in December 1996, while the developing countries managed to keep labour standards off the WTO agenda, the West succeeded in putting on the WTO agenda four new issues, namely relationship between trade and investment, interaction between trade and competition policy, transparency in government procurement, and trade facilitation—the so-called 'Singapore issues'. Even though the pressure was kept up at the second Ministerial Conference in Geneva in 1998, the West was no longer able to determine the agenda and outcome of trade negotiations as easily as before. There was a growing awareness both among governments of developing countries, as well as among NGOs and the ordinary public not only in the developing world but the developed world too, that the benefits of globalization had been one-sided. Under the pressure of widespread protests and demonstrations by anti-WTO groups that had begun even before the meeting, the third Ministerial Conference in Seattle in November 1999 ended abruptly and inconclusively without being able to launch as originally intended a new round of trade negotiations in the new millennium.

In a bid to insulate the WTO Ministerial Meetings from public demonstrations, the fourth Ministerial Conference was held under tight security in Doha (Qatar) in November 2001. Under the shadow of 9/11, the West got its way and a new round of trade negotiations, Doha Development Agenda, was launched in Doha. This time, however, the developing countries managed to include many issues of interest to them in the work programme of the Doha Round, in particular the implementation of issues of concern to the developing countries arising out of the Uruguay Round. They also gained a psychological victory through the very nomenclature of the new round of trade negotiations that emphasized an agreed focus on developmental issues. Other principal items on the agenda for the Doha Round of trade negotiations covered agriculture, services, market access or industrial products and manufactured goods—termed as Non-Agriculture Market Access (NAMA), TRIPS and the four 'Singapore issues'. India played a key role in Doha in ensuring that the inclusion of the 'Singapore issues' was couched in ambivalent language that left the door open for the developing countries to fight for their exclusion from the negotiations. The timetable for the completion of negotiations was set for 1 January 2005.

The fifth Ministerial Conference at Cancun (Mexico) in September 2003 marked a watershed in the history of WTO. Its defining feature was the assertiveness of the developing countries in pressing their interests and their determination not to be pushed around by the West. At Cancun, sharp divisions emerged in WTO, but not necessarily along any North–South fault lines. Cancun marked the emergence of new fluid issue-based coalitions of countries within the WTO, the most important of which were the G–20 on agriculture and the G–33 on 'Singapore issues' for articulating the interests of the developing countries. The forthright stand taken by India, and its leadership role at Cancun played an important role in encouraging the developing countries to be more vocal in defence of their national interests. The Cancun conference abruptly and unexpectedly collapsed without any formal agreement, but not before three of the four 'Singapore issues' had been taken off the table, with only trade facilitation remaining on the agenda for negotiations. Although never articulated, the sub-text at Cancun was the US–led war in Iraq. Unease in most countries of the world over US unilateralism and arrogance and the brutal demonstration of the US' use of its enormous military power had created a feeling of helplessness among the world's poorer and weaker countries. This seems to have prompted them to put up a stiff resistance to systematic efforts by the developed countries to get control of their economies through the WTO system. At Cancun, the 'ants' of the world were determined to collectively take on the 'elephants'. Cancun constituted a definitive empowerment of the weak and the poor countries of the world similar to the empowerment in recent years of the historically oppressed so-called outcastes or Dalits of Indian society. It has not been possible to put back into the bottle the genie that was let out at Cancun.

Despite the collapse of the Cancun Ministerial Conference, negotiations continued. Contrary to general expectations, the unity of the developing country coalitions has survived the pressure and blandishments of the West. The developed countries have been genuinely surprised, and somewhat alarmed, by the newfound strength, cohesion and assertiveness of the developing countries. As there was no give from either side on crucial questions, it was obvious that the original timetable for concluding negotiations could not be maintained and the General Council of the WTO decided in August 2004—the so-called 'July Framework'—that the deadline for negotiations should be pushed to December 2006, a decision confirmed by the sixth Ministerial Conference in Hong Kong in December 2005. The urgency to wrap up negotiations within a year was dictated by a timetable set by the Congress of the US, the world's largest economy and trading country. It was hoped that an agreement by the end of 2006 would enable it to be approved by the US Congress under the provisions of the US President's fast track negotiating authority, also called Trade Promotion Authority (TPA), that expired on 1 July 2007, under which the US Congress would be able to approve or disapprove trade agreements without the right to make amendments. Even that date passed without any agreement. In fact, because of the continuing deadlock, the negotiations were suspended in July 2006 and, in a desperate attempt to achieve a breakthrough before the expiry of the US President's fast track negotiating authority, resumed in February 2007. A new target date of end-2008 was set for concluding negotiations, but with the collapse of the mini-Ministerial meeting called by the Director General of the WTO in Geneva in July 2008, and despite a valiant but futile effort by the G–20 Heads of State and Government at their emergency meeting in Washington in November 2008 to reach an agreement on modalities by the end of 2008, negotiations have been suspended at least till 2009.

India has an important defensive interest in agriculture in the WTO negotiations. Even though India is a marginal player in global trade in agricultural products, more than 55 per cent of India's work force is engaged in agriculture, many of them subsistence farmers without any safety nets. India considers trade in agriculture not an issue of economics but of livelihood for hundreds of millions of Indians, and is understandably resisting demands from developed countries to limit the use of the tools currently available to India to prevent a potential flood of subsidized agricultural commodities from the rich countries swamping India's markets. India's position on agriculture in the WTO negotiations is guided by the three principles of ensuring food security, livelihood security and rural development needs. Although there have been many voices urging India to take a less defensive and more flexible position on agriculture keeping in mind that in the long term India could emerge as an important exporter of agricultural products, this is not the kind of political risk that any government in India is likely to take. The ongoing global food crisis brings out the hazards of moving India, at least at the current stage of its development, irreversibly into a policy paradigm that would expose its agriculture sector to global market forces. The collapse of the July 2008 talks was on the issue of the terms of operationalization of the Special Safeguard Mechanism (SSM) that India regards as a critical defence mechanism to protect its agriculture from a surge in imports or a fall in price of farm products.

India has not taken a strong position on NAMA. Its interests are limited to ensuring that duties are not reduced to levels that would threaten infant industries, industries in sectors that employ socially and economically vulnerable sections of the population, small business enterprises that are employment intensive, and enterprises in rural, semi-urban and inaccessible regions. As a country more than half of whose Gross Domestic Product (GDP) derives from services, India has become a 'demandeur' seeking more openings for its exports in the services sector, particularly on so-called 'Mode 1'—cross–border supply—and 'Mode 4'—movement of natural persons. India has made it clear that an ambitious outcome in services has to be an essential part of any break-through package of the Doha Development Agenda.

From being a bit player in GATT/WTO, India has gradually emerged as one of the key players in the ongoing negotiations. Earlier, the key decisions on WTO were essentially taken by the so-called 'Quad' of Canada, the European Communities (the official name of the EU in the WTO), Japan and the US, and merely endorsed by the rest of the WTO membership. Today, the situation has changed. India, together with half a dozen other countries—Australia, Brazil, China, the European Communities, Japan, and the US—is a member of WTO's new inner core group, variously called the 'new Quad', the 'Four/Five Interested Parties' (FIPS), the 'Quint', the G–6 or the G–7, which has been working to achieve a breakthrough on contentious issues, particularly agriculture. As a member of these informal ad hoc groupings, India is expected to represent not just its own interests, but also those of developing countries as a whole.

There is a practical reason why the developing countries rely on countries like Brazil and India to represent their interests. As WTO negotiations have become extraordinarily complex, legalistic and jargonistic—'Blue Box', 'Amber Box', 'Green Box', '*de minimis* support', 'Aggregate Measurement Support', 'Swiss Formula', and so on—they require a great deal of sustained attention and expertise to handle the wide range of issues being discussed and negotiated simultaneously in Geneva and elsewhere. Most developing countries just do not have sufficient qualified manpower to handle the tasks, and it is left to the larger and more developed among the developing countries to represent their interests in the detailed discussions of various working groups. Even countries like India sometimes find it difficult to cope with the negotiations, since the developed countries have batteries of lawyers, experts and negotiators whose numbers India cannot match. Over the last few years, India has gradually built up its knowledge pool on WTO matters from within the government, private industry, the legal fraternity, academia and think tanks. Considering the far-reaching impact that India's WTO commitments have on India's domestic policy choices, the government does engage in extensive consultations with trade and industry, political parties and non-governmental organizations. However, more attention needs to be given to integrating the government's position on WTO issues with India's overall foreign policy.

By no means perfect, the WTO still remains the most desirable structure for trade. It already has 153 members and, notwithstanding the enormous economic and political hurdles that aspiring members have to overcome, more countries are striving to join it. All countries understand that a rules-based and transparent multilateral system is in their overall interest; the inefficient and cumbersome alternative, as countries outside the WTO painfully realize, is to negotiate separately with individual or groups of countries. In practice, the multilateral trading system has led to an enormous expansion of international trade over the last six decades.

Regional Trading Arrangements

While the WTO may be the optimal framework, it is no longer the only game in town. In recent years, as multilateral trade negotiations have faltered, Regional Trading Arrangements (RTAs) such as Free Trade Agreements (FTAs) or Preferential Trade Agreements (PTAs) have become more attractive. It is noteworthy that between 1948 and 1994, when GATT was in existence, 124 RTAs covering trade in goods were notified to the WTO, whereas after the WTO came into existence in 1995 an additional 240 RTAs covering trade in goods and services have been notified. Well over half the world's trade is presently conducted through RTAs. WTO rules do permit RTAs under certain strict conditions to ensure that RTAs complement rather than compete with the WTO multilateral regime. RTAs are admittedly inefficient and messy. They often overlap; involve complicated rules of origin and value-addition norms to ensure that third parties do not take advantage of an FTA between two countries or regions; include negative lists for sensitive products; create difficulties in administering multiple tariff lines; and are widely regarded as a trade-diverting rather than trade-creating mechanism. Yet RTAs remain popular. In practice, RTAs have allowed groups of countries to negotiate rules and commitments that go beyond what was possible at the time multilaterally. RTAs are also building blocks for a multilateral trade regime. Many countries view RTAs as a hedging strategy to guard against a crisis in the multilateral trading regime. Typically, there are six stages of economic integration starting from a PTA, going on to an FTA, a customs union, a common market, economic and monetary union, and complete economic integration. Over the last couple of decades, there has been a process of consolidation of the major trading countries into three major trading blocs, namely the North American Free Trade Agreement (NAFTA), the European Union (EU) and an East Asian bloc of the ASEAN, China, Japan and South Korea. India and South Asia are not part of this trend.

Even though its opening up has resulted in a sharp rise in the proportion of India's overall trade in goods and services to total GDP, India, with about one per cent share of global trade, is still not a major trading nation. Can India afford to be the only large, and fast growing, economy that is not part of a major trade bloc? In a long-term perspective, India has to anticipate future situations. A passive approach by India carries the risk that it could get left behind or marginalized as other major economies integrate or, worse still, that it could be excluded for economic as well as non-economic reasons. This is the economic rationale and main consideration for India's recent activism in negotiating RTAs with a wide range of countries, principally in its strategic neighbourhood. RTAs have both an economic and trade component and a strong political dimension. Thus, RTAs with India's immediate neighbours have been dictated more by political than economic logic. India and the other SAARC countries have signed the South Asian Free Trade Area (SAFTA) agreement. India has an FTA with Sri Lanka and a PTA with Afghanistan. It has concluded a Framework Agreement under BIMSTEC, and is involved with Bangladesh, China, South Korea, Sri Lanka and Laos in the Bangkok Agreement, now renamed as the Asia–Pacific Trade Agreement (APTA). It is with the countries to its east that India has the most extensive plan for RTAs. Since 2005, a Comprehensive Economic Cooperation Agreement (CECA) with Singapore is in force. India has signed a Framework Agreement on CECA with ASEAN, under which the two sides are expected to sign an FTA in goods in 2009. The Early Harvest Programme of India's FTA with Thailand is being implemented since 2004. With both Japan and South Korea, India is negotiating Comprehensive Economic Partnership Agreements (CEPAs). Looking to India's west, India has signed a Framework Agreement for Economic Cooperation with the Gulf Cooperation Council (GCC) and a PTA with Israel. In Africa, India has a Comprehensive Economic Cooperation and Partnership Agreement with Mauritius, and has finalized a PTA with South Africa Customs Union or SACU (South Africa, Lesotho, Swaziland, Botswana, Namibia). In Latin America, India has a PTA with Chile and MERCOSUR (Argentina, Brazil, Paraguay, Uruguay). These RTAs have had the effect, perhaps not unintended, of spurring progress in India's economic reforms. While the implications of these RTAs do arouse concerns among certain sections of industry, their full impact would be felt only a few years from now, but by then Indian economy would hopefully be much stronger and more efficient to withstand open competition.

Major Economic Partners

Europe's importance to India is principally as a valuable economic partner. There is a high level of trade and two-way investments between India and Europe. European countries have traditionally given a large share of Official Development Assistance (ODA) to India. India's need for capitals, markets and technology necessitate closer ties with the affluent and developed European countries. While the relative weight of Europe in India's external trade and economic contacts has gone down noticeably over the last few years, Europe does remain an important source of technology for India. Perhaps with no other region of the world are there such extensive official contacts in the form of exchange of high-level visits as with the European Union (EU) as well as individual European countries. Since 2000, there has been an annual India–EU summit, held alternately in India and Europe. While this does signal the mutual desire of Europe and India to engage with each other, the summits are rather ritualistic and often lightweight, depending on the composition of the EU 'Troika'—countries holding the present, immediate past and next Presidency of the EU. There is also frequent high-level interaction with the individual European countries, particularly the United Kingdom, France and Germany, all of which are also members of the G–8 and have a global influence.

While giving primacy to economic factors, one should not miss out some important political considerations for engaging the Europeans. The United Kingdom and France are both Permanent Members of the UN Security Council and recognized nuclear weapon States. All the European countries are NSG members and most of them also members of MTCR. As some of them have been hosting Indian extremist and secessionist groups and leaders, India has to work with the European countries to coordinate counter-terrorism efforts. Thanks to their aid packages and otherwise large economic clout, European countries exercise considerable influence among India's neighbouring countries, requiring India to be vigilant to ensure that the policies of these countries are not inimical to India's interests. Nearly all of the European countries are preachy and intrusive about democracy and human rights, which they frequently use as pressure points or non-trade barriers against India. Many European countries like the United Kingdom and France are also important suppliers of defence equipment and technologies to India. India has developed 'strategic partnerships' with the EU as well as with countries like the United Kingdom, France and Germany. However, these are not true strategic partnerships. India does not give the Europeans too much political importance because the Europeans do not individually or collectively significantly affect India's core political and security interests. For the Europeans, a large portion of whose energies are spent in any case on intra–EU integration problems, India does not figure prominently on their radar screen, since it is neither a major trading partner, nor a Permanent Member of the UN Security Council or a recognized nuclear weapons power with which they have to cut deals.

Geographical distance has been a major obstacle in building ties with Latin America even though these countries hold tremendous potential because of their large urban and literate population, rich natural resources and considerable popular and political goodwill for India. As a result of India's closer engagement with Brazil—bilaterally, in the framework of IBSA, and in the WTO—as well as the preferential trading arrangements with MERCOSUR and Chile, there is now much more awareness within Indian business circles about Latin America.

India's Foreign Assistance Programmes

Sharing India's own capabilities with other developing countries, and assisting and cooperating with them in developing their own economies has been an integral part of Indian foreign policy from its very inception. India's Independence was an inspiration and a catalyst for many other peoples under colonial rule. India gave other countries considerable political, moral, and diplomatic support in their respective struggles for independence. South–South cooperation represents the economic face of India's political support to the anti-colonial struggle. As a poor and diverse developing country that has made impressive strides in all fields after its independence, India offers an alternative model of governance and development to the one being advocated by the West as a so-called 'universal' one. Without India's support and leadership, there is little hope of bringing about a new world order that gives due importance to the imperatives of social justice and inclusive growth.

India's immediate and strategic neighbourhood of South Asia, with most countries poorer than India, is obviously a priority region for India's development assistance programme, including concessional lines of credit as well as technical and economic assistance. A large chunk of this is spent on infrastructural and other projects for economic development in India's neighbouring countries, especially Bhutan, Afghanistan and Nepal. India also gives assistance to other developing countries around the world.

Outside India's immediate neighbourhood, Africa is the largest beneficiary of India's technical and economic cooperation programme. India has given credit lines worth $200 million for New Economic Partnership for Africa's Development (NEPAD), $500 million to the Techno-Economic Approach for Africa–India Movement (TEAM–9) group of countries in West Africa, as well as bilateral lines of credit to Sudan and some other African countries. India has also made available Lines of Credit to many regional banks like the East African Development Bank, the Eastern and Southern African Trade and Development Bank (PTA Bank) of the Common Market for Eastern and Southern Africa (COMESA), the West African Development Bank (BOAD), and to the Economic Committee of West African States (ECOWAS). A few years ago, India waived off many debts owed by African countries under the World Bank's Heavily Indebted Poor Countries (HIPC) Debt Relief Initiative. Recently, India decided to give phased duty-free market access to 50 Least Developed Countries (LDCs) from Africa and Asia. India is also undertaking an ambitious Pan African e-network project for tele-education and tele-medicine.

In the 21st century India has begun to give much more focused attention to Africa through Africa's regional bodies. Apart from the African Union (AU), ECOWAS and COMESA, India has developed relationships with the Economic Community for Central African States (ECCAS), the East African Community (EAC), the Southern African Development Community (SADC), the Intergovernmental Authority on Development (IGAD), and the Arab Maghreb Union (AMU). In April 2008 India organized, in consultation with the AU Commission and member States of the AU, a representative India–Africa Forum Summit on the theme Industrial Development of Africa. The summit brought together the foreign ministers of Algeria, Burkina Faso, Democratic Republic of Congo, Egypt, Ethiopia, Ghana, Kenya, Libya, Nigeria, Senegal, South Africa, Tanzania, Uganda and Zambia—countries that represent the chairs of the regional economic communities, the founding members of the NEPAD Initiative and the current and preceding chairs of the AU. India would be able to have a much higher level of cooperation with African countries if it had more and better-staffed resident diplomatic Missions in Africa as well as more frequent high-level visits from India to Africa.

There is sometimes a perception that it is only now, after China has started grabbing Africa's resources, that India is turning its attention to Africa. While India does need more resources from around the world, including Africa, for its economic growth, it does not engage with African countries in order to exploit them. India's development assistance programme to that continent goes back nearly half a century, immediately after the African countries gained their independence from colonial rule. India's economic and technical assistance to developing countries in Africa and Asia at a time when India itself was a recipient of foreign aid was premised both on principle and on the reality that the political independence of newly independent countries would be unsustainable without a matching economic autonomy. India's forthright support for the struggle of African countries against colonialism and apartheid, and the assistance India has given them has generated genuine goodwill and trust for India across Africa. India's projects in Africa are geared towards creating value-addition for its natural resources, generating local employment, transfer of technology, and developing its human resources through training in Indian institutions as well as by deputation of experts to Africa. Africans find India's technology appropriate for their level of economic development, and India's experience in developing the small and medium sectors of its economy as particularly useful and relevant. India has not thrust projects on African countries, but has tried to take into account their developmental priorities and environmental concerns. India gives Africa not just official assistance; the Indian private sector too is involved there in a big way. Indian companies have invested in many sectors of African economies such as transport, power generation, telecommunications and other areas of infrastructure development, horticulture and agriculture.

There are at present many practical problems in extending large concessional lines of credit to developing countries. Earlier, the Government of India gave lines of credit directly to foreign governments. But there was a problem in that approach, since Indian companies simply availed of cheap governmental lines of credit to subsidize their exports, without the concessional lines of credit having the intended catalytic effect on overall economic relations. India frequently had to write off loans, as many governments did not repay them fully, or not at all. A few years ago India thought that a more practicable approach would be to authorize the Export-Import Bank and other banks to give concessional lines of credit. This approach too has its problems and limitations. As Indian banks have to follow prudential lending norms laid down by the Reserve Bank of India if their own credit rating is not to be adversely affected, on their own they cannot lend to the HIPCs or the LDCs, the categories of countries most in need of such credits but which are not creditworthy. Nor can they give lines of credit on generous terms matching those being given by multilateral aid agencies and other donors, since they have to raise the money in the market at rates much higher than what recipient countries are willing to accept. The government tried to solve the problem by providing bridging finance and repayment guarantees to the authorized lending banks in case of any default by the user of credit. As this creates a budgetary liability on the government, the government imposed a limit beyond which it was unwilling to provide bridging finance and repayment guarantees. Another reason why India seems to think it cannot be too generous in giving assistance is that extending too many lines of credit would prejudice India's own case for concessional funding from multilateral bodies and bilateral donors. There is also a feeling that India should use its resources for its own development rather than as foreign assistance. These problems are not insuperable. If India wants, it can give economic assistance through a combination of grants and concessional loans that would make Indian lines of credit competitive with soft loans available to recipient countries from elsewhere. The bottom line is one of political will and priorities. When India thinks it is a matter of strategic importance, it has no difficulty in finding funds, as seen in India's generous assistance programmes to Bhutan and Afghanistan.

Technical and economic cooperation with foreign countries constitutes a substantial part of the budget of the Ministry of External Affairs (MEA). More than 150 countries benefit from Indian Technical and Economic Cooperation (ITEC) programme as well as other specialized training programmes in areas like agriculture and science and technology. India's foreign assistance programme is a strategic tool to showcase India's technical strengths and achievements and to harness them to promote India's political and economic interests in the world. It has generated goodwill, brought economic dividends for India and built Indian brand equity, but it lacks a strategic focus. This valuable instrument of India's foreign policy needs to be sharpened. In absolute terms, the foreign assistance programme has been quite modest and has not lived up to its promise and potential. India will have to spend significantly larger sums of money on development assistance. India needs to leverage its core competencies more effectively and optimally and develop its own model of development assistance that matches India's strengths with the changing needs of the beneficiary countries. In a welcome if belated move, the Indian Government has finally decided to set up an autonomous entity, the Indian Agency for Partnership and Development, under the MEA to coordinate India's technical and economic assistance programme. Hopefully, this will help India to pursue its foreign policy goals more systematically and effectively, but only if it has a policy focus and does not become yet another low-level bureaucratic body.

Institutions and Influences

Economic diplomacy is not just MEA's concern. Other ministries and departments in the Government of India, state governments and, most importantly, private trade and industry have vital roles to play. Abroad, one should include Indian Missions and Posts, both bilateral and multilateral; India's representatives to the WTO, World Bank, IMF and ADB and overseas offices of Indian banks, public sector units and bodies to promote exports and attract investments. At the same time, MEA remains central to economic diplomacy. It must play an important coordinating role with all other concerned organizations and interest groups, and can provide value addition to the functioning of other ministries and departments. Ideally, MEA officers should be working in large numbers in key economic ministries like Commerce and Finance, as well as handling the international cooperation divisions in other economic ministries. Recognizing the importance of economic diplomacy in India's foreign relations, the government created a new post of Secretary, Economic Relations in the 1970s to coordinate all aspects of external economic relations and to be MEA's principal interface with the various economic ministries as well as with the commercial and economic wings in Indian Missions and Posts abroad. It is a great pity, therefore, that under the UPA Government this position was devalued and virtually made defunct for a long period. This development, which signals an inconsistent commitment at the higher levels of MEA to economic work, as well as other weaknesses that have crept into MEA's functioning over the years, have regrettably reduced the ministry's influence and role in economic diplomacy.

Many branches of the government now tend to act on their own in matters involving relations with foreign countries without consulting the MEA, which alone can provide an overall perspective. This is especially true of powerful economic ministries like Commerce and Industry, Finance, and Petroleum and Natural Gas that are normally headed by political heavyweights. In practice, much depends on the relative political clout of the External Affairs Minister, who is not always a member of the Cabinet Committee on Economic Affairs, and the ministers concerned, and on personal equations between senior officials of MEA and the different economic ministries. India needs to give far more attention to institutional coordination of economic diplomacy among the various stakeholders in the government. India's high-value purchases and other bargaining chips can be leveraged abroad most effectively if domestic stakeholders have the benefit of a harmonious and coordinated diplomatic effort. India as a whole loses when different branches of government act autonomously—say, the Ministry of Commerce in WTO matters or in negotiating FTAs; the Ministry of Finance on accepting foreign aid or extending lines of credit to other countries; the Ministry of Petroleum and Natural Gas and the oil companies on import of crude oil, LNG contracts and gas pipelines; the Ministry of Civil Aviation on purchasing aircraft or the Ministry of Overseas Indian Affairs in negotiating labour agreements with foreign countries. All these instances have important foreign policy implications that should require consultation with MEA. At times, MEA also takes on international commitments at high levels without consulting the implementing agencies or domestic stakeholders. This is avoidable. It is obvious that no international interaction will be meaningful or successful if it is conceived and executed as a purely foreign policy exercise that is disconnected from India's domestic realities, priorities and capabilities.

Concomitant with the significant shift in the balance of economic power from the public to the private sector in India, corporate India's influence on foreign policy has greatly increased. A large business delegation invariably accompanies the Prime Minister on official visits abroad. Indian industry's lobbying associations like the Confederation of Indian Industry (CII), the Federation of Indian Chambers of Commerce and Industry (FICCI) and the Associated Chambers of Commerce and Industry (ASSOCHAM) have emerged as important foreign policy players. These bodies are frequently co-opted by the government to handle economic aspects of foreign policy, for example, CII's annual Partnership Summit, periodic Business Summits with ASEAN and the European Union, ad hoc interactions of trade and industry leaders with visiting foreign leaders, the India–US Strategic Dialogue with the Aspen Strategy Group, the India–Singapore Chief Executive Officers (CEOs) Forum, the car rallies with ASEAN and SAARC, and the Pravasi Bharatiya Divas. Their views command considerable attention from the decision-makers since not only must foreign policy serve India's economic interests, but also because their inputs, advice, insights and networking skills are often invaluable. Another linked interest group is the affluent Non-resident Indians (NRIs) and Persons of Indian Origin (PIOs) based in Western countries who can act as force-multipliers for India's diplomatic efforts, particularly on the economic side.

Economic issues have occupied a central place in the foreign policy of all countries, particularly during prolonged periods of peace. Historically, trade has generally been the wedge that has opened the door for empires, which were established with the primary purpose of protecting and furthering the imperial country's trade and economic interests. Even today, the foreign policy of most countries is guided by economic considerations—the search for markets for goods, services and labour; for sources of raw materials and latest technologies; and for investment destinations. Whereas earlier 'economic' had a much narrower definition that was synonymous with trade, today it is a much broader term encompassing practically every non-political aspect of diplomacy. Tourism, media, entertainment, health care and education are important sectors of a country's economic growth that come under the rubric of 'economic diplomacy'. India too needs to give growing attention to its economic relationship with all countries, the more so in a globalized world. This is not to suggest that India should be complacent and naïve in pursuing only economic objectives while ignoring other traditional foreign policy concerns like security. Yet even in strategic relationships, trade and economic interaction provides a solid foundation for relations, creates interdependencies that foster mutual trust and confidence, and gives people concrete stakes in the relationship. India's economic diplomacy will be most successful if official India understands the importance of public–private partnership and an all-round coordinated national effort that involves close and purposeful cooperation with all stakeholders.