VOICE OF THE VOLUNTARY SECTOR
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India's Global Footprints

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Foreword

The end of the Cold War and the growing impacts of globalization are also making India redefine its position and role both at the regional and the global level. Since the economic liberalization of the 1990s, which led to average annual growth rates of 6%-7%, India's global presence has been steadily visible. Two issues that are shaping India's rise are the political dividend that it has garnered as the world's largest democracy and its growing economic status will cause it to emerge, along with China, as a key economic driver of the future. India, an important leader of the South, also seems to be ready to play a larger global role. At the same time, it can be said India has both the best of the First World and the worst of the Third World within its borders, and faces unprecedented human security challenges. The study also analyses India's foreign policy which aims at having friendly relations with all the nations, resolution on conflicts through peaceful means and respecting sovereignty of all the states of the world. Since the end of the Cold War and collapse of the Soviet Union, multilateralism has gained renewed attention in international relations as well as in Indian foreign policy , hence It is also interesting to see India's stand at various multi-lateral forums like G20, BRICS, IBSA, SAARC, ASEANS etc. and it's important role as the anchor of South-South Cooperation. India's participation in the SSC is bilaterally complemented by its regional cooperation efforts and increasingly proactive engagements in various multilateral forums. Glancing outside Asian periphery and acknowledging other major global economies that can gel well with Indian sentiment is undoubtedly the EU. An enlarged EU that might be willing to take on greater international responsibility would need partners for international cooperation. India and the EU have perhaps the strongest joint commitment to peace, stability, liberty, and economic prosperity. Aid delivery to its neighbors which is slowly reaching countries outside South Asia is a major Indian benchmark of recent times. This has been considered to be a bold step for a country that has a significant percentage of its population living in poverty. While India's standing of power has been gradually accepted and recognized the world over, there are still some speculations with regard to the country's ability to sustain its position in the multi-lateral platforms it belong. Although Indian policy makers assert that our aid programs are different from traditional donors, it appears, India's aid to its neighboring countries is also to some extent strategic in nature. India's ODA program largely prioritize its neighboring countries where much of the aids given are in the areas of infrastructure, education, and health and are humanitarian in nature.

With the creation of DPA, India should now be able to articulate its development cooperation agenda in a well-defined manner where its unique model of 'development compact' depicts diversity in engagement though trade and investment, technology transfer finance through credit lines and capacity building by means of a flagship program. India's aid assistance program is mostly dedicated in creating technical capacities and the provision of production support.

We would like to present this study to the Voluntary Sector that aims at creating awareness on India's stand at various bi-lateral and multi-lateral platforms at the global level. The sector has not been adequately engaged with changing nature of Indian presence outside the country. At the outset, I would like to thank Prof. Gulshan Sachdeva, Centre for European Studies, School of International Studies, Jawaharlal Nehru University for his active contribution in terms of writing this extensive research study along with Mr. Hemant Kumar Dash, School of International Studies, Jawaharlal Nehru

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This study is not only aimed for the Voluntary Sector but also for the government, common people and legislature. It could be seen as the beginning of repositioning voluntary developing organisations at the local and global levels. We do hope that this study will give birth to many more endeavours in future.

Harsh Jaitli
Chief Executive Officer, VANI

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ABBREVIATIONS

(In Alphabetical Order)

ACD	-	Asia Cooperation Dialogue
ADB	-	Asian Development Bank
AIDS	-	Acquired Immune Deficiency Syndrome
AMP	-	Automotive Mission Plan
APEC	-	Asia Pacific Economic Cooperation
ARCs	-	Asset Reconstruction Companies
ARF	-	ASEAN Regional Forum
ASEAN	-	Association of South East Asian Nations
ASEM	-	Asia-Europe Meeting
AU	-	African Union
BIMSTEC	-	Bay of Bengal Initiative for Multi-sectoral Technical and Economic Cooperation
BIPPA	-	Bilateral Investment Promotion and Protection Agreement
BJP	-	Bharatiya Janta Party
BRICS	-	Brazil, Russia, India, China, and South Africa
CEO	-	Chief Executive Officer
CEPA	-	Comprehensive Economic Partnership Agreement
CEPR	-	Center for Economic and Policy Research
DAC	-	Development Assistance Committee
DCF	-	Development Cooperation Forum
DIPP	-	Department of Industrial Policy and Promotion
DPA	-	Development Partnership Administration
DPR	-	Detailed Project Report
DSF	-	Debt Sustainability Framework
EAS	-	East Asia Summit
ECOSOC	-	UN Economic and Social Council
ERD	-	Economic Relations Division
EU	-	European Union
EXIM	-	Export Import
FCAs	-	Foreign Currency Assets
FDI	-	Foreign Direct Investment
FEMA	-	Foreign Exchange Management Act
FERA	-	Foreign Exchange Regulation Act

FICCI	- Federation of Indian Chambers of Commerce and Industry
FIIs	- Foreign Institutional Investors
FIPB	- Foreign Investment Promotion Board
FTA	- Free Trade Agreement
FY	- Financial Year
FYP	- Five-Year Plan
G-20	- Group of 20
GDP	- Gross Domestic Product
GHI	- Global Hunger Index
G-NEXID	- Global Network of Exim Banks and Development Finance
GNP	- Gross National Product
GOI	- Government of India
HCM	- Home Country Measures
HDI	- Human Development Index
HDR	- Human Development Report
HIV	- Human Immunodeficiency Virus
IBSA	- India, Brazil, and South Africa
ICPD	- International Conference on Population and Development
ICT	- Information and Communications Technology
IDPs	- Internally Displaced Persons
IEPG	- India Eminent Persons Group
IITF	- India International Trade Fair
IMF	- International Monetary Fund
INC	- Indian National Congress
INR	- Indian Rupee
INSAT	- Indian National Satellite System
IOR-ARC	- Indian Ocean Rim Association for Regional Cooperation
IPRs	- Intellectual Property Rights
ISAF	- International Security Assistance Force
ISFTA	- Indo Sri Lanka Free Trade Agreement
IT	- Information Technology
ITEC	- Indian Technical and Economic Cooperation
JV	- Joint Venture
KTI	- Knowledge Trade Initiative
LIC	- Lower Income Countries
LOC	- Lines Of Credit
M&A	- Mergers and Acquisitions
MDF	- Medium Density Fibreboard

MDG	- Millennium Development Goals
MEA	- Ministry of External Affairs
MFN	- Most Favoured Nation
MIC	- Middle Income Countries
MNC	- Multi National Companies
MNE	- Multi National Enterprises
NAM	- Non-Aligned Movement
NATO	- North Atlantic Treaty Organisation
NBFI	- Non-Banking Financial Institutions
NCAER	- National Council of Applied Economic Research
NDA	- National Democratic Alliance (BJP led)
NRIs	- Non Resident Indians
ODA	- Official / Overseas Development Assistance
OECD	- Organisation for Economic Co-operation and Development
OFDI	- Outward Foreign Direct Investment
ONGC	- Oil and Natural Gas Corporation
PE	- Private Equity
PIOs	- Persons of Indian Origin
PPP	- Purchasing Power Parity
REO	- Regional Economic Outlook
RMA	- Royal Monetary Authority (of Bhutan)
RTA	- Radio Television Afghanistan
SAARC	- South Asian Association for Regional Cooperation
SADC	- Southern African Development Community
SAFTA	- South Asian Free Trade Area
SCO	- Shanghai Cooperation Organisation
SDP	- Small Development Project
SDR	- Special Drawing Rights
SEBI	- Securities and Exchange Board of India
SED	- Strategic and Economic Dialogue
SMEs	- Small and Medium Scale Enterprises
SSC	- South-South Cooperation
STEP	- Special Terms of Economic Partnership
TCDC	- Technical Cooperation among Developing Countries
UAE	- United Arab Emirates
UN	- United Nations
UNCTAD	- United Nations Conference on Trade and Development
UNDP	- United Nations Development Programme

UNESCO	- United Nations Educational, Scientific and Cultural Organisation
UNFPA	- United Nations Population Fund
UNFSTD	- United Nations Fund for Science and Technology in Development
UNSC	- United Nations Security Council
UPA	- United progressive Alliance (Congress led)
US	- United States (of America)
USD	- US Dollar
USIBC	- US - India Business Council
USSR	- Union of Soviet Socialist Republics (former Soviet Russia)
WB	- World Bank
WMD	- Weapons of Mass Destruction
WTO	- World Trade Organization

Context Setting

It has been increasingly felt that there is a very low level of awareness among the general public, the grassroots and civil society organizations on issues relating to India's commitments at various multi-lateral platforms and the related actions at the global level.

It is very important for the country's citizens to understand India's positions on international matters like foreign aid, and its commitments at international forums like BRICS and G-20 to be able to intervene and make its perspectives heard.

So far, the Indian voluntary organizations, known as the **Third Sector** are not much aware on India's foreign policies and Indian aid given to other countries. At all levels ambiguity prevails and a dearth of information in the public domain. Given the increasingly prominent role that India assumes outside the country, it becomes imperative for the government to be accountable within the country to its people.

There is also a different side to this story. Indian voluntary organizations are not allowed to work in other countries except a few based on selected criteria which are not well known to most of the civil society organizations. An aware media and legislatures are important stakeholders in the process of a more accountable and transparent dialogue between government and the civil society groups. As civil societies and voluntary organisations are working in close sync with the people of India, they can better sense and understand the sentiments of common man. When a country like India achieves something on the global platform, political and economic cost of such actions must be known to the citizens who as exchequers are in turn responsible for its global standing. This study is an attempt to provide the voluntary sector reference material on India's global footprints. The presence of a more vibrant and informed voluntary sector is seen as an indicator of a healthy society. The voluntary organisations of India has been engaged in filling the gap of socio-economic deficit, but has very limited space in influencing the foreign policy.

With few exceptions, international policy is not usually regarded as a matter on which Indian civil society has much to say. Voluntary organisations have not shown keen interest in foreign policy issues even though India n has been an active voice of developing world supporting south-south solidarity and As India's international role is expanding, the voluntary sector should not only take more attention. It should also view this process as an opportunity, as globalization has increased opportunities and needs for contact and cooperation between civil society organisations in India and the rest of the world.

After the end of bipolar world hegemony and cold war, the role of multilateral forums became important. India also started interacting with various multi-lateral forums and has made its voice heard.

These multilateral forums designed to handle economic crisis and promote development, are seen as potential space for the engagement of the voluntary sector by the experts of the sector. On the one hand these forums deal with issues which are very important for the grass root groups like poverty, health, education, climate change, etc. and on the other hand they provide opportunity to share the experiences at global levels. Many times it is felt that these forums created to voice the concerns of the developing world and to promote south-south cooperation are tied with individual interest of the member countries. The voluntary organisations through their parallel engagement among themselves could influence the groupings. Since most of the forums are created to promote government to government dialogue and cooperation and have no accountability and reporting of progress and commitment to the public. The voluntary sector should become an active partner of the government in shaping its priorities and delivering support. The voluntary sector is known for its innovation in delivering developing projects, such innovations could be shared worldwide through these forums. But we must note here that current engagement of voluntary sector from developing world is very less as compared to the developed world.

In 1976, Daniel Bell predicted that the third sector would become the predominant sector in society, as the knowledge class overcame the effects of the private sector.[1] Inclusive participation, better coordination and strong advocacy for social betterment by voluntary organisations are the prerequisite for better national goal achievement. However, before that, understanding and disseminating knowledge is an integral aspect of learning which can enrich the functioning as well as foundational strength of voluntary sector. Only then our nation would be projected as a true global pioneer leaving footprint all across the globe in every sector and discipline, both in terms of strong internal dynamism and exemplary external role-playing. It is in this context the present study has been taken up, aiming at dissemination of information related to India's global footprints

1 Bell, D. (1976) *The Coming of Post-Industrial Society: a venture in social forecasting,* Basic Books, p.147

The Indian Factor on Global Platform

Chapter 1

Most analysts believe that the centre of gravity of the world is shifting towards Asia. It is also becoming clear that within Asia, both China and India would be playing an important role in evolving Asian security and economic architecture. The end of the Cold War and the growing impacts of globalization are also making India redefine its position and role both at the regional and the global level. Since the economic liberalization of the 1990s, which led to average annual growth rates of 6%-7%, India's global presence has been steadily visible. After two decades of outward orientation, strategic consequences of economic growth are clearly visible. Two issues are shaping India's rise: the political dividend it has garnered as the world's largest democracy and its growing economic status, which, according to projections, will cause it to emerge, along with China, as a key economic driver of the future. India, an important leader of the South, also seems to be ready to play a larger global role. India's emergence as a leading global player has also been endorsed by important players like the US (United States), Russia, the EU (European Union), and ASEAN through strategic partnerships with India. In fact, India has signed more than 30 other strategic partnerships with most important countries including Brazil, France, Germany, Japan, Kazakhstan, Saudi Arabia, South Africa, the UK (United Kingdom), and Vietnam. Since this is an ongoing process, it is important to examine the political and economic values the new evolving India endorses in the context of global governance (multilateralism, political and economic values, and international security).

To assess where India is headed today, it is important to look at the period immediately after independence in 1947, especially the first two decades. India was active with its soft power approach and played a significant role in the decolonization process. The country was also active in international institutions like the UN as well as in leading the NAM (Non-Aligned Movement). This was due to Jawaharlal Nehru's vision of India - a blend of the realist and the idealist - that as a big country with a long civilizational history, it was not merely a regional but also an international power. However, India's foreign policy choices were circumscribed by Cold War politics that defined its political, economic, and security relations with other states. Post-Cold War global politics is witnessing changes in power equations between and among states and India is no longer contained in South Asia by the Cold War rubric. Indian nuclear testing in 1998 and a steadily performing economy have changed not only India's perception of itself but also the world's perception of India. On the economic front, India is successfully managing the transition from an excessively inward economy to a more globally integrated economy. Although China has shown outstanding performance and has a significant lead over India in hard infrastructure, India's performance in soft infrastructure, with its exceptional growth in the IT sector, has changed the perception of the Indian economy to a major extent.

ADVANTAGE INDIA:

India is trying to market itself as a country with good legal structure, corporate governance, banking system, financial sector, property rights security, skilled manpower, and young work force. It has become the new economic icon of the emerging powers. In comparison with China, which has drawn in higher levels of FDI (Foreign Direct Investment) , India's development model is more driven by domestic savings and internal market. It may manage to deliver long-term economic payoffs at lower levels of investment. In an increasingly networked world, India is a brand leader enabling a technologically networked world. Unlike some of its neighbours, India views itself as a responsible nuclear power.

Its long-held democracy record and the internal fight against terrorism have found resonance among both the Europeans and the US. In the aftermath of 9/11, India was quick to offer over-flight rights and bases to the US, which signalled its new intent in foreign policy. This offer acknowledged that India was engaging the US differently, a significant step in the light of the difficult India-US bilateral relationship throughout the Cold War. The relationship has changed significantly with the signing of Indo-US nuclear deal as well as with the strategic partnership. Asia has many players and contenders to be its leader both regionally and globally. From within the region, China, India, and Japan are the key actors, while the US is the most dominant outside stakeholder in the region, followed by Russia. At the second level, there are many natural resource rich states and nuclear states in the making that can potentially alter the power dynamics in the region all the way from West Asia to the Asia-Pacific region.

INDIAN ENGAGEMENTS:

It is in this context that India's engagements with the regional and global levels are seen reflected in four sets of relationships. These engagements also reflect the structural changes in world politics, especially the fluidity in the emerging power hierarchy and India's changing political, economic, and security requirements. First, there is the immediate region of South Asia, where India shares a border with six other countries (Pakistan, Nepal, Bhutan, Bangladesh, Sri Lanka, and Maldives) which together constitute the SAARC (South Asian Association of Regional Cooperation). Since 2007, Afghanistan has joined the grouping. Due to the various accoutrements of power, sizes of population, history, civilizational role, and so on, India is the major power in South Asia. However, India's leadership of the region is not accepted unequivocally. While India considers herself to be status-quoist, the neighbours think of India as the 'Big Brother'. Pakistan, with whom India has shared a very tumultuous history since 1947, has persistently challenged this leadership and was aided by the Cold War configuration wherein it was supported by the US. Since the last flash-point in May 1999 (after both countries had gone nuclear), India-Pakistan relations have improved, especially since early 2003 with the peace process. In contrast with its pre-1990 foreign policy, India is now engaging with its neighbours differently. It is coordinating with external actors, as in the case of Nepal and Sri Lanka. Regional conflicts have also prevented South Asia from emerging as a strong economic entity and impeded the economic benefits to the countries. Thus, the uncertainty of the peace process with Pakistan and of a region that is still enmeshed in conflict has the potential to keep India tied to South Asia.

The second set is with the major Powers: US, China, Russia, EU, and Japan. In particular, the presence and role of the US and China influence the political dynamics and strategic stability of South Asia and thus constitute a part of the first set of relationships. As China emerges as the pre-eminent player in the Asia-Pacific region, many analysts in the US are speculating over whether India could be a balancer to China in the region. However, India's strategic partnerships with the US, Russia, and the EU are signs of India coming into her own and being recognized as an important contemporary and future partner. The third set of relations reflects an expanding set of networks with South-East Asian countries (aimed at enhancing trade and economic relations), and West Asia and Central Asia (focused on strengthening commercial relations and further securing India's energy security).

This also covers the Indian Ocean and littoral. The fourth set is the engagement with Latin America (long ignored earlier) and Africa, where India is actively pursuing its energy requirements. India's potential to play a global economic, political, and security role depends on developments in the international structure and regimes, regional stability, and its own domestic economic growth and internal political stability. At the domestic level, Prime Minister Dr Manmohan Singh, in various speeches, has identified the major concerns that will challenge sustained economic growth: revitalization of the rural economy, education, health, rural and urban infrastructure, environmental degradation; revitalising the state institutions for better and enhanced delivery of essential public services; upgrading the financial system for better global integration, and a better regulatory system. At a recent Leadership Summit at New Delhi, he emphasized that "We need a polity which is inclusive, equitable, caring, and just. We need a social order which every citizen owns and is proud of."

Briefly, the challenge is the transformation of the economy, including upgrading of hard and soft infrastructure, coupled with improved human resource development and governance. Further, management of the social turbulences which will result from all these economic revolutions is critical to India's success as a global actor. Externally, what is significant is the changing dynamics of the Asian region, especially given that its security and economic architecture is still emerging. Against this backdrop, the relations between India, the US, Pakistan, China, Russia, and Japan have the potential to develop in different directions. Thus, India's perception of its own role and the perception of the others is evolving and shifting.

THE OTHER WAY ROUND: BACKLOGS

Despite India's meteoric economic development, it can be said India has both the best of the First World and the worst of the Third World within its borders, and faces unprecedented human security challenges[2]. India now has 410 million people living below the poverty line as assigned by UN. About 37.2% of its population and actually 100 million more people than in 2004 and millions of India's rural poor are faced with food price inflation of up to 17%[3]. About 60% of Indian labour is still agricultural, and the integration of hundreds of millions of peasants into a modern economy may be an extremely painful process[4]. And while Indian infrastructure such as roads, civil aviation, ports, and telecommunications have experienced noticeable improvements in recent years, electricity, railways, and irrigation all still need significant investment; and India continues to lag in social infrastructure, such as education and healthcare[5]. These social inequalities have fuelled the widespread 'Naxalite' Maoist insurgency affecting vast areas throughout eastern and central India. Prime Minister Dr Manmohan Singh has clearly identified this as the "greatest internal security threat" facing the nation[6]. These internal issues pose the first major challenge to India's rise as a great power, as external projection must be based on a firm foundation of domestic stability. The requirements for domestic stability also shape India's international needs. Pant (2008) asserts that, "The biggest challenge for India remains that of continuing to achieve the rates of economic growth that it has enjoyed in recent years. Everything else is of secondary importance. … Unless India can sustain this momentum, its larger foreign policy ambitions cannot be realized"[7].

In recent years, India has experienced a political as well as economic revaluation. Due to its dominant position in a region, whose geo-strategic importance has increased significantly, partly because of continuous instability in the Afganistan-Pak region, India's political weight in the international decision-making arena has increased. India's current or future role as one of the important leaders of the developing world, as the engine of South-South cooperation, and as a key player for regional stability in South Asia, seems to be increasingly recognized by the West. This recognition is manifest in India's strategic partnerships with the US, the EU, and Germany. Yet, just as its economic rise is beset by many unknowns, India's political role is also very dependent on Delhi's future foreign policy strategy. In this area, shaping relationships with developing and newly industrializing countries in Asia, Africa, and Latin America has become a central motive for the Indian government.

In the last few years, the ASEAN countries as well as certain Central Asian, African, and Latin-American countries (e.g. Kazakhstan, Iran, Nigeria, Sudan, Venezuela, Brazil, and South Africa) have also shifted into focus as India attempts to diversify the focus of its foreign policy beyond South Asia. At the same time, on the international level, Delhi is seeking a stronger connection to multilateral organizations and sees itself as a shaping force in international regimes, and as a candidate for a permanent seat on the UN Security Council - a claim that is increasingly substantiated by the degree that Delhi can act as the legitimate speaker for other developing countries.

As indicated above, India's relationship with other developing countries has attained a new strategic value as a result of its high economic growth and increased political importance. And this is the clue to India's more intense focus on bilateral development aid, which has been apparent for some time now. India is intensifying its development

2 Sung Won Kim, David P. Fidler, and Sumit Ganguly, "Eastphalia Rising? Asian Influence and the Fate of Human Security", *World Policy Journal*, Summer 2009, p.64

3 "100 million more Indians now living in poverty", The Economic Times, 18 April 2010, available at http://economictimes.indiatimes.com/news/economy/indicators/100-million-more-Indians-now-living-in-poverty/articleshow/5829267.cms, last accessed on??

4 Bardhan, Pranab. "Crouching Tiger, Lumbering Elephant? The Rise of China and India in a Comparative Economic Perspective", *Brown Journal of World Affairs*, Fall/Winter 2006, Vol. 13, No. 1, p.51.

5 Bardhan, "Crouching Tiger", p.52

6 Pant, "Indian Foreign and Security Policy", p.231

7 Pant, "Indian Foreign and Security Policy", p 226

assistance work in order to have an additional instrument for foreign and security policy as well as for promoting external trade at hand, with which to address the challenges induced by the political and economic boom[8]. However, a big challenge for India is to maintain coherence and balance in its foreign policy. As India is currently on the path of economic liberalization where it tries to balance between state intervention and free market, the institutional change needed to assert its economic supremacy in the global market is not inevitably far off.

INDIA'S FOREIGN POLICY:

To better understand India's role in major international forums, it is important to discuss its foreign policy. The foreign policy of a country reflects its general objectives that guide its activities, relationships, and interactions with other nations. A foreign policy's development is predisposed by internal considerations, policies, and conducts of other states, or plans to advance specific geopolitical designs. Over the years, India's foreign policy evolved from somewhat ideologically motivated policy to pragmatism. In recent years, economic and energy diplomacy has also become an important part of its foreign and security policy. The NAM, which concentrated on economic and social reconstruction become detrimental to India's attempt of forging of relationships in the international arena. While the Nehru formulated non alignment philosophy serves as a political expression of India's traditional belief in peace and goodwill, what transpired is counter reflective - border concerns with Pakistan and China became full-blown disputes. After the end of the Cold War, India's foreign policy slowly shifted whereby a new understanding of the use of foreign policy was prompted through exploration of prospective developments in external relations to create opportunities for material, technological, and monetary interactions.

According to government publications, the main principles of Indian foreign policy include "a belief in friendly relations with all countries of the world, the resolution of conflicts by peaceful means, the sovereign equality of all states, independence of thought and action as manifested in the principles of non-alignment, and equity in the conduct of international relations". Another feature of the Indian foreign policy has been its strong advocacy of general and complete disarmament, with nuclear disarmament. Similarly, "India has been firmly committed to the purposes and principles of the United Nations and has made significant contributions to its various activities, including peace-keeping operations". Improvement in bilateral relations, particularly the improvement of relations with neighbors has always been one of the pillars of India's foreign policy. Another feature has been the strengthening of regional co-operation, particularly in Asia and in the Indian Ocean. In the last two decades, relations with East and Southeast Asia have been given priority through a successful look-east policy. More recently focus has also shifted towards Central Asia through Connect Central Asia policy.[9] According to former Foreign Secretary Kanwal Sibal, India's challenge is to successfully play on all geo-political chessboards and optimize what it can extract from others for its own development. This means India should preserve its independence of judgment and action as much as possible even as it conducts itself as a good and reliable partner where partnerships have been formed[10].

As discussed by Raja Mohan in his book *Crossing the Rubicon: The Shaping of India's New Foreign Policy* (2003) and as evidenced by India's participation from being a country receiving aid to a key player in contributing to other nations, the major changes in the Indian foreign policy are as follows: 1) moving towards a modern capitalist approach from having socialist ideals; 2) the central pillar of policy making that is global politics has been replaced by economic priorities; 3) swinging to a self-interested approach from third world and anti-west standpoint; and 4) shift to practicality from fundamentalism. With its foreign policy, India is able to set out a clear-cut description of how it wants to be perceived in the multilateral platforms it belongs.

8 Matthias Jobelius. New Powers for Global Change? Challenges for the International Development Cooperation - The Case of India, FES Briefing Paper 5 | March 2007

9 For details see India's Foreign Policy: Fifty Years of Achievements, available at, https://www.indianembassy.org/policy/Foreign_Policy/fp(intro).htm, last accessed on??

10 Institute for Defence Studies and Analyses, Key Speeches, November 2012

However, it should be taken into consideration that India has already been sharing its expertise and development experience with other developing countries in various platforms since its independence.

FACTORS INFLUENCING INDIA'S FOREIGN POLICY:

The major objective of India's foreign policy has been to secure for itself strategic autonomy so that it can pursue its national interest. India's critical security concerns are:

- External Security
- Internal Security
- Sustained Economic Growth
- Energy Security
- Maritime Security
- Access to Technology

This strategic autonomy is related to the international system, and one critical question for India is what kind of international system would be beneficial for it. India would like a world that is non-polarized and non-hegemonic - an aspiration no doubt for these would maximize Indian autonomy. Both India's security concerns and its relationships with the region and beyond have to be viewed within two global contexts: hegemony and globalization. As the most important military power and still one with a powerful economy, the US is the dominant military actor globally and in the region as well. A factor working to counter this concentration of power, globalization is leading to networked interdependence, especially in the economic sphere, as well as to a diffusion of power. It is also impacting on the ability of the state to shape and mould the process as the state is no longer the primary actor. India was brought up on the concept of "balance of power" but this concept is less relevant today. Both international trade and the international economy highlight that we are in an age of "power of dependence".

In order to address its security concerns, India has used a combination of domestic and societal policies and foreign policy factors. In the case of internal and economic security, economic modernization has been driving the policy impetus. Of course, one has to disaggregate the 6% economic growth to see how the non-performing sectors, especially agriculture, may lead to a major food security problem and social turbulence. India's demography will become an asset only with inclusive growth, and vigorous investment in health, education, and infrastructure that link the market needs with skill building in the young workforce. In order to enhance external security, focus is also being given to defence modernization and upgradation of weapons systems, with an inclusive nuclear doctrine based on minimum deterrence and a 'No First Use' policy. The question of how military modernization affects political stability in Asia will become even more critical as defence spending across Asia steadily increases. At the foreign policy level, there have been efforts to enhance regional stability, and to expand India's outreach beyond South Asia into Southeast Asia and Central Asia. Likewise, there is growing trend of partnerships with the US, Russia and the European Union. These policy efforts are aimed at enhancing India's hard and soft power capabilities and capacities, which will ensure its strategic autonomy and also help in achieving great power status. However, it is how India translates these into usable intentions serving its interests that will be very critical, and this is where the intellectual power of the country becomes important. In India, foreign policy making has long been the purview of the government; limited to the Prime Minister and a few ministers. The role played by the Ministry of Defence in policy articulation has not been great. Since the business, the political, and the intellectual elite have been separate groups and not co-terminus with the political parties, this has, however, allowed for a wide range of opinions to be voiced. Further, with a diversified ideological and social base, the political parties and civil society have been party to many foreign policy debates.

With coalition governments being the norm today, it is not an easy task to build consensus on all foreign and domestic policy issues. Further, with the rise of regional political parties, which are smaller but powerful in determining political outcomes, decision making is becoming more splintered. Considering the India-US Civil Nuclear Deal 2006 (which will bring to an end the technology drought India has faced since the test) drew widespread criticism in India from within and outside the government, the nuclear establishment and scientists, the opposition political parties and civil society. Similarly, the country's economic modernization and liberalization programme is proceeding slowly, primarily due to political and ideological differences on the extent of state participation and privatization on the one hand and a lack of vision, political will, and bureaucratic roadblocks on the other. Increasingly, one sees a disjunction between India's current and potential global economic and political role. While in the economic area India is exploding, the mindset change in politics has been slower. Thus, building domestic consensus for India's political, economic and security concerns within a democratic framework has been challenging and has been reflected in the kinds of strategies adopted by governments.

FOREIGN POLICY STRATEGY ADOPTED AS A GLOBAL ACTOR:

The BJP-led government's decision for nuclear testing in 1998 catapulted India to global attention and to the first rungs of the major powers as some Indian analysts argued. Since the nuclear tests, there has been a new assertiveness in the Indian foreign policy. It is not that the successive Indian governments have renounced the Nehruvian view of world politics. However, along with the high ideals and the strong self-image espoused by Nehru, there is a new-found pragmatism and confidence. India seeks to project itself not only with words and ideals, but with a growing economic power registering a steady 7%-8% growth in the last few years. And more significantly, India is increasingly moving from the power of the idea to the new argument, which is to augment economic and political power. Freed of the structural limitations of the Cold War, India is seeking to build strategic political and economic alliances at the bilateral, regional, and global levels that hold promise of rich security dividends. Indian foreign policy, which during the Cold War was marked by Non Alignment, today appears to be pursuing a policy of neo-non alignment - engaging many to meet its different security requirements. The key to India projecting itself beyond the region is to have and ensure stability in the region. In South Asia, it is engaging its neighbors both bilaterally and more so, within a regional framework (SAARC), in order to achieve its other foreign policy objectives. There has been a steady improvement of relations with all the neighboring states and this augurs well for India. The peace process with Pakistan in the West and the border talks and increased trade with China in the East may bring new dividends and operational space for India.

India's efforts at engaging the regional levels have been more noteworthy. It has sought membership and representation (even if it only as an observer) in regional organizations in Southeast Asia and Central Asia that seek to project India into the region and also to facilitate alliance building. These efforts have been driven by both political and economic considerations. India's "Look East" policy has brought it substantial visibility in Southeast Asia (a region which is increasingly being influenced by China). Some analysts say that this not only confirms India's increasing economic presence but is also a welcome move by the ASEAN countries to counterbalance China. After all, China is part of many regional organizations, from the ARF to the EAS (East Asia Summit), and is expanding its influence in Central Asia as well as through the SCO (Shanghai Cooperation Organization) . It is interesting to ask here whether India has become de-hyphenated from Pakistan, but only then to be hyphenated with China. India does not view this as a counterbalancing move, but looks at the region with which it has had long historical and trading links, as a natural trading partner. This also fits in with India's strategic vision of the Indian Ocean, where it defines its maritime security as extending from the Gulf of Hormuz in West Asia to the Straits of Malacca in Southeast Asia, a fact reiterated also in the Ministry of Defence Annual Report. This large maritime zone is home to some of the world's busiest sea lanes for oil and raw materials, both of which are critical to India's sustained economic growth and thus linked to her economic security.

Further, the role of Indian Diasporas, which are economically strong and visible, and a growing political conscious of its influence in the US and Great Britain is earning India valuable political and economic mileage. Consequently, even as India increases its diversified regional presence, it is speaking in a new voice which is not representative of just the Third World. As a state in transition to a new identity and role, it seeks to not only articulate its national interest but also to speak for development issues. The challenge for India is that it cannot be a regional or global actor and sit on the fence. Rather, it will increasingly be called upon to take a political stand. India's foreign policy today demonstrates an increasing tempering of idealism with pragmatism and it continues to pursue a multilateral and a rule-based global governance.

INDIAN IMPLICATIONS FOR GLOBAL ORDER:

In a globalized world, just as India engages the world, it is also being engaged by the world. The most dramatic transformation has been in the India-US relationship. Freed from Cold War rhetoric, these two countries have moved from being 'estranged democracies' to 'engaged democracies'. The new dynamism in their relationship is so profoundly different that the US, for the first time in its bilateral relation with India, is engaging it as totally de-hyphened from Pakistan. Second, it is pursuing a strategic partnership with India that endorses India's current and future potential for the region and the world. Third, the India-US Civil Nuclear Deal de facto recognizes India as a nuclear power and has secured for it exemptions from the current nuclear regime. But the major question here is, will this be an *enduring partnership*? This is important as the US and Europe / EU are engaging the two emerging powers, China and India, which are pursuing two very different political and economic models of growth. India's strength and its ideational proximity to the West lie in its being the world's largest non-western democracy.

India has successfully integrated its pluralism and diversity with institutionalized democracy that has the potential to be a model for others. India's pursuit of closer ties with its neighbors in the region and with key external actors in the region is not haphazard. Rather, and as one would expect, India is systematically targeting states that will bring it specific and tangible security, political and economic benefits. To its advantage, China has a dynamic region around it - Macau, Hong Kong, and South Korea fuelling growth and the transformation of bureaucracy that will enable it to be the architect of its new destiny. India's challenge is the lack of such a dynamic immediate neighborhood and the existence of a rigid bureaucracy. India's engagement at the international level has an intrinsic national interest to see peace and security in as large a region as possible. That is one reason why India has participated in the UN efforts to promote peace and peacekeeping. India aspires to a multi-polar, rule-based, multilateral system. However, it is India's political and economic relations with the existing and emerging powers that will have a major impact on future global political and economic governance. India's foreign policy looks beyond the neighborhood to secure its economic interests - especially access to raw materials and energy supplies both of which can put it on a competition course with China, especially in Central Asia and Africa.

For other countries, China and India jointly represent a new emerging challenge called 'Chindia'. As both these Asian powers come into their own, the question as to whether they will endorse current global governance or seek to mandate their own rules is open to speculation. Assessment of Indian foreign policy today shows that it seeks to enhance its power and influence by enhancing bilateral cooperation with the US, Europe / EU, China, and Russia as well as by engaging and participating in regional arrangements and international organizations and skillfully using its soft power. Its growing cooperation with Israel, especially in the military field, and continued relations with the Arab world showcase the fine tuning between its external and internal security concerns. The evolving international order is going to be Asia centered and polycentric for a variety of reasons.

Since India's interests encompass far more than just the region mentioned, it is thus in its interest to shape that Asia-centered century into a more cooperative space. India has to project itself as a confident and dynamic country that is ready to play a larger role to ensure stability, security, and peace in the world.

1. *After Second World War, the world became hostage to bipolar power centres under the leadership of USA and USSR. After the disintegration of USSR the world became unipolar with America emerging as centre of power. It was only in 1990s when the dominant economics became slow; Asia became the centre of attraction of economic growth.*
2. *Since the economic liberalisation in 1990s, which lead to average annual economic growth rates of 6-7%, India marked its presence in the global stage.*
3. *Along with Brazil, Mexico, South Africa, India has become important voice of South. This has also lead to its increased partnership with important players in the world, like USA, Russia, China, European Union, ASEAN, etc.*
4. *After its independence India played important role in decolonisation process. It not became active in United Nations but also became one of the founders of Non-aligned Movement, which emerged as the counter to the bipolar world and cold war.*
5. *Functional democracy, strong legal structure, growing skilled workforce, are considered as the strength of India.*
6. *Along with 6 other countries of South Asia, India formed the South Asian Association of Regional Cooperation (SAARC), but due to conflict between the major countries of South Asia, SAARC is not much effective as economic or political association.*
7. *While its diplomacy in South Asia is influenced by security compulsion, its relationship with ASEAN, EU and USA is determined by economic interest and with Africa, Africa, Latin America and Middle East with its energy requirement.*
8. *Although India projected itself as rising economic power, it is still facing challenge of revitalising rural economy, education, health, rural and urban infrastructure, environmental degradation.*
9. *Quite substantial portion of Indian population still lives under acute poverty. This gap between what is projected of India and what is domestic reality has huge reflection.*
10. *For almost five decades India was recipient of foreign aid, but now it has also started contributing as donor country. India is also considered as the spokesperson for the developing south.*
11. *India is intensifying its development assistance work in order to have an additional instrument for foreign and security policy as well as for promoting trade at hand, with which to address the challenge induced by the political and economic boom.*

Rising Role of India in New Global Economic Order

Chapter 2

While India's economy is less than a quarter the size of China's, its growth since economic reforms began 20 years ago has exceeded many expectations, says a prominent Indian economist Isher Ahluwalia. In a keynote address at the Fung Global Institute's Asia-Global Dialogue she outlined what India should do to face its complex challenges and integrate more with Asia and the world. India has been one of the fastest growing economies in the world for the past two decades. India made a radical break in 1991 from its past policies of inward orientation and started a process of opening up to trade and foreign investment. The growth response emerged a decade later as the cumulative impact of the gradual reforms began to be felt on the investment environment. India's GDP (gross domestic product) growth was of the order of eight plus per cent per annum during 2001/11. To put things in perspective, India's interface with the global economy is much less than China's. Between 2000 and 2011, China's contribution to world GDP increased from 3.7% to 10.5%, while India increased its contribution from 1.5% to 2.4% over the same period. China's economy is more than four times the size of India's. The absolute contribution of the Indian economy to world GDP is therefore much smaller. But there are important ways in which India has both contributed to the global GDP and also exploited opportunities in the global marketplace. India recognizes the importance of interdependence in the new global economy and its responsibility to reform the institutions of global governance. We must also integrate at a faster pace with the rest of Asia. However, we must first and foremost lift our own burden. Below are highlighted a few important aspects of the economic reform process in India to provide a context in which we can talk about India's role in the global economy.

1. India started economic reforms 20 years after China and has performed very well, actually beyond the expectations of many.
2. Indian economic reforms were gradual because in a democracy you have to build consensus along the way.
3. The reforms were carried out at "the centre" and in the states by a number of different political parties and their combinations that were in power. The result is that reforms have acquired wide ownership across the political spectrum. This is very important in a democracy.
4. The success of Indians in the IT sector in the industrialized world, particularly the US, and the development of a vibrant and competitive IT industry in Bangalore and around meant that NRIs (non-resident Indians) and their Indian partners in the IT sector became an important voice for modernizing the Indian economy and helping it to become globally competitive.
5. The private sector has been a major player in the Indian growth story. The acceleration in economic growth was led by the private sector. The Indian private sector waited and watched the reforms unfold in the 1990s. Once they were convinced that reforms are there to stay, the decade of 2001-11 saw a strong pick up in private investment.
6. The success of IT was followed by the promise in financial services and health services. Pharmaceuticals, auto components, and later the automotive sector have showed their competitive strength. Slowly skepticism gave way to confidence.

An important point to note is that in the more recent period, growth has become more broad-based across the many states of India, poverty has declined, and inclusion has emerged as a major concern. There has been much more spending on inclusion and social protection. This was made possible by the buoyancy of revenues as growth surged. Of course, the government policies played a major role in creating the environment for growth. Going forward, there are challenges: some old, some new. The ongoing challenges involve providing world class infrastructure for a rapidly-growing economy, particularly in the telecom and power sectors, and macroeconomic management involving fiscal reform and monetary policy in an open economy context. The new challenges include how to bridge the gap between a growing demand for different skills as the economy resumes its journey on a high-growth path, and their supply. The Government of India's National Skill Development Initiative uses public-private partnership to address this challenge. Secondly, how to invest in cities so that they can play their role as engines of growth. India is relatively less urbanized: 31% of India's population lives in urban areas, but India is at the cusp of rapid urbanization. Urban population is projected to increase from 377 million in 2011 to 600 million by 2030/31. It is extremely important to invest in transit-oriented planning for these cities with major focus on water, sanitation, and affordable housing for the low-income groups. Connecting large cities with small or medium cities / towns, and the latter with rural areas in their vicinity is equally important.

When an economy is undergoing a structural transformation, especially in a democratic regime with an open and vibrant media, the stresses and strains are there for all to see. There is need for institutions of governance to adapt and adjust. This is true as much of the legislature and the judiciary, as it is of the institutions providing regulatory framework. Until the reformed institutions are in place, it would seem like collapse of governance, but the system is in motion with institutional reform catching up with the emerging requirements. External economic environment has turned adverse with rising protection and rising energy prices. In the five years prior to the global financial crisis of 2008, the Indian economy had averaged 9% annual GDP growth. In the aftermath of the crisis, there has been a slowdown and a question on the minds of most observers is whether this slowdown is cyclical or is the economy moving to a lower growth rate in the medium term.

Like the rest of the world, the Indian economy is also facing serious challenges: inflation is high, growth is declining and investment is slowing down, current account deficit is rising, fiscal deficit is high, and the exchange rate is under pressure. Some of this is because of the global slowdown and apprehensions on what the effect of the eurozone crisis will be. However, a lot of it is also the domestic mood, uncertainty on the policy front, and civil society movement against corruption. Assessing here the global sentiment and trend with due weightage to aspirations looking ahead for a global footprint, there are some major challenges before Indian policy makers. India must get out of the traditional notion of satisfaction in everything and act together to get back to 8 - 8 1/2 per cent per annum growth. This requires looking towards Asia, if markets in the West are slowing down, and offering markets to Asia. Some positive aspirations can be drawn from South Asian economic integration which is moving ahead (SAFTA, SAARC Agreement on Trade in Services).

Along with this, India-Sri Lanka FTA currently negotiating India-Sri Lanka CEPA and most recently, Pakistan took the initial steps towards granting an MFN status to India by moving away from the positive list to a short negative list in November 2011 and further streamlining it soon. Comprehensive FTAs have been signed with Singapore, Korea, Japan, and Malaysia and FTA in goods has been signed with ASEAN. Comprehensive Agreement is under negotiation with an Early Harvest Agreement being signed with Thailand and a Comprehensive Agreement being negotiated. ASEAN - India Eminent Persons Group (set up by the respective governments) is at work towards better economic integration. New opportunities in Myanmar (opening up trade route to Thailand and to other Southeast Asian countries) are being explored. India has large autonomous engines of growth that need to be put on track. For example, urbanization presents a huge opportunity with large investment needs - $800 billion over the next 20 years. PPPs (public private partnerships) will play a major role in these investments. Demographic opportunity must be turned into a dividend: today, 50% of India's population is under 25 years of age. Those who were born in 1991 when economic reforms were launched have turned 21. Aspirations are rising. The Demographic Opportunity is increasing for India because the percentage of population of working age will continue to increase for another 40 years. This must be exploited with greater focus on skills to negotiate as well as redefine our global presence across the globe. We can do so while increasing our integration with Asia and the world with equal vigor and innovation.

INDIA AS A RISING POWER AND ITS ROLE IN MULTILATERAL FORUMS:

Since the end of the Cold War and collapse of the Soviet Union, multilateralism has gained renewed attention in international relations as well as in Indian foreign policy. According to IR theory, multilateralism involves justice, obligations, and a sort of international rule of law. For Keohane, multilateralism is 'the practice of co-coordinating national policies in groups of three or more states, through ad hoc arrangements or by means of institutions[11]. Since the 1990s, India has actively engaged itself in several multilateral forums like G-8-05, G-20, IBSA (India, Brazil, and South Africa), IOR-ARC (Indian Ocean Rim Association for Regional Cooperation), ASEM (Asia-Europe Meeting), BIMSTEC (Bay of Bengal Initiative for Multi-sectoral Technical and Economic Cooperation), and ACD (Asia Cooperation Dialogue). India's active participation in the formation of BRICS (Brazil, Russia, India, China, and South Africa) forum with these emerging powers shows its willingness for multilateral cooperative arrangements to solve shared problems and challenges of globalization.

Besides, India has played a major role in WTO negotiations. It is already among the largest contributors to the new UN Democracy Fund. It has also lobbied to join the ASEAN, APEC (Asia-Pacific Economic Cooperation) . All these are part of its assertion and growing importance internationally. India is also emerging as a leader in South-South Cooperation. India co-founded the G-NEXID (Global Network of Exim Banks and Development Finance Institutions) in 2006. It promoted the setting up of the DCF (Development Cooperation Forum) under the aegis of the UN ECOSOC (Economic and Social Council) in 2007.[12]

Since the 1990s, India's foreign policy has gone through a metamorphosis in tune with the changing global scenario. The disintegration of USSR, demise of the bipolar world, and domestic economic problems prompted India to reassess its foreign policy and adjust its foreign relations of the earlier decades. Serious domestic and international problems compelled India to reorganize its foreign policy on the basis of more pragmatic considerations. In today's era of globalization, it has improved its relations with the US and other western countries, established relations with Israel and embraced multilateralism, to solve its major problems on the economic front. This is in sharp contrast to the earlier era of rigid bipolarity and East-West rivalry, which was marked by ambiguity among Indian foreign policy makers with regard to transnational cooperative arrangements.

The section below provides some initial perspectives on the evolution of multilateral forums like G20, BRICS, IBSA, and others and also examines India's recent cooperation with the member countries, to better understand its emergence and implications.

Indian Foreign Policy Objectives are influenced by strategic and economic considerations. *It has a mix of idealism of non-alignment, non-proliferation for nuclear weapons along with pragmatism of national security, energy requirements, and global positioning. It has always been influenced by domestic compulsions and global realities. Undoubtedly, demography is an asset, but at the meantime deficit in education, health and infrastructure plays an important impact.*

The voluntary organisations of India has been engaged in filling the gap of socio-economic deficit, but has very limited space in influencing the foreign policy. The voluntary organisations have not shown keen interest in the issues related to foreign policy. Indian is also seen as the voice of developing world and Indian voluntary organisations have very impressive footprint at global development stage.

(I) BRICS:

It is a unique grouping with shared opportunities and common challenges. Formalized with the first meeting of the foreign ministers of Brazil, Russia, India, and China in New York on the margins of the UN General Assembly in September 2006, in a short span of time, the grouping has come a long way and has evolved a number of mechanisms

11 Robert Keohane, "Multilateralism: An Agenda for Research", International Journal, Vol. 45, Autumn 1990, p. 731

12 India: Transiting to a Global Donor-C.R.Bijoy

for consultation and cooperation in a number of sectors. South Africa joined the grouping at the third Summit in Sanya, China in April 2011.

The agenda of BRICS meetings has considerably widened over the years to encompass topical global challenges such as international terrorism, WMDs, climate change, food and energy security, MDGs (Millennium Development Goals), and international economic and financial situation. Four BRICS summits and meetings of foreign, finance, agriculture, and health ministers, and high representatives on security, and other sectoral meetings have helped further deepening of cooperation amongst BRICS countries.

However, BRICS are not among the most prosperous countries according to per capita income. India has only recently moved from LIC to MIC status and all BRICS are facing serious disparity and poverty challenges themselves. However, through their strong economic dynamics as well as territorial and demographic dimensions BRICS are influencing global economic development to a great extent. Reflecting their increasing relevance, BRICS have started to constitute a strategic alliance with institutionalized meetings on ministerial and presidential level. Although the primary objective is to gain influence in institutions of global governance, their strategy is based on multilateral soft balancing and SSC. This has considerable impact on the international aid-architecture and needs to be taken seriously in EU development policies.

BRICS Development Policies:

SSC has been institutionalized in all BRICS and turns out to be an important challenge for international development strategies of the EU since South-South dynamics seem to be out of reach. However, if awareness of SSC is improved, it can also be reflected in EU relations with BRICS. From the BRICS' perspective, SSC has three important dimensions (Orgaz *et al*. 2011):

- Political dimension: to create spaces for autonomous discussion, independent of OECD-countries
- Economic dimension: Trade, financing, and ODA (official developmental assistance)
- Technical dimension: exchange of expertise and technology know-how.

	Brazil	Russia	India	China	South Africa
Development Institutions	Brazilian Agency for Cooperation, subordinated to the Ministry of Foreign Affairs	M. of Foreign Affairs and Ministry of Finance	Several ministries and governmental institutions, led by Ministry of Foreign Affairs	Ministry of Finance, Ministry of Foreign Affairs, Ministry of Commerce (lead)	Department for international Relations and Cooperation
Major Partners	Paraguay, Bolivia, the Andeans, Haiti, lusophone Africa	Former SU states, SSA	Bangladesh, Bhutan, Nepal, Sri Lanka, Myanmar, Mauritius	Angola, DR Congo, Sudan, Brazil, Venezuela, Asian and Europ. countries	DR Congo, Sudan, Comoros, Zimbabwe
Regional Integration	Mercosur	-	SAARC	SAARC (observer)	SADC, AU
Key Sectors	Agriculture, Education, health	Food security, health	Education, health, rural development,	Agriculture, Infrastructure, public facilities	Post-conflict reconstruction
Strategy/ Goals	Non-interference, regional integration	Multilateral channels	technical cooperation	SSC, trilateral and regional cooperation	Regional security and stability
Foreign aid in USD (World Bank 2011)	362 m – 1 bn (2009/2010)	472 m (2010)	700 m (2009)	1.9 bn (2009)	100 m

Foreign aid in USD (World Bank 2011)	362 m – 1 bn (2009/2010)	472 m (2010)	700 m (2009)	1.9 bn (2009)	100 m
In % of GDP	0.02 – 0.05	0.03	0.05	0.04	0.04
other estimates USD (Walz/Ramachandran 2011)	356 m – 4 bn	785 m	488 m – 2.2 bn	1.5 bn – 25 bn	109 m - 475 m
Multi-/ bilateral aid (World Bank 2011 / Walz/ Ramachandran 2011)	68 % multilateral (Mercosur/ IADB)	large amounts multilateral	80 % bilateral	mainly bilateral	75 % multilateral
Others: 2010 Population in million (UN)	195	143	1.225	1.341	50
2010 GDP per capita in USD (UN)	10.716	10.351	1.406	4.354	7.255
2010 GDP growth rate (UN)	7.5%	4%	8.8%	10.4%	2.8%
Gini-index (World Bank)	54,5 (2008)	42.3 (2008)	36.8 (2005)	41.5 (2005)	67.4 (2006)
HDI / rank (UN 2011)	0.718 / 84	0.755 / 66	0.547 / 134	0.687 / 101	0.619 / 123

Table: 1 Major Statistical Components of BRICS Countries; Source: ictDATA.org

The Swinging position of India in BRICS:

Though, India well deserves to be considered as one of the world's highest potential economies given its population, democracy, growing domestic market, important role in global technology, and investment in various other sectors, just being a member of the BRICS hasn't helped India avoid being the only major emerging market to experience declining foreign investment in the past two years and a downgrading of its banking sector debt. On the question of BRICS unity, the long-term significance of the hand-holding that goes on at such summits is absurd. The rise in cross-currency denominated trade that the BRICS have begun (Russia and China started almost two years ago, and the UAE and China this year) is a very important trend, and speaks to their common interest in diversifying away from US dollar dependence. However, the seething worries and even hostility between the BRICS themselves is a far larger story. Russia is boosting its military investments to defend its sovereignty from, of all countries, China. India and China have outstanding border disputes with China stating, it wouldn't be resolved anytime soon. On the trade front, India has initiated anti-dumping measures against China, while Brazil has joined US in a WTO dispute against Chinese trade practices as well. The west is equally cynical about BRICS's ability to do anything meaningful. There are indications that China does work beneath the surface to deny any inclusions in the UN Security Council.

Brazil is not a member of the UN Security Council either but managed to attempt mediation in the Iran nuclear dispute, has hosted the most crucial environmental summits, and is considered a "sustainable superpower" given its massive investments in agriculture and economic diversification. We have to be therefore more rigorous and analytical in assessing the importance of BRICS as a concept and a gathering. Last year, days before the leadership summit of BRICS decided to announce the creation of a BRICS development bank, the US chose to depart with tradition to name an Asian American as its candidate for the top job at the World Bank. Shying away from the six-decade-old practice of picking CEOs from Wall Street or politicians from the Washington DC beltway, US President Barack

Obama named a Korea-born American health specialist Jim Yong Kim for the presidency of the bank. Quite understandably, this US gesture does not address the real grievance of the BRICS countries; namely, that the World Bank (Bank) — International Monetary Fund (Fund) shareholding does not represent the current global distribution of income and power and should be restructured to do so.

The BRICS forum, which includes Brazil, Russia, India, and China, has wide issues under its fold. It includes food and energy security, international terrorism, climate change, MDGs, and reforms in international economic and financial institutions. Interestingly, event within BRICS there is economic disparity, but collectively it tries to influence the global development stage. There are members who have just moved from LDC to MIC but seen as the institutionalised framework for South-South Cooperation. It aims to create space for autonomous discussion, independent of the influence of OECD countries, trade, financing, and ODA, and exchange of expertise and technology know how. Sometime all is not well even between the BRICS countries, like border conflict between India and China or Brazil joining US in WTO to vote against China's trade policies.

The question whether "BRICS Bank," will have to dance to the tune of the Dragon, came up next. "No cement in BRICS," flowed the pithy formulation from strategic writer Sanjaya Baru. "All banks are run by shareholders. If US, Japan & EU dominate World Bank, China will dominate BRICS Bank. It has $3 trillion reserves, compared to India's $300 billion. So do we want a US-led bank or a China-led bank, or should we be non-aligned and borrow from both.[13] Hence, the BRICS bank idea would be a difficult task.

Last but not least, with the recent reports claiming India's GDP fallen to 6.5% in 2011/12 from 8.4% in the previous year and further to 5% percent in 2012/13, questions India's ability to pull back from the edge? This will depend on the way the government handles potentially slower growth and economic shocks. That would also determine whether the country can maintain an investment grade rating or become the first "fallen angel" among the BRICS nations.

(II) THE G20:

The Group of 20 is defined and interpreted in different ways. Its ultimate significance in international politics remains to be determined, and is the subject of varying opinions. The forum has been fêted over the last year for leading international coordination in response to the financial crisis. Its role is widely welcomed as a new sign of North-South cooperation and as reflecting Western recognition of the role that emerging markets are to play in future deliberations on international finance. The G20 has indeed been in the vanguard of some notable measures designed to drag the global economy out of recession. But its emerging role is not all good news. Indeed, some major concerns must be addressed if it is not to prove deeply harmful to multilateralism and global good governance. The G20 must demonstrate it is not a new forum with old vices. It still has to prove that it does not portend 'more of the same' simply pursued with a new set of partners.

Background of G20:

With the G8 being notoriously slow to accommodate emerging economies, such as India, the focus has moved elsewhere. The financial crisis that seized the world economy in September 2008 wreaked havoc far beyond the boundaries of North America, Western Europe, and Japan. When the US decided to marshal a response, therefore, it invited the G20 not the G8 to Washington. The group was not invented at that November summit--it first met in Berlin in 1999, in the wake of the Asian financial crisis--but the Washington summit changed the G20 out of all recognition. In place of the finance ministers and central bankers who attended the previous G20 meetings, the summits in Washington and then London gathered presidents, prime ministers, and kings. The crisis was also a great leveller. The original G20 was meant to include all of the 'systemically significant' economies. However, the nature

13 Rohit Bansal, http://www.dailypioneer.com/columnists/item/51316-cement-in-brics.html?tmpl=component&print=1

of their significance varied. Some members were significant enough to steer the system; others were only significant enough to derail it. Thus, despite the equal status accorded to each member, the unspoken assumption was that G20's richer members would solve the economic problems falling into the group's lap and the remaining 'emerging' members would cause them. The financial crisis, originating in the US, changed that presumption.

For the moment at least, the G20 has quite eclipsed the G8, which is now suffering from an identity crisis. In July 2009, the eight members held a summit in L'Aquila, Italy. They 'reached out' to the usual five big emerging markets. They also invited Egypt and held a working lunch with five international organizations. When the summit lost China's president halfway through because of riots back home, the *New York Times* quipped that the G8 had become the G8+5+1+5-1.

India's Position in G20:

At the G20 summits in Washington and London, India was welcomed as a partner, not a petitioner. Its views were heard before any communiqués were drafted, and its delegation commanded genuine respect. Now that India has the status it deserves, what is it doing with its new clout? What causes has it sought to advance? In London, India's delegation favoured a 'concerted' effort to fight the global recession with monetary and fiscal stimulus, arguing that 'the risks lie in doing too little rather than too much.' It was in favour of trebling the IMF's resources and making a fresh allocation of SDR (Special Drawing Rights).

India also supported an increase in IMF 'quotas', the amounts members contribute to the Fund, which also determine their share of votes on its board[14]. But others urge circumspection. Although India is the fourth biggest economy in the G20, measured at purchasing-power parity, it is only the 11th biggest, measured at market exchange rates. It accounts for just 2% of world GDP and a smaller share of world trade. It is also by far the poorest member of the group, with an income per head of about $1000 in 2008, compared with a G20 average of over $23,000.

"We shouldn't flatter ourselves too much about what India can do for the international system",' says Vijay Kelkar, Chairman of India's 13th Finance Commission and a former executive director of the IMF. 'We are still a price-taker, not a price-maker,' he says. 'Pretending we can influence vastly the [international financial] architecture at this stage is beyond our current capacities.' At the same time, the fact remains that its economy was not central to the crisis or to its resolution. It was not a cause of the upheaval. It was not one of its worst victims. And it is not in a particularly strong position to help. Unlike China, it did not contribute to the savings glut that some economists, such as Richard Portes of the CEPR, blame for the crisis. But like China, India escaped the worst effects of the financial meltdown: it was one of only three G20 economies (the others being China and Indonesia) that have kept growing throughout the mayhem. Finally, India is still a big recipient of aid, not a major donor. It will buy some of the notes the IMF is planning to issue. But that is about as far as its financial contribution can go.

The apathy shown by India's public is, then, understandable. The G20 seems remote from their concerns. It is also worth asking whether a broader civic engagement with the G20 is even desirable. The bulk of India's politicians, press and activists have traditionally taken a jaundiced view of the country's foreign economic entanglements. Whenever they have been aroused by such affairs, it is usually to condemn them.

India's growing role in G20:

Over the past two decades, India has become increasingly integrated with the global economy. As the process of integration with the rest of the world gathers pace, India's stake in orderly global governance, the creation of a better environment for trade and investment flows and sustainable development will increase. India's concerns, as voiced repeatedly by the Indian Prime Minister, the central bank governor, and the Sherpa, include the following:

- Rebalancing global governance by reforming global financial institutions.

14 India in the G20: Macroeconomic, Policy Coordination, Regulation and, Global Governance, NCAER, CEPR

- Reforming the global financial and monetary systems to provide better financial safety nets.
- Checking global macro imbalances.
- Ensuring lines of credit and export finance to developing countries.
- Checking any protectionist measures and
- Widening the current agenda to include developmental issues.

The emergence of G20 in a central coordinating role in the current global economic crisis shows the growing importance of key emerging economies like India and China. Given the central role the G20 had played in the response to the crisis, it is not surprising that the leaders agreed in Pittsburgh to make the G20 the premier forum for their economic coordination. This shift reflects the growing importance of key emerging economies such as India and China - a shift that was reinforced by the agreement in Pittsburgh to realign quota shares and voting weights in the IMF and World Bank to better reflect shifts in the global economy[15].

Outcome of Seventh G20 Summit Held at Mexico:

India was pleased with the outcome of the Seventh G20 Summit as

- The 14-page G20 Declaration strongly emphasized the need for growth because, by itself, austerity will not solve the debt problem of the Eurozone. Britain and Germany have been insisting on austerity first to set Eurozone in order.
- The Summit declaration included for the first time investment in infrastructure in the developing countries in the preamble. India has been pushing for this at the last three Summits.
- The Declaration also called for ending what it calls mechanistic reliance on credit rating agencies, and encouraging transparency and competition amongst them.
- Although no one is saying it openly, there is a distinct sense amongst the officials that the developing countries have improved their clout this time. This is evident from, amongst other things, agreement that IMF quota reform should be speeded up from 2013.
- Overall, the non-European members of the G20 have succeeded in sending a strong message to Europe that enough is enough and that it has to end its nationalistic bickering so that the Eurozone's finances can be supervised by a triumvirate comprising the European Central Bank, the IMF, and the EU.

Primarily, the G20 was formed as a mechanism to handle the global financial crisis in 2008. With G8 economies under tremendous pressure, it was felt to convene the forum of emerging economies to engage them in solving global financial crisis. Its members include eight members of G8 and 12 members from emerging economies, like India, Brasil, South Africa, etc. Now G20 has rotating presidency, without any permanent secretariat. It deliberates on the topics related global economy like food and agriculture, international fiscal regulations, anti-corruption, etc. It is a parallel structure and no recognition as multi-lateral body of nations like United Nations.

India and along with other developing nations has become quite important player in the G20 mechanism. They are also using it as an opportunity to push for reforms in global financial institutions, like World Bank and IMF. They have increased their contribution to these institutions to bid for space and share in the decision making processes of such institutions. Unfortunately, it is government to government negotiation body with each country having its Sherpa. The Vice-Chair of Indian Planning Commission is Indian Sherpa.

15 http://www.dnaindia.com/world/report_growing-role-of-g20-shows-importance-of-india-china-us_1346602

G20 has series of ministerial and government officials meetings which generally culminates with Summit of head of states. In the last few alternative forums have also been created to give space to stakeholders, now it has Y20 (Youth groups), B20 (Business groups), T20 (think tanks) and from Russian presidency C20 (Civil Society) is created. G20 is also seen as the voice of the developing world at the exclusive club of rich nations, but unfortunately it is observed that nations have their own interest in front or the interest of their strategic groupings rather than the rest of the LDCs or developing countries. In the last summit in St. Petersburg, it was observed that on one hand the economies of G8 countries are improving, the G20 is going down. This muted their voice in the summit.

Just like BRICS, very less information is available in the public domain about the agenda, commitments and discussions under G20. That is the reason there is lack of interest by the civil society to influence these mechanism. The issues of G20 or BRICS are hardly ever debated in the parliament or in media.

(III) IBSA:

IBSA (India, Brazil, and South Africa) are transcending geographical, historical, and regional differences in order to promote their individual and collective interests at a time when the current economic hardship and declining US hegemony mean greater opportunities for emerging countries in the global South. Since its inception at the margins of the expanded G8 Summit held in Evian, France, in 2003, the group, officially established in 2004 as the IBSA Dialogue Forum, has held three Summits: in Brasília in 2006, in Pretoria in 2007, and in New Delhi in 2008. The three foreign ministers have met at least once a year and a number of trilateral official consultations have taken place at lower levels. The IBSA Forum has also facilitated interaction amongst Indian, South African and Brazilian academics, business leaders, and other members of civil society. Despite IBSA's contributions to the future of multilateralism, it continues to face profound challenges in distinguishing itself from other similar groupings. The proliferation of regional organizations in the post-Cold War era begs the question: "What makes IBSA unique, what has it achieved in its first five years of existence, and what is its future?"

The informal nature of the IBSA dialogue forum and the fact that it lacks a permanent secretariat mean many unprecedented factors are at work in encouraging trilateral cooperation among these distant regional powers. The panellists pointed to similarities between the countries as providing explanations for IBSA's existence and agenda. India, South Africa, and Brazil are all democratic states that exert significant regional influence, yet all three face internal social challenges typical of developing nations. Each has demonstrated its capacity to act beyond its national and regional interests and all three display a growing willingness to assert their presence and increase their participation in global affairs.

The main objectives of the IBSA Dialogue Forum could be summarized as follows:

- To promote South-South dialogue, cooperation, and common positions on issues of international importance
- To promote trade and investment opportunities between the three regions of which they are part
- To promote international poverty alleviation and social development
- To promote the trilateral exchange of information, international best practices, technologies and skills, as well as to compliment each other's competitive strengths into collective synergies
- To promote cooperation in a broad range of areas, namely agriculture, climate change, culture, defence, education, energy, health, information society, science and technology, social development, trade and investment, and tourism and transport.

IBSA fashioned a **Three-Pillar Approach** to advance the agendas of its member countries and the larger developing world.

- The first component of IBSA's three-pillar approach is providing a forum for consultation and coordination on significant political issues, such as the reform of the UN and its Security Council, and negotiations at the WTO since all three IBSA countries are aspiring for a permanent seat in the UN Security Council.
- The second pillar fosters trilateral cooperation on particular areas and projects through sixteen working groups set up for the common benefit of the three countries.
- The final pillar broadens IBSA's scope to the larger developing world through the IBSA facility fund, established in 2004. The fund, managed by the UNDP (United Nations Development Program) , allows the IBSA countries to initiate and finance poverty reduction projects in other developing countries.

This is also an interesting forum comprising India, Brasil and South Africa, to promote their individual and collective interest in the competitive economy and global hegemony. It was established at the margins of G8 summit in France in 2003 and officially established in 2004 as IBSA Dialogue Forum. It has facilitated the dialogue between academics, business leaders, members of civil society, despite the profound challenge of its search for due space in similar forums like BRICS and G20. It not only focuses promoting dialogue between South - South cooperation and common positions but also works towards promoting trade between regions where these countries are located. It also aims to work for poverty alleviation and social development, exchange of technical knowhow, best practices, and promote cooperation in areas of agriculture, climate change, culture, health, energy, tourism and trade.

IBSA is one of the potential forums where voluntary sector can play a dominant role. Its objectives and composition is conducive for engagement of voluntary sector across region.

However, there are many hunches for the smooth functioning of IBSA. India knows the Chinese want IBSA closed down because Beijing has no direct role to play in it. It's obvious that India, for its part, wants a diplomatic/strategic space for itself, where it doesn't have to be in the company of its domineering, giant neighbour. In addition, South Africa is crucial for India's efforts to counter China's strategic forays into Africa.

However, this is India's problem, not that of Brazil's and certainly not that of South Africa's, which actively seeks closer engagement with China. Indian fears of China (unfounded or otherwise) should not influence either Brazilian or South African foreign policy. After all, if the rise of China is a topic of concern for any of the IBSA members, this is a matter that is firstly, better suited dealt with at a bilateral level and secondly, incorrectly makes the assumption that all three IBSA states share the same concerns about Beijing. Ultimately, both IBSA and the BRIC's attitude towards global trade are based upon a hard-headed position of seeking to make their economies as attractive as possible to foreign capitalist investors, whilst at the same time drawing attention to the inequities engendered by the very system that the elites buy into. Whilst some features of the globalization process are rhetorically tackled, this is offset by a broader acquiescence to extant economic orthodoxy. This being the case, the claimed value-addition off IBSA's democratic credentials is hardly a convincing arguments for its survival. And at the pragmatic level, the rapid moves towards creating a BRICS Development Bank and garnering greater cooperation at global governance venues such as the G20 and the IMF, makes IBSA's largely rhetoric-focussed and less result oriented.

(IV) THE SOUTH-SOUTH COOPERATION:

The South-South Cooperation, which is a crucial mechanism designed to boost the environmental capacity building and technology-support activities in developing counties and regions of the south, have four objectives (as accepted during the 1986 Harare NAM summit):

1. To take advantage of existing complementarities within developing countries by developing direct cooperation (facilitating fuller use of installed capacities) and eliminating intermediaries from the North;

2. To create new complementarities and interdependence (at various levels) through coordination of development

planning and achieving better scale economies;

3. To introduce some of the major principles of the New International Economic Order (for example, mutual benefit, and solidarity) into transactions among cooperating partners in developing countries; and

4. To strengthen the bargaining positions of the South vis-à-vis the North through selective delinking and greater collective self-reliance.

The South-South Cooperation, where India is building its position as its leader, has traditionally been an important pillar for its foreign policy and diplomacy. It is the country's platform to share its experience and expertise in a bilateral, regional and multilateral framework.[16] Historically, India was one of the world's top recipients of aid up until its economic development flourished where its growth averaged at 7%-8% in the recent decade. In 2009, India was declared an MIC from being an LIC by the World Bank. These developments highlights India's emergence from being a recipient to a donor.

The evolution of India's leap from being recipient to donor became official when the British government announced the pull out of its aid assistance by 2015. However, prior to that announcement last year, India has been declaring assistance to various countries in South Asia as well as largely in Africa and Latin America. Being part of the SSC, India's ability to maintain and sustain its assistance program, which revolves around the principle of aid partnerships and not the traditional donor-recipient relationship, is being recognized in the global platform. The impact of India's economic progression is highly displayed in its commitment in the SSC by way of expanding its development cooperation associations in partner countries through the introduction of program-based assistance with key mandate of fostering techno-economic and intellectual cooperation (also called the Indian Development Initiative) which was also intended to promote India's interest in overseas markets (Chaturvedi, 2012).

In spite of the size of the economy which is quarter the size of China, and numerous domestic challenges of growth and development, Indian economy is projected as fast growing with sustained rate. The cause of slow growth in comparison of China the argument put forward is its democratic system which requires consensus and federal structure where reform declared by union government not necessarily accepted by the state government. However, it is the private sector, especially IT, automotive, and pharmaceutical industry experienced growth as compared to agriculture. It is during this period that government in order to counter the domestic growth deficit; numerous national flagship programmes were implemented. Undoubtedly, voluntary organisations are playing important role in handling domestic issues of marginalisation and equity. However, recently the economic growth of India is facing challenge of slowing down. Not only the current account deficit is rising, the fiscal deficit is high and exchange rate is facing pressure.

After the end of bipolar world hegemony and cold war, the role of multilateral forums became important. India also started interacting with ASEAN, APEC, EU, G20, IBSA, IOR-ARC ASEM BIMTEC, ACD, etc. It became one of the founders of platforms like BRICS, IBSA, G20, G-NEXID, DFC under ECOSOC.

16 Trade-Related South-South Cooperation: India, OECD document, http://www.oecd.org/dac/aidfortrade/South-South_India.pdf

India as a Donor Country

Chapter 3

It is puzzling that India, which has a large domestic constituency of people suffering from underdevelopment, chronic poverty and mal-governance, is emerging as an important aid donor. With the intension of learning why poor countries provide foreign aid, economic analyses as well as motives behind such decisions are also relevant in this regard. Commercial and political self-interests dominate India's aid allocation. The importance of political interests is found to be significantly larger for India than for all DAC donors. Moreover, we find that countries that are closer geographically are favored, and that countries at a similar developmental stage are more likely to enter India's aid program.[17]

A DONOR DESPITE ODDS:

India, widely seen as one of the success stories of globalization, has significantly accelerated its economic growth since the inception of economic reforms in 1991 (Basu and Maertens 2007; Basu 2008; Panagariya 2010). The country is one of the fastest growing economies in the world and host to some of the largest foreign investment inflows in recent years (UNCTAD 2010). Yet, for many, India's progress since its independence 65 years ago is disappointing. Despite rapid economic growth over the last decade, some areas in India continue to be severely underdeveloped (Banerjee 2010). India has a large domestic constituency of people suffering from underdevelopment, chronic poverty, and mal-governance. According to the World Bank's (2011) estimates, 37% of the Indian population is below the poverty line of $1.25 a day. Moreover, India ranks below its neighbours Bangladesh, Bhutan, Nepal, Pakistan, and Sri Lanka in terms of life expectancy, access to sanitation, infant immunization, and underweight children. It also ranks below Bangladesh, Bhutan, and Sri Lanka in controlling the infant mortality rate (Dreze and Sen 2011), below Sri Lanka in terms of the literacy rate and access to education (UNESCO 2011), below Nepal in the GHI 2011 (Global Hunger Index), and below Bangladesh with respect to controlling literacy among female youths (Dreze and Sen 2011).

Therefore, it is not surprising to note that despite its rapid economic growth in recent years, India is still one of the recipients of development aid. In 2011, the total net official development assistance received by India from all donor countries was about $3.502 billion, of which $2.578 billion was in the form of net bilateral aid flows from countries organized in the DAC (OECD 2012).[18]At $630 million, India is still the single largest recipient of development aid from the UK (OECD 2012). That being said, it is puzzling to note that India itself is an aid donor.[19] In fact, Indian engagement in delivering foreign aid goes back to the 1950s, with its primary target being to provide development assistance to neighboring countries. Traditionally, Indian foreign aid has focused on technical assistance. Ever since it began in 1964, the ITEC (Indian Technical and Economic Cooperation) , India's flagship external assistance program, has provided training, education, and technical expertise to about thousands of NGO personnel, scholars, and leaders from developing countries (Agrawal 2007).

Over the last few years, aid from India has diversified and gained prominence. During the economic reforms period spanning from 1992 to2009, official foreign assistance provided under the umbrella of the MEA (Ministry of External

17 World Bank Aid Trend Analysis Report 2011

18 Moreover, India also receives a substantial amount of aid from international NGOs. For example, in 2010, the Bill & Melinda Gates Foundation committed US$ 100 million to India (OECD 2012).

19 Note that India avoids the term 'donor'. It rather perceives itself as a partner in South-South cooperation (see Chaturvedi 2008 for a discussion).

Affairs) amounted to 18,950 crore rupees ($ 4,473 million) according to its annual reports (MEA 1993-2010). The ministry allocated 2359 crore rupees ($444 million) to aid-related activities in the 2009 financial year alone (MEA 2010). According to Manning (2006: 375), India, together with China, is one of the two 'heavyweights' among the non-DAC donors. India's increased commitment to providing development aid is reflected in the government's decision to set up a separate agency by 2012 in order to oversee the aid allocation process (Patel 2011).

In contrast with the extensive empirical literature on the allocation of development aid from Western donor countries (e.g., Alesina and Dollar 2000), studies on development assistance provided by non-DAC donors lack rigorous empirical analysis. Notable exceptions are Neumayer (2003a, 2004) on Arab aid, Dreher and Fuchs (2011) on China's foreign assistance, and Dreher *et al*. (2011) on aid from donors outside the DAC in general (excluding India).[20] Concerning India's foreign aid in particular, little attempt has been made understand determinants of India's aid allocation decisions. This study aims to fill this gap in the literature. A better understanding of the factors driving India's aid allocation decisions may offer important insights into why poor countries serve as donors of foreign aid to other developing countries.

India claims that its aid is more need-oriented than aid from richer donor countries as its economic and political structure is closer to that of other developing countries. However, many suspect that India might be increasingly using foreign aid as an instrument to gain access to overseas markets for its goods and services, pave the way for Indian investment abroad, and secure access to natural resources (e.g., Agrawal 2007; Kragelund 2008). Another argument put forward is that Indian aid is extensively used as a foreign policy tool to expand the country's geopolitical and diplomatic influence (e.g., Agrawal 2007). The consensus in the literature is that political and commercial interests are important determinants of aid allocation for the DAC group of "rich" donors (e.g., Alesina and Dollar 2000; Neumayer 2005; Kuziemko and Werker 2006), as well as for multilateral organizations (e.g., Kilby 2006; Dreher et al. 2009). Not only do we also expect to find this for the "needy" donor India, we expect these relationships to be even more pronounced. We argue that India has more incentives to provide politically and commercially motivated aid since the country lags behind DAC donors in terms of economic development.

Commercial and political self-interests dominate India's aid allocation. The importance of political interests, proxied by the voting alignment between donor and recipient in the UN, is found to be significantly larger for India than for all DAC donors. Moreover, we find that countries which are closer geographically are favoured and that countries at a similar developmental stage are more likely to enter India's aid program.

EVOLUTION OF INDIAN AID PROGRAMME:

The origins of Indian development aid date back to the Colombo Plan of 1950, which was formulated in Sri Lanka by a group of Commonwealth countries (including India) with the objective of providing assistance to developing countries in order to raise their respective living standards. Along with the Colombo Plan, India started providing aid in the form of grants and loans. India's primary target in its early days after independence was to support neighboring countries, in particular Bhutan, Myanmar, and Nepal.[21] However, despite its active role, Indian development aid largely remained confined to the field of technical assistance, mainly due to resource scarcity and strong demand for developmental funds within the country.[22]As a founding member of both groups of states, India's aid program was anchored in the NAM and the Group of 77 at the UN.

After the collapse of the USSR and a severe balance-of-payments crisis, India introduced pro-market economic reforms in 1991. Eventually, as the economy grew stronger, India deepened its engagement with developing countries

20 Given that India is poorer in terms of income per capita than any of the donors covered in Dreher et al. (2011), India serves as an excellent case to study the behaviour of "needy" donors.

21 For 1958, Chanana (2009) highlights Indian aid commitments of about 100 million rupees ($21 million) in multiyear grants to Nepal, 200 million rupees ($42 million) to Myanmar, and the financing of 60% of Bhutan's budget.

22 According to Dutt (1980), a total of 1,442 people received technical training in India under the Colombo Plan up until 1960. According to the Colombo Plan Reports (as cited in Dutt 1980), this number increased to 3,550 between 1961 and 1971.

and extended its aid program. The 2003/04 budget speech is considered as a sharp break in India's role as an actor in international development cooperation. India wanted to be perceived primarily as an aid donor and not as a recipient of foreign assistance. Following the speech, India announced several key changes to its development cooperation (e.g., Price 2004). First, the country would only accept government to government aid that is untied and provided by five selected countries or the EU. Second, India would repay its debt to most of its bilateral donors and multilateral institutions. Third, it would extend its own aid effort to other developing countries through debt cancellations for some Highly Indebted Poor Countries, and an increase in its grant and project assistance under the so-called India Development Initiative. Although the actual policy changes were softer in the beginning than the speech seemed to imply (see Price 2004 for a discussion), it became clear that India intended to play an important role in the world of international development cooperation. The provision of credit lines via India's Exim Bank is one of the most prominent outcomes of these reforms.

[Aid provided by the MEA in millions of constant 2000 US$ (1966-2010)]

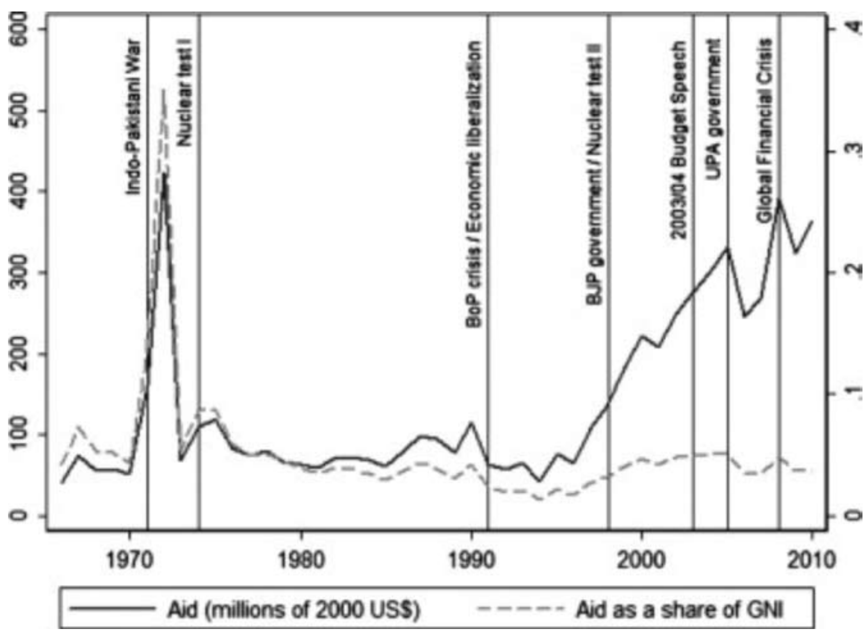


Table -2 [Source: Ministry of External Affairs Web site, Government of India]

(Notes: BJP: Bharatiya Janata Party; UPA: United Progressive Alliance led by Indian National Congress.)

To provide a better understanding of how India's aid program evolved over time, this study compiled data on India's aid budget since 1966 based on the annual reports of the Ministry of External Affairs (MEA, 1967–2011). This information needs to be interpreted with caution because of significant changes over time in the way the ministry categorizes its aid amounts.[23] Apart from that, the data exclude aid flows from institutions other than the MEA. Moreover, we lack detailed information on which fraction of the calculated aggregated aid values satisfy the OECD's definition of ODA.[24] Nevertheless, the figures should provide the reader with an intuition of the overall evolution of the size of India's aid program. As can be seen from the following figure, there is a spike in India's aid budget

23 Values for grant-in-aid to the Indian Council of Cultural Relations and support to the African National Congress are excluded from our analysis. See Agrawal (2007) for a discussion of limitations of the use of data from MEA annual reports as a proxy for India's aid budget.

24 Note that the DAC defines ODA as financial flows to developing countries provided by official agencies with the objective to promote economic development and welfare, and that contain a grant element of at least 25% (see http://www.oecd.org/dataoecd/26/14/26415658.PDF, accessed August 2011). Although we lack detailed information on the concessionality of each individual loan, it seems that aid provided by the MEA by and large qualifies as ODA. According to a study by ECOSOC (2008), 80% of India's total aid disbursed is grants. The remaining fraction is loans with an estimated grant element of 53%-57%.

in 1972.[25] This is largely due to the additional external assistance provided by India to Bangladesh, which obtained independence from then West Pakistan (now Pakistan) in 1971 with the help of India. According to the MEA annual report in 1973, India allocated about 191.5 crore Indian rupees (about $422.5 million in 2000 constant prices) of aid (mostly in the form of grants and concessional loans) to Bangladesh in 1972.

India's aid disbursements suffered a large decline during the early 1990s, a period marred by balance-of-payments problems. However, from the mid-1990s onwards, there has been a surge in disbursements of development aid. Though there were ups and downs, which could be attributed to political instability in the 1990s and to the Global Financial Crisis starting in 2008, India's aid budget shows an increasing trend during the economic reforms period that started in 1991. More precisely, India's aid budget rose from 13.4 crore Indian rupees (about $40.3 million in constant 2000 prices) in 1966, to 2,917.4 crore rupees ($362.8 million in constant 2000 prices) in 2010, which is roughly 0.04% of India's GDP. This amount, which only captures MEA aid, is comparable to Austria's total ODA ($395.2 million in constant 2000 prices) and amounts to about two-thirds of Italy's total bilateral ODA ($547 million in constant 2000 prices).[26]

In addition to the MEA, India provides concessional finance via its Exim Bank. The sum of all financial flows provided by the Exim Bank between 2005 and 2009 and registered on AidData (Findley *et al*. 2009) amounts to $2.45 billion (in constant 2000 prices). In contrast with MEA aid, the largest share of Exim Bank loans (73.2%) was allocated to Sub-Saharan African countries. Although Sinha and Hubbard (2011) find that most credits satisfy the criteria of a grant element of at least 25%, they conclude that Indian LOCs do not qualify as ODA as defined by the OECD. Since the credit lines are extended for the purpose of export promotion, these flows meet the criteria of officially supported export credits instead.[27]

Principal destination of India's aid and loan programmes (excluding lines of credit), current USD million

Country/region	2009/2010	Country/region	2010/2011	Country/region	2011/2012
Bhutan	235.01	Bhutan	311.01	Bhutan	366.43
Afghanistan	51.81	Afghanistan	55.96	Afghanistan	52.35
Nepal	27.08	Nepal	27.08	Maldives	49.28
African countries	22.56	African countries	27.08	Nepal	27.08
Mongolia	22.56	Sri Lanka	16.25	African countries	22.38
Sri Lanka	14.44	Myanmar	16.25	Sri Lanka	24.01
Myanmar	9.93	Eurasian countries	5.42	Myanmar	20.18
Eurasian countries	3.61	Maldives	1.99	Eurasian countries	5.42
Bangladesh	0.68	Latin American countries	0.72	Bangladesh	1.44
Maldives	0.63	Bangaldesh	0.54	Latin American countries	0.36
Latin American countries	0.36	Others	64.32	Mongolia	0.09
Others	37.10			Others	48.84
Total	425.77		526.60		617.85

Table: 3 [Source: Government of India, Ministry of External Affairs, Annual Reports 2009/10, 2010/11, 2011/12]

Considering India's development assistance for other countries also besides neighbors, the above table reflects the evolution of India's aid assistance to both Africa and Latin American countries. While the figures do not signify a huge

25 Using data on India's GDP deflator and exchanges rates obtained from the World Development Indicators (available at http://databank.worldbank.org, accessed May 2012), we converted all aid values from Indian rupees in current prices to constant 2000 US$.

26 A comparison with the non-DAC donors covered in Dreher *et al.* (2011: 1952) underlines that India is one of the most important providers of development assistance outside the DAC.

27 According to Sinha and Hubbard, the grant element varies between 41.25% for Heavily Indebted Poor Countries (HIPC) and 17.11% to 24.56% for middle income countries with medium to high levels of debt.

percentage the entire aid outflow, it is evident of the change in dimension of India's foreign policy. India's presence in Africa and Latin America projects its slow rise in power.

India's Outflow of Development Assistance (1990-2011)

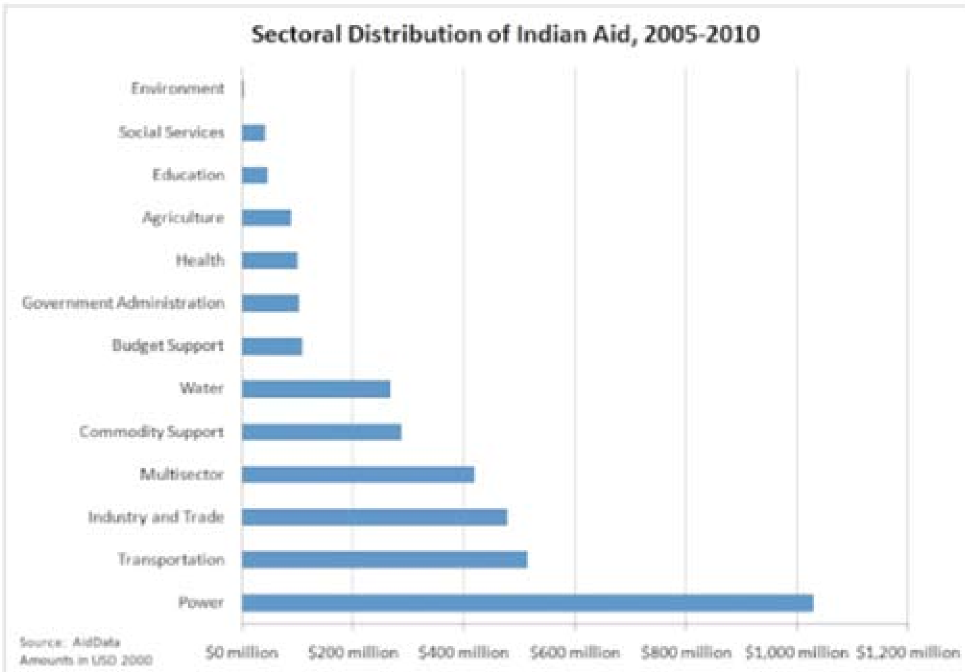


Table: 4 (Source: AidData; Amounts in USD)

On May 2011, India announced a $5-billion pledge in aid to Africa where such amount is equivalent to its healthcare budget during the second India-Africa Summit at Addis Ababa, Ethiopia. The partnership is seen as a vehicle to realizing the MDGs though capacity building and expertise sharing. This is part of the India-Africa Development Partnership, which became official upon inception of the ITEC in 1964. Since then, Africa has become one of India's most significant partners in development.

In terms of its aid to Latin American countries, while it appears marginal, still forms part of the India's aid-related expenditure with breakdown: 60% for training of civil servants, engineers and public-sector managers; 30% for provision concessional export credits (lines of credit) to enable foreign governments to purchase Indian equipment and services; and 10% for project-related activities such as feasibility studies and deploying technical experts from India (Agrawal 2007). Within the principle of the SSC, India being an emerging donor and contemplative of its massive urban transformation, while lacking in resources, can contribute valuably in terms of capacity, experience and knowledge to share. Its inclusion, in view of the numerous developmental challenges, is introspective as an international responsibility. India's assistance not only in terms of economic and technical is considered as an responsibility and not charity.[28]

INDIA'S ODA POLICY:

Aid has been used to foster friendly trade and economic relations with other nations. India, like other countries, provides aid for various reasons: political, economic, diplomatic and security, among others. Taking into account India's experience besides its increasing economic significance in the global platform, the country launched the SDP

28 RIS Discussion Paper: India and Africa: Development Partnership, Ambassador Shyam Saran, December 2012

(Small Development Project) to support successful small-scale programs to ensure economic deliverables, especially in the education, health and infrastructure segments. Specifically, the objectives of SDP is that its projects should be able to meet local needs which are managed by local communities and institutions with a view of saving costs on project implementation. SDP, which aims to instill local ownership of the program, was launched in Nepal in 2003 and since then replicating such model in Sri Lanka and Afghanistan.[29]

Based on a report published in 2010 by C.J. Bijoy (India: Transiting to a Global Donor), India's ODA is a mix of project assistance, purchase subsidies, lines of credit, travel costs, and technical training costs incurred by the Indian government where India's development assistance stretches far and wide from Central Asia to the Pacific islands to Southeast Asia. Along with China, Saudi Arabia, the UAE, Venezuela, Korea, Kuwait, and Brazil, countries which do not belong to the OECD DAC, India is one of the five Key Partners of OECD. Whereas the cooperation with other non-members takes place on a subject-by-subject basis, rather than on the basis of an OECD-wide strategy, the relationship with the Key Partners is comprehensive and is on an 'enhanced engagement' basis. OECD sees its Key Partners' contribution to its work as sustained and all-inclusive where promotion of direct and active participation from these countries is considered the central element of the partnership.

According to OECD, the actual mix and sequencing of the elements is determined by mutual interest.[30]While India has been promoting the SSC since the 1950s, with an initial focus of granting aid and technological expertise to its neighbors and then expanding to African countries in the 60s albeit limited resources, it have been operating with a guiding principle that is external to the existing structures and frameworks of the traditional donor-recipient including the norms of OECD. India's development cooperation policy is based on a holistic approach (including trade and investments) and comprises two main pillars: i) economic co-operation, focusing on trade and technology flows among developing, including the removal of discrimination in institutional and regulatory frameworks; and ii) technical cooperation, focusing on technical capacity building through training, exchanges of experts and sharing of experience and know-how.[31]

Further to the report above cited, Bijoy listed key observations regarding the trend of India's aid:

- India's aid is conceived as an important foreign- policy instrument largely for self-interest.
- India's development assistance lacks a strict well-defined set of clear objectives, and approach with clear definitions, accounting and monitoring.
- There is the shift from the rather simple imports-exports to a more organized diverse interactions consisting of government support, joint ventures, official lines of credit, and export guarantees. There is an increased emphasis on providing budget support to recipient governments, especially in the form of debt relief. Grants are increasingly being advocated because of growing concern with the debt problems of poor countries and the recognition that many types of aid (particularly in the social sectors) yield returns only in the long term.
- India attaches far less conditionality to its grants and also gives beneficiaries a greater voice in the process. India's assistance is focused on promoting goodwill, long-term economic development and promoting influence rather than exporting skilled manpower and repatriating profits. It focused mostly on promoting local capacity. However, there are indications that India is moving from exerting soft to hard power. The goodwill generated could very well get diluted with India emerging as a major donor.
- Assistance given for political or economic purposes can be a highly effective means to improve relations. However, it can become counter-productive if the assistance is wrong.
- The debt cancellation helps many African governments to be able to borrow money on international financial markets.

29 Aid from India, coming to a country near you, *The Hindu* Article by Sachin Chaturvedi , 5 September 2012, http://www.thehindu.com/opinion/op-ed/aid-from-india-coming-to-a-country-near-you/article3859607.ece

30 OECD Members and Partners, http://www.oecd.org/about/membersandpartners/

31 Trade-Related South-South Co-Operation: India, OECD document, http://www.oecd.org/dac/aidfortrade/South-South_India.pdf

- A large part of India's development assistance to Africa is more an export subsidy scheme for its surplus goods. The trend is towards catalysing trade, access to extractive resources and political influence rather than facilitating economic and social development. A large share of the loans provided is not on concessional terms and is tied to the procurement of goods and services in the donor country. While India refuses to accept tied bilateral aid from others, ironically a large proportion of its own loan programs are tied. This accumulates negative feeling towards the donors.
- Development assistance linked to trade and investment is criticized as new mercantilism. The recipient countries consider this as positive as it offers considerable freedom for economic and commercial partnership. The emerging donors are also becoming 'development partners'.
- India's Africa assistance seems to correlate with African countries with significant Indian diaspora such as Tanzania and Kenya.
- While the DAC donors are moving towards untied financial aid, the majority of the non-DAC aid is becoming tied reducing the overall efficiency of aid. India is also not eager to adopt DAC standards in aid.
- The share of technical cooperation has risen. Technical cooperation per se does not achieve greater self-reliance in the recipient countries. It is a form of assistance largely controlled by the donors. It tends to generate considerable economic benefits for the consulting industry in the donor country. Most technical cooperation is provided in kind. It takes the form of personnel or administrative costs accruing to donor-appointed agents. The personnel receiving highly technical skills form a small elite group, often receiving better pay and work conditions that demoralize local service. Personnel expenditure forms the bulk of the expenditure as high as 40%.

One of the main challenges in documenting the aggregate aid provision of India is the lack of sufficient information. Researchers resort to estimation and gathering of information from different sources. Foreign aid given to developing countries is "delivered through a myriad of aid channels" as such it is difficult to quantify the total figures (Walz and Ramachandran, 2010: 19). To date, India has not published data on the financial terms of its foreign aid using the DAC methodology as well systematic statistics like annual amounts provided and detailed breakdown of this aid in terms of recipient countries and sectoral distribution.

However, the MEA in January 2012 has set up the DPA (Development Partnership Administration) for the provision of a structural framework in dispensing aid. The structural framework covers the effective handling of India's aid projects through the stages of concept, launch, execution, and completion. India has identified that development partnership should be centered on the needs identified by the partner country where DPA's role would be to accommodate as many requests received that are both technically and financially possible. In its current state, the DPA has three divisions: 1) DPA I deals with project appraisal and lines of credit; 2) DPA II deals with capacity building schemes, disaster relief and Indian Technical and Economic Cooperation Program; and 3) DPA III deals with project implementation. With close cooperation with its development partner countries, through DPA, the Indian government expects effective and efficient handling of all aid projects from conception to completion.

Prior to the creation of DPA, India didn't have a single agency responsible for the administration of its aid. The main government bodies involved then were the MEA, the Ministry of Finance and the Exim Bank. The LOCs (Lines of Credit) that form 30% of India's overall aid-related expenditure, is channeled through the Exim Bank.

For LOCs, offers are made by the Exim Bank to the recipient governments/ their designated agencies where such offer needs to be accepted and the LOC Agreements signed.[32]

32 Exim Bank of India Web site, www.eximbankindia.com

Top 20 recipients of Exim Bank's operative lines of credit (as of 6 June 2012), USD million

Country/region	USD m
1. Sri Lanka (6)	1,216
2. Bangladesh (1)	1,000
3. Ethiopia (6)	705
4. Africa, multiple countries (12)	630
5. Sudan (6)	567
6. Nepal (2)	350
7. D.R. Congo (4)	269
8. Mali (7)	267
9. Myanmar (7)	247
10. Iran (1)	200
11. Mozambique (8)	173
12. Ghana (5)	149
15. Senegal (8)	137
13. Russia (2)	125
14. Syria (2)	125
16. Lao PDR (3)	123
17. Zambia (4)	115
18. Cote d'Ivoire (4)	112
19. Angola (5)	108
20. Chad (2)	90

Table: 5 [Source: Trade-Related South-South Co-Operation: India, OECD document, http://www.oecd.org/dac/aidfortrade/South-South_India.pdf]

The top 20 country recipients of LOCs from the Exim Bank are a combination of countries from South Asia and Africa. The concessional lending and technical assistance provided through the LOC is mostly focused on infrastructure development. In the first half of 2012, the Exim Bank reports a total of 157 operative LOCs worth $8.2 billion, a spike from the 2010 new LOCs extended worth $3 billion (with breakdown: 53% for Africa, 28% for South Asia, 2% for Latin America, and 4% for other countries). LOCs mostly finance specific infrastructure projects in developing countries that are delivered by Indian companies in sectors such as electricity, energy, irrigation, and transport.[33]The type of technical assistance being provided by India is through triangular cooperation where Indian institutions give training to nominees from partner countries by way of funding from donor countries or multilateral institutions. India sees this tripartite collaboration as an effective method of promoting development by leveraging the best attributes of the tripartite as it complements India's efforts on a bilateral basis.[34]

33 Based on the 6 June 2012 operative lines of credit data from the Exim Bank Web site http://www.eximbankindia.com/loc.asp

34 GOI (Government of India) (2009), India's response to the OECD/WTO Questionnaire for South-South Co-operation, Paris: OECD www.oecd.org/dataoecd/43/39/43149339.pdf

EXIM BANK'S PIPELINE LOCs
(Updated as of January 14, 2013)

S. No.	Borrower	Purpose	Credit Amount (USD mn)
1	Government of Nigeria	Various projects in Nigeria	100.00
2	Government of Vietnam	Hydro power project	19.50
3	Government of Cape Verde	Technology Park Project	5.00
4	Government of Comoros	Installation of an 18 MW power project in Moroni, the capital city of Comoros	41.60
5	Government of Gabon	Rehabilitation and up gradation of the broadcasting facilities	67.19
6	Government of Tanzania	Bio diesel project	35.00
7	Government of Burkina Faso	Low cost housing and economical buildings project in Burkina Faso	22.50
8	Myanma Foreign Trade Bank, Myanmar	17 ongoing irrigation schemes and 9 rehabilitation schemes in the irrigation project in Myanmar	247.20
9	Government of Angola	Supply of Tractors	23.00
10	Government of Mozambique	Rural drinking water project extension	19.72
11	Government of Zimbabwe	Up-gradation of Deka Pumping Station and River Water Intake System in Zimbabwe	28.60
12	Government of Afghanistan	Export of goods and services and project exports	50.00

Table: 6 (Source: Reserve Bank of India, Annual Financial Survey Report: 2012-13)

The LOC Pipeline indicates the offers made by the Exim Bank to the various governments however these agreements are yet to be signed. While Myanmar has the highest LOC line up, it appears that majority of the credit have been offered to African nations which are directed at the development of different industrial facets.

INDIA AS AN AID RECIPIENT:

Based on the Global Humanitarian Assistance Report called *India Country Briefing* which was published in January 2012 illustrated that, in the year 2009, India ranked as the eighth largest recipient of external aid at $2.5 billion from donors reporting to the OECD's DAC.

Table 3: ODA flows from EU institutions in million USD (in 2009)

from highest to lowest	Turkey	South Africa	India	Average	China	Brazil	Malaysia
ODA of EU institutions	807.37	157.3	101.3	98.52	44	19.3	0.1

Source: EU Donor Atlas 2011 (2009 data).

Surprisingly, China gets relatively little ODA from EU institutions, by contrast, China ($1,017.6 million) gets almost as much ODA from the individual EU Member States as India ($1,039.6 million) and much more than Brazil ($380.1 million) or South Africa ($450.1 million)17. According to the OECD-DAC list of ODA recipients, Turkey is also classified as an upper MIC (like Brazil, China, and South Africa), but obviously it is the geopolitical proximity to Europe that accounts for these higher EU ODA flows. However, it is somewhat surprising that South Africa ranks higher than India. If the European Consensus is to be respected, the payments towards India should be increased.

In 2009 and 2010, India's foreign development budget reached approx. $700 million per year. However, exact amounts are difficult to find because aid engagement is very often intertwined with bilateral trade and private sector involvement (World Bank 2011: 20). Foreign aid is primarily focusing on technical cooperation but includes debt relief and loans for infrastructure too. Main sectors are rural development, education, and health (Walz/ Ramachandran 2010: 15). About 80% of India's aid is distributed through bilateral channels (World Bank 2011: 20).

ROADMAP FOR FUTURE:

India's participation in the SSC is bilaterally supplemented and complemented by its regional cooperation efforts and increasingly proactive engagements in various multilateral forums. As it currently stands, India lacks structured methods and frameworks for effective deployment of assistance. India has coined itself to be a development partner not only to its neighbors but to the far reaching south. The SSC has historically been a development partnership which included trade, investment and technology transfer, and in most recent years there have been an enhanced flow of trade and investment within and between the nations of the South (Chaturvedi 2012), this translates to 20% of global trade and almost 50% of developing country trade (data from UN Conference on Trade and Development 2011).

With the creation of DPA, India should now be able to articulate its development cooperation agenda in a well-defined manner where its unique model of 'development compact' depict diversity in engagement though trade and investment, technology transfer finance through credit lines and capacity building by means of a flagship program. India's aid assistance program is mostly dedicated in creating technical capacities and the provision of production support. As a new entrant, India is faced by some shortcomings such as institutional problems, inadequate system for monitoring and evaluation, and a more transparent decision making process with regard to aid size and agreements with partners. As part of the SSC, India's profile is constant in its history of being a developing nation with domestic socio-economic challenges however willing to share their experiences with other countries (Chaturvedi 2012).

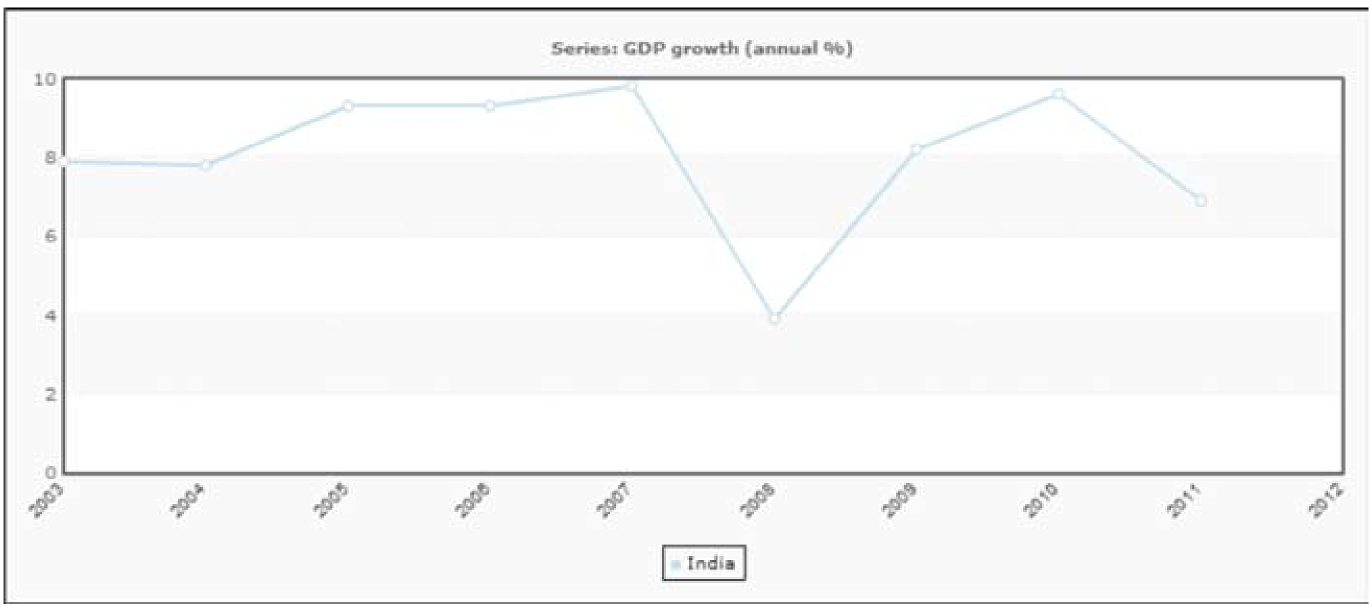
Apart from a more structured approach to aid provision and resulting M&E (monitoring and evaluation) of the projects, India would be able to leverage from engaging bilaterally with other groups such as the DAC to benefit from the expertise on project impact analysis and other practices to improve quality of delivery and better assessment of mechanisms utilized in projects such as the SDPs. With the implications of India's purpose for participating in the Aid-for-Trade where it believes such practice is an effective instrument for addressing the insufficiency of trade-related capacity in many developing countries to allow them to benefit from the opportunities offered by the multilateral trading system (GOI, 2012), India should go beyond its primary focus of economic infrastructure and the productive sectors to develop a more detailed and robust database to help identify areas of concern when scrutinizing outgoing development assistance (Chaturvedi 2012).

India's Relationship With Neighbours as a Development Partner

Chapter 4

India as an emerging economic power, with a projected growth rate of 7% in 2015 by the World Bank, looks to be an unstoppable force despite the Asian Development Bank's (ADB) reduction in its growth forecast on the Indian GDP to 5.6% for the whole of 2012 due to the delayed monsoon that is expected to negatively affect the agricultural product of the country, among others. Notwithstanding that more than two thirds of India's 1.2 billion population live on less than $2 per day (World Bank, January 2013), India is expected to grow economically in the next coming years based on its average GDP growth in the last decade.

Table: 8 India's GDP Growth Rate of a Decade [35]



Like most countries, India's foreign policy is rooted on having friendly relations with other countries, resolution of conflicts by peaceful means, statewide sovereign equality and independence of thought and actions as manifested in the principles of non-alignment and equity in the conduct of international relations. India has been quick in transforming its foreign policy according to the changing environment. Possessing a dynamic and flexible foreign policy enables India to strengthen its bilateral relations with other Republics. A sample of this was the break-up of the Soviet Union where Central Asian Republics were established thereafter.

The foreign relationships of India with a focus on the aid granted, with Bangladesh, Bhutan, Sri Lanka, and Nepal will be examined in this chapter. It is also necessary to look at India's strong ties with Afghanistan, which despite its ongoing conflict remain fervent because of the latter's geo-political threat.

35 World Bank Database http://databank.worldbank.org/ddp/home.do?Step=3&id=4

Table: 9 India's Statement of Expenditure 2012-2013 (up to September 2012)[36]

(RUPEES IN CRORES)

Heads			Scheme		B.E. 2012-13	Exp. During Sep,12	Prog. Exp. Upto Sep, 12	%age to BE
3605 - Tech.& Eco. Co-operation Countries 7605 - Advance to Foreign Govts.	11		Colombo Plan		4.00	1.39	2.26	56.50
	12		Aid to Bangladesh		30.00	0.08	0.49	1.63
	13		Aid to Bhutan					
		13.1		*Non-Plan Grant*	1200.00	33.98	614.88	51.24
		13.2		***Plan** Loan*	1138.00	50.00	1047.60	92.06
		13.3		*Non-Plan Loan*	300.00	0.00	316.89	105.63
	14		Aid to Nepal		270.00	22.83	178.11	65.97
	15		Sri Lanka-Other Aid Programme		290.00	20.80	80.95	27.91
	16		Aid to Maldives					
		16.1		*Non-Plan Grant*	36.00	0.38	1.49	4.14
		16.2		*Non-Plan Loan*	250.00	0.00	0.00	0.00
	17		Aid to Myanmar					
		17.1		***Plan Grant***	220.00	0.01	1.13	0.51
		17.2		*Non-Plan Grant*	82.21	8.69	28.13	34.22
	18		Aid to other Developing Countries		37.00	0.56	1.28	3.46
	19		Aid for Disaster Relief		30.00	-27.61	9.05	30.17
	20		ITEC Programme		120.00	14.74	51.46	42.88
	21		SAARC Programme		24.00	0.17	0.43	1.79
	22		SCAAP Programme		15.00	3.73	14.40	96.00
	23		Aid to African Countries		250.00	9.45	147.48	58.99
	24		Multilateral Economic Relation Programme		10.00	0.80	13.76	137.60
	25		Investment Promotion and Publicity Programme		4.11	0.14	0.44	10.71
	26		Aid to Central Asia ***[Eurasian Countries]***		30.00	14.56	16.02	53.40
	27		Aid to Mongolia		2.00	0.00	0.25	12.50
	28		Aid to Latin American Countries		15.00	27.61	27.61	184.07
	29		Aid to Afghanistan					
		29.1		***Plan Grant***	127.00	0.00	0.00	0.00
		29.2		*Non-Plan Grant*	580.00	21.63	196.92	33.95
	30		Energy Security		0.89	0.00	0.09	10.11
	31		ASEAN Multilateral		36.00	0.12	0.30	0.83

Looking into India's relationship with the countries that surround its territories is essential to forming a supposition on how India's direction as a developing partner will shape its current and future agreements with its neighbors and to the rest of the world.

India and Bangladesh

Bangladesh at a Glance:

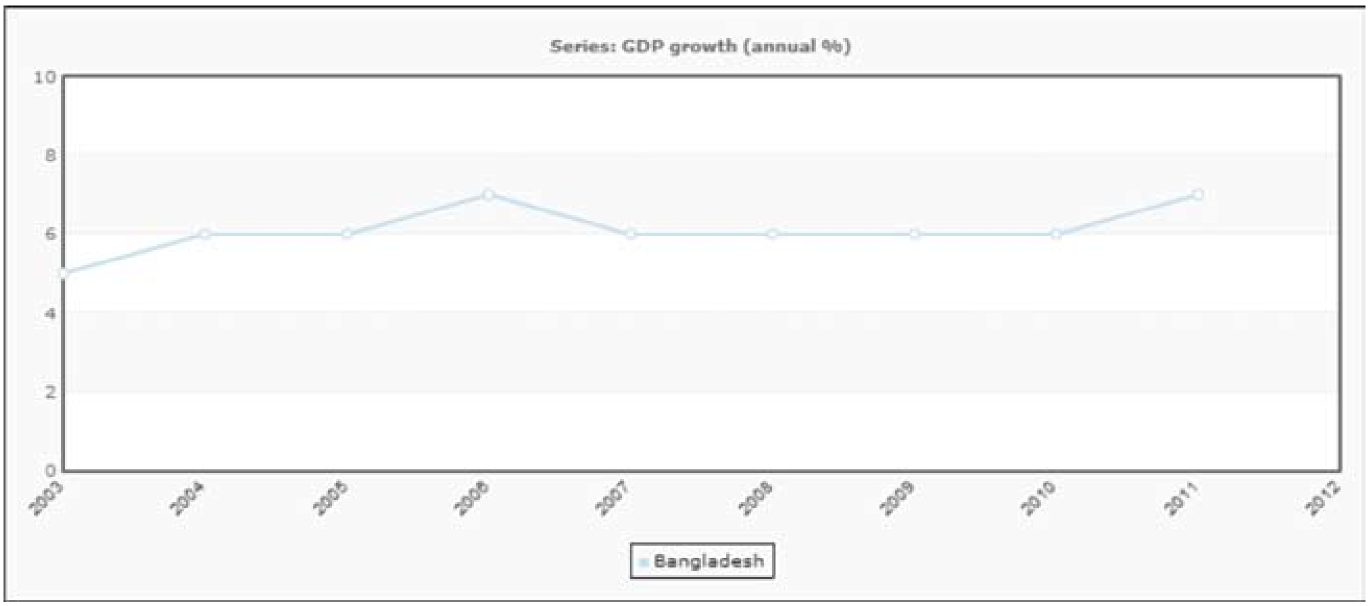
India has a long history of engaging with Bangladesh as a development partner. During the 1971 War of Liberation India provided military support to erstwhile East Pakistan to help it gain independence as Bangladesh. India was also

36 Ministry of External Affairs Web site www.mea.gov.in/Images/pdf/September-12-13.pdf

the first country to officially recognize Bangladesh and provide it with development assistance worth 500 million rupees in the form of grants and loans. (The current value of this aid is equivalent to approximately 1.029 billion rupees. Over the past 15 years, Indian development assistance to Bangladesh has ranged from 20 million rupees to 700 million rupees annually and over $1 billion if the LOC is included.

According to the World Bank, Bangladesh has maintained an impressive track record on growth and development. In the past decade, the economy has grown at nearly 6 percent per year, and human development went hand-in-hand with economic growth. Poverty dropped by nearly a third, coupled with increased life expectancy, literacy, and per capita food intake. More than 15 million Bangladeshis have moved out of poverty since 1992.[37] The increase in the country's GDP growth in 2010 was caused by its better performing stock market even during the world recession due to its little connection with the stock market of developed countries that were directly hit by the slump.

Table: 10 GDP Growth Rate of Bangladesh in a Decade (2003 to 2012)



Source: World Bank Database http://databank.worldbank.org/ddp/home.do?Step=3&id=4

India and Bangladesh Trade Relations:

The bilateral trade relations of India and Bangladesh are described as follows:

1. About 15% of Bangladeshi imports come from India;
2. Bangladesh has a large trade deficit with India (being offset by surpluses with other countries);
3. Under SAFTA (South Asian Free Trade Area), Bangladeshi exports to India receive tariff concessions;
4. Bangladeshi trade only accounts for less than 1% of India's imports; and
5. The illegal trade between the country amounts to three-fourths of regular trade.

Bangladesh replaced Sri Lanka as India's largest sub continental trading partner from March 2013 with tariff issues and New Delhi's growing tensions with its southern island nation hurting the commercial relationship between the

37 World Bank Bangladesh Overview http://www.worldbank.org/en/country/bangladesh/overview

two countries. Meanwhile, India's better ties with Bangladesh have seen an increase in agricultural exports to and textile imports from that country; New Delhi has even allowed concessional tariff rates on textile products from Bangladesh.[38] "There has been a fair amount of surge in agricultural commodity exports to Bangladesh. Their exports have also increased due to concessions given on textiles. Total trade volumes will be touching in excess of $5 billion (around 27,350 crore rupees today) in the current financial year," said the Department of Commerce, Government of India press release on 8 March 2013.

Indian foreign secretary Ranjan Mathai told media persons on the eve of President of India's visit to Bangladesh on 3 March 2013 that the choice of Bangladesh as the first country President visited after taking office reflects the importance India attaches to ties with that country. "Bangladesh itself is a fast-growing economy. They have recorded something like 6% growth consistently. It is a large market, 150 million, with a very growing middle class. So Bangladesh itself, apart from the export opportunities or the opportunities of access to India, presents a number of opportunities," Mathai said.

Table: 11 India-Bangladesh Trade, 2008/09 to 2012/13 (million dollars)

	2008/09	2009/10	2010/11	2011/12	2012/13
EXPORT	2,497.87	2,433.77	3,242.90	3,789.20	5,130.39
%Growth		-2.57	33.25	16.85	35.40
IMPORT	313.11	254.66	446.75	584.64	632.12
%Growth		-18.67	75.43	30.86	8.12
TOTAL TRADE	2,810.98	2,688.44	3,689.66	4,373.83	5,762.51
%Growth		-4.36	37.24	18.54	31.75
TRADE BALANCE	2,184.76	2,179.11	2,796.15	3,204.56	4,498.27

Source: Ministry of Commerce, Government of India

C. Uday Bhaskar, an analyst with the South Asia Monitor think tank in New Delhi, said India would like to engage with Bangladesh irrespective of who is in power. "But (Prime Minister) Sheikh Hasina has been more receptive to India's overtures, so it's easier to realize India's objectives," he said.

India as a Donor for Bangladesh:

On 15 July 2012, Bangladesh accepted India's $1-billion credit aid for infrastructure development as well as purchase of buses and railways. In May last year, the then Indian Finance Minister Pranab Mukherjee announced that the $200 million out of the $1-billion loan to Bangladesh would be written off and be treated as a grant and not credit. The remaining $800 million, would earn 1% annual interest. Bangladesh is at liberty to utilize the $200 million for projects it deems significant. Specifically, the projects where the aid would be utilized includes the procurement of 300 double-decker buses, 100-single-decker and 50 articulated buses; procurement of 180 broad gauge oil tank wagon and six brake vans; construction of second Bhairab and second Titas bridges with approach rail lines and Khulna-Mongla rail line; and procurement of railway locomotives and tank wagons, among others.[39]

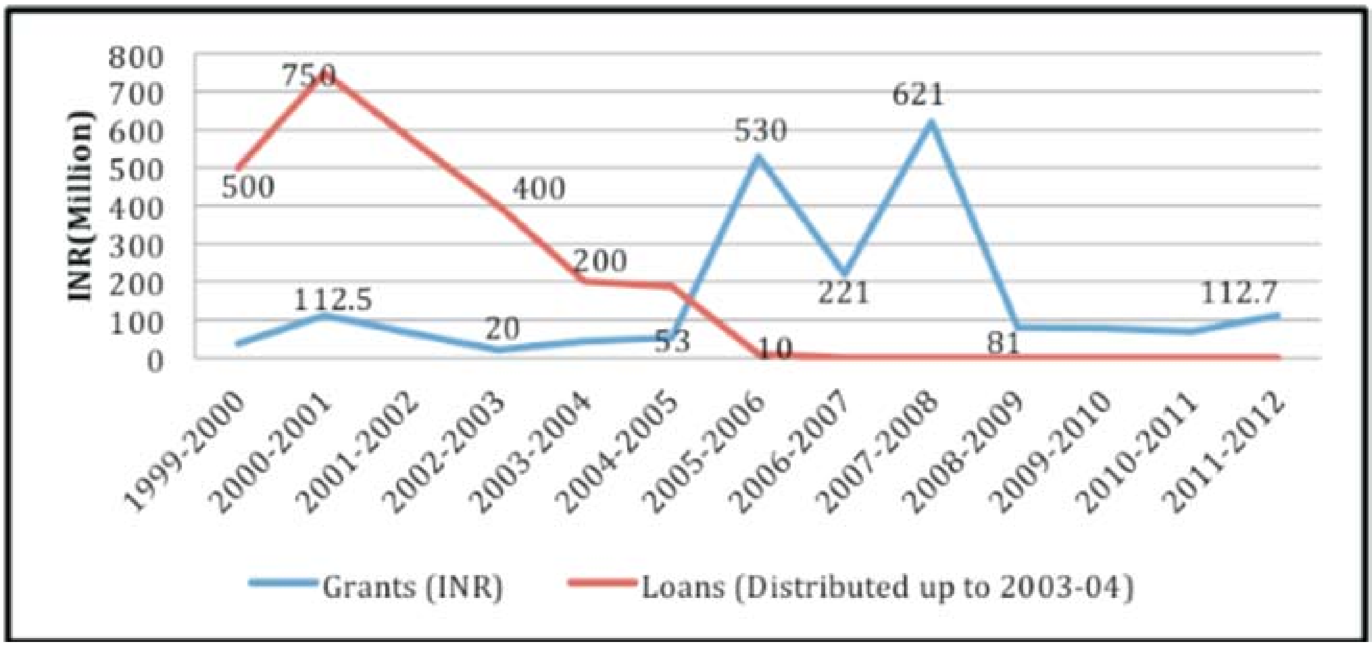
38 Press Release of Department of Commerce, Government of India on 8 March 2013.

39 Asia News Network http://www.asianewsnet.net/news-37530.html

During the Third Review Meeting held in Dhaka in December 2012, Bangladesh's ERD (Economic Relations Divisions) Joint Secretary said that the present status of all the projects are being advanced very smoothly and that the other projects would commence immediately.

The Third Review Meeting talked about the necessity of providing a guideline for the administration of the loan, which would be coming from India. This is an early example of how India is looking to play the developing partner card. By having the upper hand, where it can choose to alter agreements: the 1% annual interest applicable to the $800 aid use to be 1.75%. This action may obviously lead to future ramification on the part of Bangladesh such as diversion of conflict, speculatively, in case Bangladesh is unable to repay its credit, border tensions may intensify.

Table: 12 Indian Development Assistance to Bangladesh from 1999 to 2011



Source: Revised Estimates- India Budget 1999-2000 to 2011-2012, Statement 11- Grants and Loans to Foreign Governments.

A Bright Cooperation Ahead:

India views its development partnership with Bangladesh as a means for strengthening South-South sharing of development experiences and general development cooperation. Over the past few years this development cooperation between the two countries has grow significantly. The one billion dollar LOC and its subsequent transformation into a $810.86 million LOC and $200 million grant demonstrates that development cooperation is an iterative process with the two concerned nations constantly reassessing the terms and conditions that could help build stronger ties of trust and cooperation between the two nations.[40]The recent reductions in trade barriers, relaxation of visa regulations, improvement of transnational rail connectivity and the enhancement of energy security between the two countries have further enhanced the partnership between Bangladesh and India. With an eye to the upcoming national elections in 2014 in both countries, there is moreover additional impetus for both countries to demonstrate that a closer development relationship will bear demonstrable fruit for both countries. This impetus is very likely to further cement India's development partnership with Bangladesh in 2014.

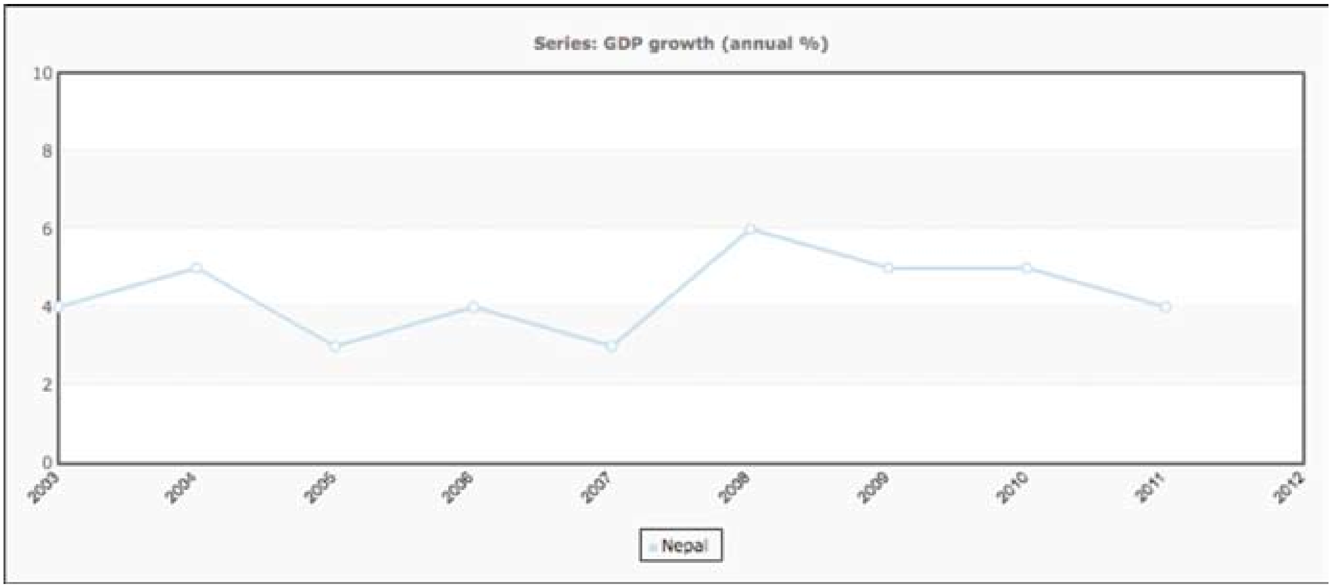
40 Centre For Policy Research, New Delhi on Indian Development Cooperation With Bangladesh authored by Rani D. Mullen, Sanskriti Jain and Persis Taraporevala.

India and Nepal

Nepal at a Glance:

India maintains a friendly and cooperative relationship with its northeastern neighbor. There is a free movement of people from both countries, which encourage the close bilateral interactions in both social and economic aspects. Nepal, a country with a population of 30 million, is currently under transition after a 10-year internal conflict where its focus is on the maintenance of peace, rehabilitation of infrastructure and the development of a new constitution of federalism. Presently, Nepal is one of the poorest nations in the world, but progress has been seen in the past years even if its growth rate has been dropping from 2008.

Table: 13 GDP Growth Rate of Nepal of a Decade (2003 to 2012) [41]



Among the many challenges of Nepal economically, one of the most significant challenges they face is the lack of access to basic facilities such as power and road accessibility, among others. In addition, Nepal's lack of regulatory and legal framework makes investment to the country makes investors hesitant to come in for business.

India and Nepal Trade Relations:

Both countries enjoy a bilateral relationship where India is considered to be Nepal's biggest trade partner and source of foreign direct investment. For the fiscal year 2012/13, the bilateral trade between the countries amounted to \$43.5 billion where imports from India were more than \$3 billion. To illustrate, India's FDI to Nepal on account of private firms amounts to \$448 million or 47.5% of total FDI proposals that have been approved. Such investment varies from manufacturing, services, power/hydropower generation as well as tourism.[42]

41 World Bank Database http://www.worldbank.org/en/country/nepal/overview

42 Indian Embassy http://www.indianembassy.org.np/trade-and-commerce.php

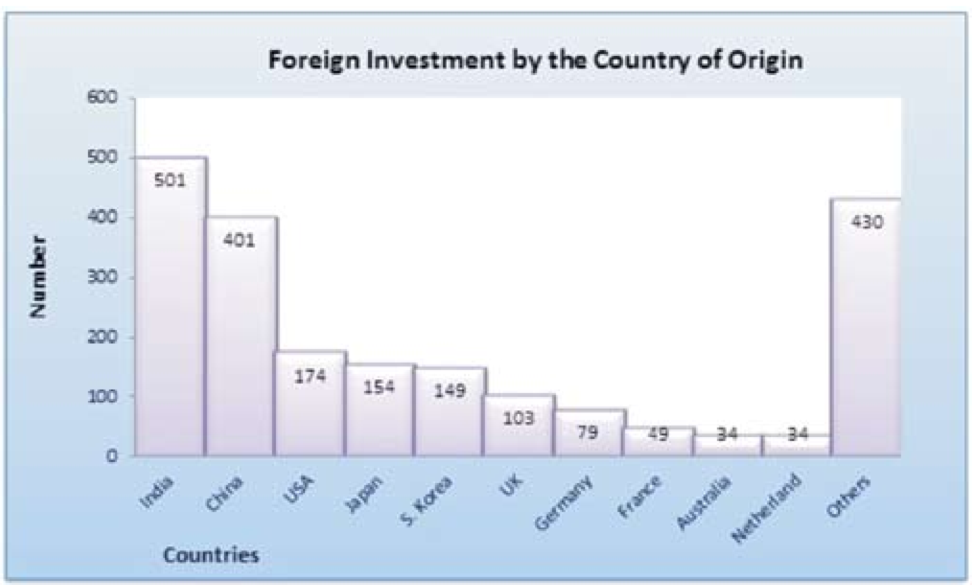
Table: 14 India -Nepal Trade, 2008-09 to 2012-13 (US$ Million)

	2008/09	2009/10	2010/11	2011/12	2012/13
EXPORT	1,570.15	1,533.31	2,168.06	2,721.57	3,031.51
%Growth		-2.35	41.40	25.53	11.39
IMPORT	496.04	452.61	513.40	549.97	554.71
%Growth		-8.75	13.43	7.12	0.86
TOTAL TRADE	2,066.19	1,985.93	2,681.47	3,271.54	3,586.22
%Growth		-3.88	35.02	22.01	9.62
TRADE BALANCE	1,074.12	1,080.70	1,654.66	2,171.59	2,476.80

Source: Ministry of Commerce, Government of India

The friendly relations between India and Nepal as a consequence of the India-Nepal Treaty of Peace and Friendship enforced in 1950 has caused mutual cooperation especially relating to the open border where such agreement lead to the growing economic assistance of India to the Nepalese government. In the past few decades, there has been tremendous progress in economic relationship between Nepal and India. In the recent years, the two countries have successfully concluded very important treaties such as, India-Nepal Trade Treaty 1996 and its subsequent renewals in 2002 and 2009, Nepal-India Transit Treaty, Agreement to Control Unauthorized Trade between Nepal and India, Railway Service Agreement, Bilateral Agreement For Avoidance of Double Taxation & Prevention of Fiscal Evasion with respect to Taxes on Income, Mahakali Treaty and Power Trade Agreement, to name a few.[43]

Table: 15



Source: *Investment Climate in Nepal*, Ministry of Industry Web site, Government of Nepal

43 *Indo- Nepal Relations On a New High,* NICCI - Nepal India Chamber of Commerce and Industry Webpage

Nepal has the largest volume of trade with India. Nepal also has the largest trade deficit with India, and this figure is increasing from year to year. Of late, it is widely felt that Nepal must concentrate heavily on import substitution and in setting up and furtherance of export-oriented industries. To achieve this, Nepal must attract direct foreign investment with more and more value additions in Nepal so that it may industrialize faster and also increase trade with India so as to reduce the trade deficits with the trading partners.

India as a Donor to Nepal:

Centering on the relationship between Nepal and India which dates back to the 1950s, it was reasonably speculated that the total financial assistance from India accounts to 50% during 1965/75. In fiscal year 2010/11, India ranked third as a bilateral donor with total aid amounting to $50.7 million. India's measured move to become a developing partner to Nepal commenced in 1959 where it opted to support Nepal's program-based project and activities. In 1962, India agreed to support Nepal's five-year plan with an aid package of 180 million rupees (Chaturvedi et al, 2012, p. 173).

In 2009, the then Indian Finance Minister Pranab Mukherjee announced that India is providing 32 billion Rupees aid package for the development of Nepal. In the same year, it was reported that India's annual grant aid to Nepal is around 16 billion rupees where it is used for distribution to schools, hospitals, road constructions and other development projects.[44] To demonstrate and as reflected in the Government of Nepal, the Ministry of Finance's Web site below, lists the technical assistance of India to Nepal from 2003 to 2012, which totaled 3.4 billion rupees.

Table: 16 Profile of India's Technical Assistance to Nepal from 2003 to 2012[45]

Name of Project	Start - End Date	Total Amount of Assistance (INR)
Sapta Koshi Multipurpose Project Studies	July 2003 - 2006	295,024,000
Establishment of Museum, Library and Documentation Center for Hetauda Institute of Forestry	Dec. 2001 - Dec. 2003	8,000,000
B.P. Koirala Institute of Health Sciences, Dharan	2002-2009	20,000,000
Gandhi-Manmohan Marg (II)	2004	22,476,542
Small Project Grant	July 2003-July 2004	369,409,307
Strengthening of Roads/Bridges infrastructure in Terai Area of Nepal	N/A	-
Building Construction of BTS, Lahan	Start 13 Jan 2005	1,374,557
Control of Goiter and IDD	Start 13 Jan 2005	80,000,000

44 Asian Tribune Website http://www.asiantribune.com/node/22229

45 Government of Nepal, Ministry of Finance http://www.mof.gov.np/contentFiles-Content-bWZZ#

Bhaktawari Hari Eye Hospital	Start 13 Jan 2005	134,125,590
Eye Care Services	Start 24 Aug 2004	11,300,000
Indian Grant Assistance for Implementation of Small Development Project through Local Bodies & non-government organizations	2006-2008	2,400,000,000
BP Koirala Institute of Health & Sciences	2002 - 2011	540,500,000
Total Financial Assistance		**3,882,209,996**

The Way Ahead:

Nepal's President Ram Baran Yadav, in May 2012, sought India's continuous support during the Indo-Nepal Economic Relations Seminar where he spoke to a 25-member committee headed by Congress's Uttar Pradesh Committee spokesman Dhirendra Pratap.[46] This is answered by India's President Mukherjee on December 2012 where he spoke of India's continuous support to Nepal's socio-economic development during President Yadav's state visit. Reflecting on the close relationship of India and Nepal for several decades and expanse of aid afforded by the former, the two countries are pushed to retain mutual political and economic cooperation in order to preserve its historical rapport which is significant to maintain bilateral affinity.

Considering some matters of contention between the two countries, the growing imbalance trade between Nepal and India, where there was a decline of $1.1 billion exports through various special regulation and restrictive requirements such as tariff in four sensitive items[47] non-tariff restrictions and quarantine tests, although Indian trade makeup Nepal's 63.9% of total trade (Bertelsmann Stiftung, 2009). Moreover, India is one of the largest foreign investors in Nepal, but the labor unrest, lack of power supply and raw material has hindered the business and overlooked the agreement, which have become the main issues for Indian government.

India and Bhutan

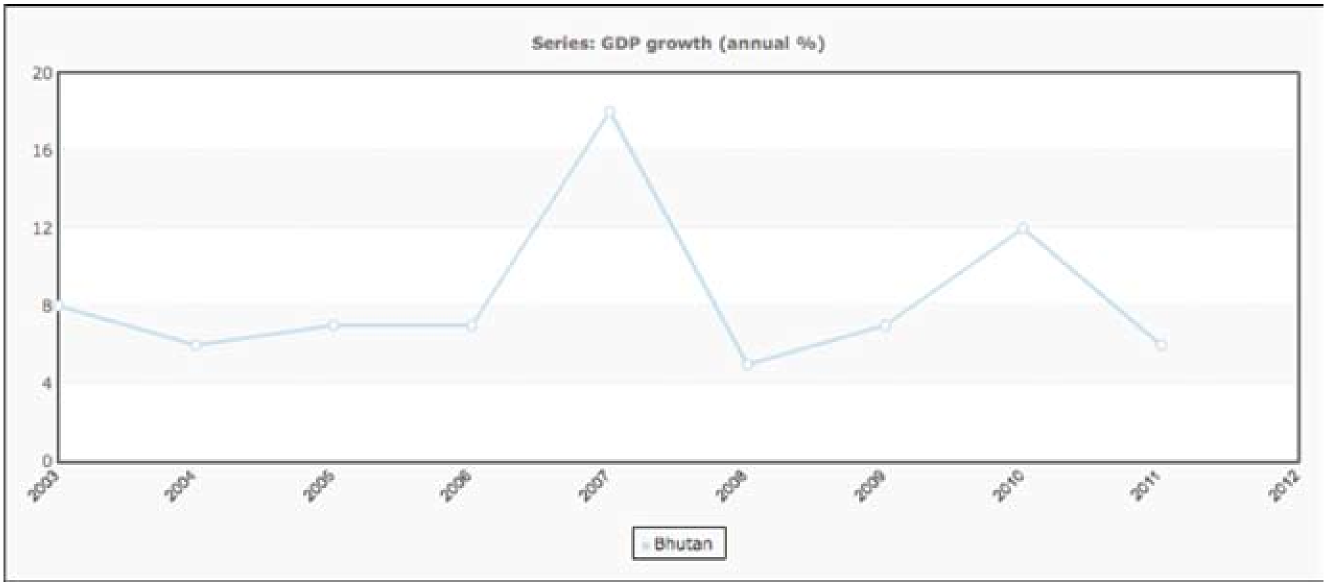
Bhutan at a Glance:

Another country situated in India's northeast, Bhutan, a small land-locked country with only 740,000 in population has been rapidly developing and improving in terms of achieving its MDGs as evidenced by the substantial reduction in its poverty rate from 36% in 2000 to 23% in 2008. However, the country is still much suffering from the challenges of having a sustainable agricultural, employment and transportation sectors.

46 Jagran Post http://post.jagran.com/yadav-seeks-indias-future-support-for-nepal-1335721852

47 *Bleak Future For Nepal and India Undoing* (Das, 2010, p.18; Mukherji, 2010, p.6)

Table: 17 GDP Growth Rate of Bhutan of a Decade (2003 to 2012) [48]



Another challenge of Bhutan is the increasing number of youth unemployment where youth comprised 59% of the nation's population. Bhutan is in need of having a robust private sector development to increase employment opportunities however this should be combined with improved skills for employability.[49] Just like India's close ties with Nepal, Bhutan and India also enjoy peace, friendship, free trade and commerce, and equal justice to each other's citizens as reflected in the India-Bhutan Friendship Treaty and Cooperation signed in 1949.

Economic Performance of Bhutan:

Bhutan's growth moderated in 2012 as the monetary authority tightened credit to address a rupee liquidity crunch caused by both cyclical and structural factors. The Royal Monetary Authority implemented significant monetary reforms including the introduction of policy and base rates. Looking ahead, growth is expected to pick-up propelled by exports of hydropower and higher tourist arrivals. Economic growth moderated to 7.5% in fiscal year 2012 (ended 30 June 2012) from 10% a year earlier.[50]

The slowdown reflected credit measures taken by the RMA (Royal Monetary Authority) to curb Bhutan's escalating balance of payments deficit with India and alleviate the rupee liquidity crunch. Both general and specific credit restrictions were implemented to constrain imports that are a large component of consumer and investment spending. Reflecting the measures, growth in consumption, which accounts for about three-fifths of GDP, slowed to 7.8% in FY 2012 from 10% in FY 2011. Growth is expected to recover in FY2013 and reach 8.6%, driven mainly by hydropower and tourism. The contribution of the service sector to growth is expected to improve as the government develops the Bhutan's tourism potential. As this trend is likely to continue, 8.5% growth is expected in FY 2014.[51]

48 World Bank Database http://www.worldbank.org/en/country/bhutan/overview

49 World Bank Country Overview http://www.worldbank.org/en/country/bhutan/overview

50 Ministry Of Finance Budget Statement of 2012, Govt. of Bhutan.

51 Asian Development Outlook 2013 By Asian Development Bank, Manila.

India and Bhutan Trade Relations:

India remains to be Bhutan's largest trade and development partner where in 2012/13 the total imports from India amounted to $233 million. In addition, on the same year, its exports to India amounted to US$ 164million, down from $202 million last year. India imports electricity, base metals and articles, minerals, vegetable fat and oils, alcoholic beverages, chemicals, cement, timber and wood products, cardamom, fruit products, plastic and rubber products, among others, from Bhutan. Alternately, Bhutan imports petroleum products, minerals, machinery, automobiles and spares, vegetables, nuts, spices, plastic and rubber, among others, from India.

The Indo-Bhutan Friendship Treaty 2007 (a revision of the India-Bhutan Friendship Treaty and Cooperation signed in 1949) sees Bhutan as an independent and sovereign nation, which bent away from taking guidance from India relating to foreign policy. With the new treaty, Bhutan received strong support from the Indian Prime Minister Dr Manmohan Singh regarding its move towards becoming a democratic nation.

Table: 18 India -Bhutan Trade, 2008/09 to 2012/13 (million dollars)

	2008/09	2009/10	2010/11	2011/12	2012/13
EXPORT	111.15	118.86	176.03	229.86	233.22
%Growth		6.94	48.10	30.57	1.47
IMPORT	151.79	153.11	201.57	202.75	164.00
%Growth		0.87	31.65	0.59	-19.11
TOTAL TRADE	262.94	271.98	377.60	432.61	397.23
%Growth		3.44	38.84	14.57	-8.18
TRADE BALANCE				27.10	69.22

Source: Ministry of Commerce, Government of India

India as a Bhutanese Donor:

Bhutan has been the largest recipient of India's aid dating back to 1960 where India granted an annual subsidy of 700 million rupees to enable Bhutan's government to create a more systematic development plan (Chaturvedi *et al*, 2012, p. 173). The Indian government, in its Tenth Five-Year Plan (2008-2013) or FYP, compelled assistance amounting to 3.4 billion rupees[52] to the Bhutanese government which include:

1. Project-tied assistance (2 billion rupees) for about 70 projects in key socio-economic sectors such as agriculture, ICT, media, health/ hospitals, education/ schools, capacity building, energy, culture and infrastructure etc);
2. Programme grant (700 million rupees); and
3. Small development projects (700 million rupees).

Prime Minister Dr Manmohan Singh during his address to the Joint Session of the Bhutanese Parliament in May 2008, informed that the total bilateral economic engagement with Bhutan over the next five years to be of the order of

52 Ministry of Finance Report on Trade with Bhutan for the year 2011-12, Govt. of India

Hundred billion Rupees. Some of the important projects being executed under the FYP include construction of the Supreme Court, strengthening of Constitutional Officers such as Royal Audit Authority, Election Commission, anti-Corruption Commission and Attorney General, renovation of major hydro projects, preparation of DPRs (Detailed Project Reports) for major power projects, widening of major roads, scholarships and expansion of tertiary educational institutions. Regular meetings are held to monitor the projects' progress by relevant committees and parties.

Prospects for Future:

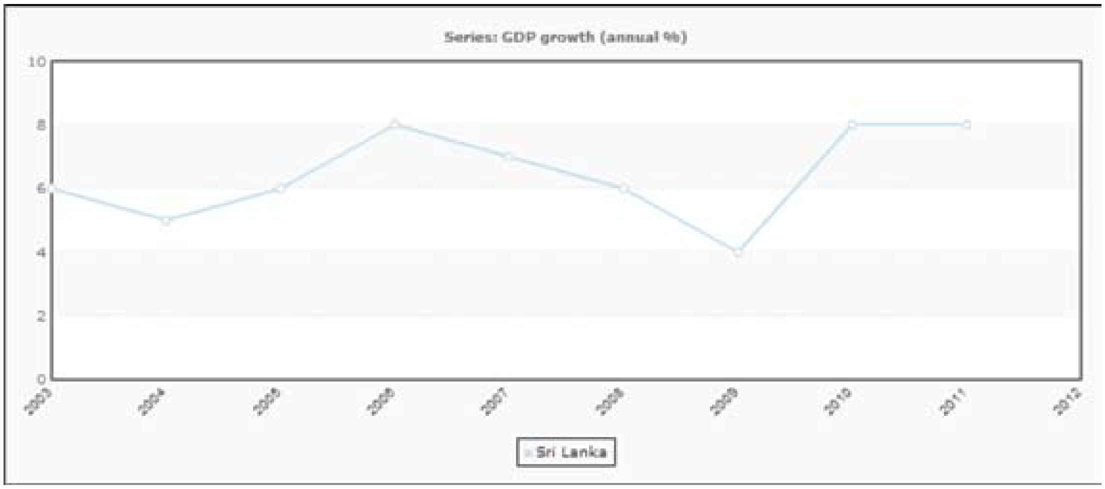
The close bilateral cooperation of India and Bhutan is seen to remain for a long period of time. By being a developing partner to Bhutan, India, on top of financial assistance, was able to provide technical expertise and services to Bhutan in various fields. With India's unceasing support to its neighboring countries despite the global economic slowdown, in its Twelfth Five-Year Plan, India is extending a total loan-grant to the Bhutan in the amount of 1.5 billion Rupees which would be used to finance huge hydro-electric projects.[53] The problem areas lying with the fastest-growing economy in South Asia is the recent rupee shortage which has revealed structural imbalance in the economy and Bhutan's weak economic management. As the large spending on hydropower development is expected to continue in the medium term, Bhutan must strengthen in a timely way its macro-financial management to sustain high growth without exacerbating domestic and external economic imbalances. The Ministry of Finance's tighter fiscal policy aiming to reduce the fiscal deficit to 1.5% of GDP in FY 2013 is a welcome step towards the road of progress for Bhutan.

India and Sri Lanka

Sri Lanka at a Glance:

Of its 21 million population, 67% belong to the working age group which gives the country supreme advantage at surpassing labor market challenges. However, this is seen as undesirable considering by 2036; more than 22% of the population would be over 60 where 61 out of 100 adults would be dependents. However, at present times, the nation enjoys an improved economy by being a middle-income country, with an annual GDP growth rate of 5% since 2009.

Table: 19 GDP Growth Rate of Sri Lanka of a Decade from 2003 to 2012[54]



53 From an Article from Times of India : http://articles.timesofindia.indiatimes.com/2012-03-18/india/31207005_1_indian-aid-bhutan-india-ramps

54 World Bank Database http://databank.worldbank.org/ddp/home.do?Step=3&id=4

The country's strategic vision as announced by its President Mahinda Chintana in 2010 is described in three parts: 1) doubling of per capita income through sustained high investment, shift of economic structure and ensured inclusive growth; 2) improved living standards; and 3) social inclusion. Chintana aims to ensure that benefits are equitably distributed across all population strata.[55]

Sri Lanka was able to maintain relatively strong growth (about 5% per year) even during the war, though growth dropped to 3.5% in 2009 during the final military campaign, which coincided with the GFC. The post-conflict rebound helped all sectors both on the supply side and the demand side. As Sri Lanka's economy grew, unemployment and poverty rates fell. As of the second quarter of 2012, unemployment was only 4.2% though higher among youth, women, and the more educated. Poverty rates have also fallen, from 15% of the population in 2006/07 to 9% in 2009/10.[56] Sri Lanka is on track to meeting most of the MDGs.

UNDP has identified Sri Lanka as an early achiever on 10 of the 21 indicators, including those related to the goals of universal primary education and gender equality.

India and Sri Lanka Trade Relations:

As with its other neighbors, India serves as the largest trading partner of Sri Lanka where 21% of the latter's total imports came from India. India is also Sri Lanka's fifth largest export destination for Lankan products which translates to 5% of its total exports. Sri Lanka's exports growth is hugely attributable to the ISFTA (Indo Sri Lanka Free Trade Agreement) while India's exports have remained mostly outside the ISFTA. On the average, over 70% of Sri Lanka's exports to India continue to be under the ISFTA, while India's exports to Sri Lanka under the ISFTA remains only around 25%.[57]

Table: 20 India - Sri Lanka Trade, 2008/09 to 2012/13 (million dollars)

	2008/09	2009/10	2010/11	2011/12	2012/13
EXPORT	2,425.92	2,188.01	3,510.05	4,378.79	3,977.19
%Growth		-9.81	60.42	24.75	-9.17
IMPORT	356.57	392.19	501.73	720.89	660.49
%Growth		9.99	27.93	43.68	-8.38
TOTAL TRADE	2,782.49	2,580.20	4,011.78	5,099.69	4,637.68
%Growth		-7.27	55.48	27.12	-9.06
TRADE BALANCE	2,069.35	1,795.81	3,008.33	3,657.90	3,316.70

Source: Ministry of Commerce, Government of India

Under the ISFTA, the major exports from Sri Lanka include apparel, furniture, MDF boards, glass bottles, processed meat products, poultry feed, insulated wires and cables, bottle coolers, pneumatic tires, tiles and ceramic products, rubber gloves, electrical panel boards and enclosures, machinery parts, food preparations and spices.

55 World Bank Country Strategy http://www.worldbank.org/en/country/srilanka/overview

56 World Bank Country Context Paper http://www.worldbank.org/en/country/srilanka/context-paper.0213/SL

57 Consulate General of Sri Lanka Web site http://www.mumbai.mission.gov.lk/index.php/trade/indo-lanka-trade-relations

A study edited by Saman Kelegama (2012), states that Indian investments in Sri Lanka, which strengthened the latter's supply capacities, reflects a sharp increase over a period of 13 years from $2.5 million in 1998 to $146.8 million in 2011. Such investment is seen over various sectors such as in oil exploration, telecom services, petroleum distribution, glass and cement manufacturers, leisure, and financial services. On the other hand, the investments of Sri Lanka to India comprised from the business of food and furniture, among others.

India as a Donor in Sri Lanka:

Even before the end of civil war in Sri Lanka in May 2009, India already showed support in terms of expressing utmost concern at the predicament of the IDPs (Internally Displaced Persons) which numbered to 300,000 and where housed at camps. In June 2009, the Indian Prime Minister announced a grant of 5 billion rupees for relief and rehabilitation of Sri Lanka (as based on the article of *The Calibre* published online on 30 October 2012). To help resettle the IDPs India provided the following assistance to Sri Lanka:

1. 10,400 tons of GI (galvanized iron) sheets between August 2009 and May 2011.
2. 95,000 starter packs of agricultural implements for commencement of livelihood generating activities.
3. 400,000 bags of cement to rebuild shelters and
4. Full financing of seven Indian de-mining team to speed up the resettlement.

In June 2010, the then Indian President Ms. Pratibha Devisingh Patil committed to building 50,000 houses for the IDPs which are targeted for completion after three years. The project is under full grant assistance from the Indian government with a total outlay of 1.4 billion rupees which is considered to be one of the largest grant assistance projects implemented by the government outside India.

Other types of assistance afforded by India are as follows:

1. 25 million rupees worth of agricultural articles such as seeds for the Maha and Yala seasons in 2010/11, tractors and other machineries in northern Sri Lanka.
2. Supply of 10,000 bicycles to returnees in the northern provinces of Sri Lanka.
3. A line of credit worth $167.4 million for repair and upgrade of the tsunami-damaged Colombo-Matara rail link which is now fully operational.
4. A line of credit worth $800 million for track laying and supply of rolling stock for the northern railway line as announced in June 2010 of which $416.4 million would be used to support the construction of Medawachchiya to Madhu, Madhu to Talaimannar and Omanthai to Pallai railway lines.
5. Another line of credit amounting to $382.4 million for track laying on the Pallai-Kankesanthurai railway line, setting up of and signaling of telecommunications system for the northern railway line.
6. Renovation of Palaly Airport, Kankesanthurai Harbor (a grant funded project worth 85.5 million rupees completed in January 2012), construction of Cultural Centre in Jaffna, interconnection of electricity grids between the two countries, construction of a 150-bed hospital in Dickoya and setting up of a coal power plant in Sampur; and
7. 212 million rupees for various smaller projects in areas of education, health, transport connectivity, small and medium enterprise development and training within Sri Lanka, among others.

The Way Ahead:

India's emergency assistance to its neighboring countries has been one of its concentrations where bilateral benefits would be gained mainly for India's advantage. However, at the Eighth India-Sri Lanka Joint Commission held on 22 January 2013 in New Delhi, the focus was shifted to a mutual agreement on the development of a framework for special economic partnership between the counties where a closer economic and trade linkages between the stakeholders are encouraged to double bilateral trade to $10 billion in the next three years. As expressed by the Indian External Affairs Minister Salman Khursid that the Indian and the Lankan governments are working on setting up a Special Economic Zone in Trincomalee as well as a pharmaceutical and textiles cluster in Sri Lanka. It was also discussed during the meeting that both governments would exert full cooperation in terms of air services agreement, mutual maritime agreement in terms of fishing expanse, joint military strategic services, and other areas such as science and technology, agriculture, education, and health.

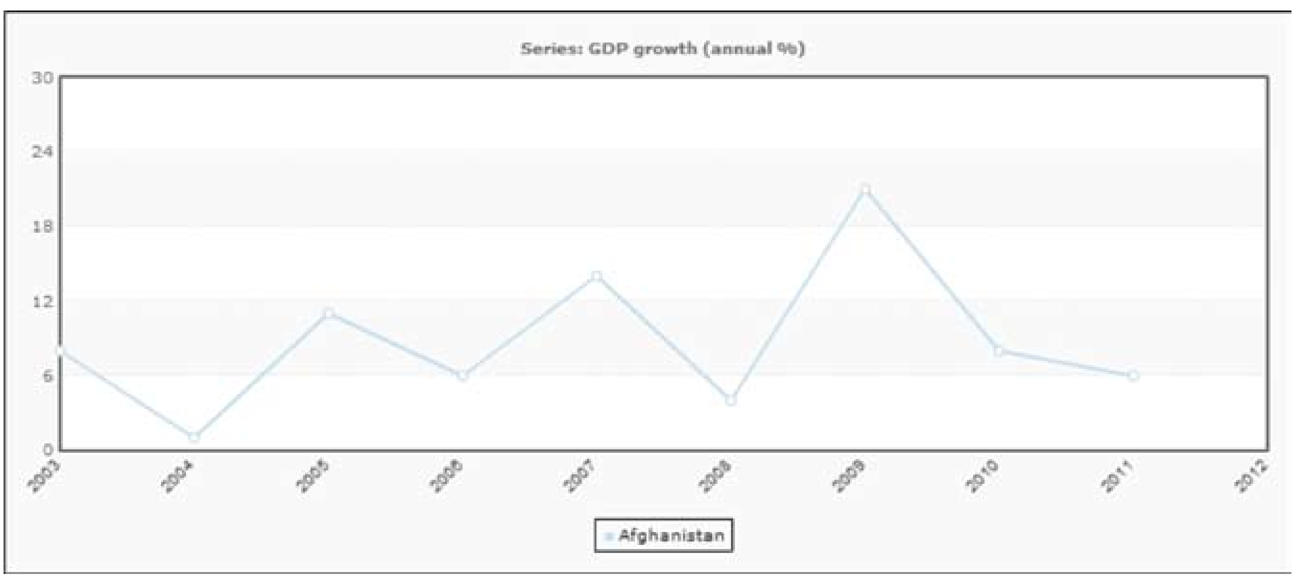
IMF expectations[58] on Sri Lanka projects the government's financial position to consolidate on the back of upward revision of consumer taxes and fuel prices during the second half of 2012, despite the aggregate demand in the economy is likely to moderate during the course of the year. Hence, total tax revenue growth is likely to converge with the rate of expansion of the nominal GDP contributing positively towards revenue growth and easing the deficit position during FY 2013. In this bleak period of turbulences happening in global economy, stronger ties with India being a neighbor of close association ship and trust for a long time will certainly affect the strength of this island nation in the days to come.

India and Afghanistan

Afghanistan at a Glance:

According to the World Bank, the country's economic growth is at satisfactory levels and has been projected at 7.1% for the year 2012/13. This is expected to be achieved from the favorable weather conditions enabling good agricultural output. The services sector, primarily under the telecommunications sector is expected to continue to account for 50% of the country's economic growth for 2013. However, long-term projections see the country a reduction in GDP growth to about 4% -5% percent due to the anticipated decrease in foreign aid and the challenge of securing sources for sustainable and equitable growth.

Table: 21 GDP Growth Rate of Afghanistan from 2003 to 2012 [59]



58 Economic Projections For Sri Lanka, IMF FY Estimate Papers, 2012-13

59 World Bank Database http://www.worldbank.org/en/country/afghanistan/overview

Being a country torn by war that led to being one of the world's poorest nations, its 35 million people suffer from inaccessibility to basic needs such as water where only 27% of Afghans have access, 5% to adequate sanitation and 30% to electricity. But with the recent import of power from Uzbekistan and the rehabilitation of three hydro plants in Mahipar and Sarobi, increasing parts of some urban areas now enjoy 24-hour power supply. With regard to education, after the Taliban's fall in 2001, the net enrollment was accounted at 43% for boys and only 3% for girls where only 21,000 under educated teachers are available to provide classes. Improvement was seen since 2002 where enrollment spiked to 7.2 million and more than 101,000 teachers were trained in 2011/12.

Economic Links between Afghanistan & India:

The two countries share long history of trade relations. According to the then Afghan Ambassador to India, Nanguyalai Tarzi during the IITF (India International Trade Fair) in September 2012, India invests in construction, dams, roads and hospitals while more than 4,000 Afghan students study in India. For the year ended 2011/12, the bilateral trade between the two countries amounted to $638 million. To promote a freer trade, it was discussed during the South Asian Association for Regional Cooperation meet in November 2011 that reduction of non-tariff barriers and duties should be considered.

Table: 22 India -Afghanistan Trade, 2008-09 to 2012-13 (US$ Million)

	2008/09	2009/10	2010/11	2011/12	2012/13
EXPORT	394.23	463.55	422.41	510.90	472.56
%Growth		17.58	-8.88	20.95	-7.50
IMPORT	126.24	125.19	146.03	128.06	115.80
%Growth		-0.83	16.64	-12.31	-9.57
TOTAL TRADE	520.47	588.74	568.44	638.96	588.36
%Growth		13.12	-3.45	12.41	-7.92
TRADE BALANCE	268.00	338.36	276.38	382.85	356.77

Source: Ministry of Commerce, Government of India

During Afghan President Hamid Karzai's visit to India last November 2012, he urged India to invest in Afghanistan considering the latter has been looking for ways to exploit its immense mineral wealth which is estimated at up to $3 trillion. It is the Afghan government's objective to offset the loss of revenue once the foreign aid ends by 2014.

India as a Trusted Development Partner:

The relationship between India and Afghanistan has long been pleasant which commenced upon formal signing of a friendship treaty in Kabul in 1950 where focus was to strengthen trade and diplomatic relations. Friendly ties with Afghanistan have been a constant in Indian foreign policy. During the years of Taliban control, India maintained close relations with the Northern Alliance. When the Taliban assumed power, India cut all ties and only resumed connection when the US-led intervention caused the fall of the Taliban rule in 2001. India saw the fall of the Afghan Taliban government as a major strategic gain. It participated in the 2001 Bonn conference, which determined the basic outlines of the political and constitutional structure for Afghanistan. In contrast with its perspective during the Soviet intervention, India has looked favorably on the United States and NATO military involvement in Afghanistan and has made clear that it does not want this role to end prematurely. When the war-ravaged country started to leap forward on the path of reconstruction and reforms with the assistance of International community, the most accepted and trusted partner was none other than India.

India has played an active role in the reconstruction of Afghanistan, based on the understanding that social and economic development is key to ensuring that Afghanistan becomes a source of regional stability. India's pledged assistance to Afghanistan stands at $2 billion .[60]Indian projects cover all parts of Afghanistan, in a wide range of sectors, identified by Afghanistan as priority areas for reconstruction and development. All the projects are undertaken in partnership with the Afghan government, in total alignment with the Afghanistan National Development Strategy, and with focus on local ownership of assets. An innovative element has been the focus on small and community-based development projects, with a short gestation period and having a direct impact on community life, unveiled during Prime Minister Dr Manmohan Singh's visit to Afghanistan in August 2005. To further strengthen their cooperation, on 4 October 2011, Afghanistan and India signed an agreement on 'Strategic partnership' that includes provision for both security and economic cooperation. The 'strategic partnership' includes training and equipping Afghan National Security Forces, provision of economic aid and assistance, development of mining and energy production, and establishment of 'strategic dialogue' between their national security advisers so to provide a framework for cooperation in the area of national security.

So far it has pledged assistance for about $2 billion, with projects covering the whole of country mainly in the areas of road construction, power transmission lines, hydro electricity, agriculture, telecommunication, education, health, and capacity building. Following are some of the main projects implemented with Indian support.

Major Infrastructure Projects:

- Construction of 218-km road from Zaranj to Delaram to facilitate movement of goods and services from Afghanistan to the Iranian border and, onward, to the Chahbahar Port (cost $150 million, inaugurated in May 2009).
- Construction of 220-kV DC transmission line from Pul-e-Khumri to Kabul and a 220/110/20- kV sub-station at Chimtala to bring additional power from the northern grid to Kabul (cost $120 million completed in 2009).
- Construction and commissioning of Salma Dam power project (42 MW) on Hari Rud River in Herat province (cost $ 184 million, to be completed by December 2010).
- Construction of the Afghan Parliament (cost $178 million, to be completed soon).
- Setting up of additional 220/20-kV sub stations of Charikar and Doshi along with Pule-e-Khumri Kabul transmission line (cost $23.5 million)
- Emergency restoration of telecommunication infrastructure in 11 provinces (cost $11.1 million, completed in 2005).
- Expansion of national TV network by providing an uplink from Kabul and downlinks in all 34 provincial capitals (completed).
- Supply of vehicles (400 buses and 200 mini-buses for mass urban transportation, 105 utility vehicles for municipalities), cost $20.3 million, completed between 2004 and 2006.
- Supply of three airbus aircrafts and spares to Ariana Afghan Airlines (cost $13.7 million, 2003)
- Supply equipment for three sub stations in Faryab province and 125 km transmission line from Andhkhoi to Maimana (cost $ 8.2 million, 2005).
- Rehabilitation of Amir Ghazi, Quargah Reservoir Dam (cost $4.3 million, 2006)

60 Figures Updated till December 2012; Published By External Publicity Division, Ministry of External Affairs, Govt. of India in its Paper titled "India and Afghanistan: A Development Partnership" Released on 22 December, 2012.

- Restoration/revamping of information set up, including setting up of printing press (Azadi press), 100-kW-SW Transmitter (at Yakatoot, Kabul), TV satellite up linking/down linking facility for 10 TV stations, setting up downlinking facility and TV transmitters in 24 provinces (cost $ 6.8 million, 2006)
- Solar electrification of 100 villages (2007); construction of 5000-MT cold storage in Kandahar (2006); Establishment of modern TV studio, a 1000-W TV transmitter in Jalalabad, setting up of a mobile TV satellite uplink and five TV relay centres in Nangarhar (2006); Digging 26 tube wells in six north-west provinces (2007); Drilling of 24 deep wells in Heart (2003); Construction of RTA (Radio Television Afghanistan) building in Jalalabad (2010); and leasing of slot on Indian satellite INSAT3A for RTA telecast since 2004 (the total cost of these project is about $ 12.5 million)

Humanitarian Assistance:

- Daily supply of 100 grams of fortified, high-protein biscuits to nearly 1.2 million children under a School Feeding Programme administered through the World Food Programme (cost $460 million).
- Gift of 250,000 metric tonnes of wheat, announced in January 2009 (to be supplied when transportation arrangement are finalized by Afghanistan)
- Free medical consultation and medicines through five Indian Medical Missions (Kabul, Kandahar, Jalalabad, Heart and Mazar-e- Sharif to over 300,000 patients annually (total cost till 2012 is about $ 17.2 million).
- Reconstruction of Indira Gandhi Institute of Child Health in Kabul (cost $6.7 million, 2006).
- Other supplies like blankets, tents, medicines, vegetable seeds, etc. (cost 2.7 million, 2002-2004)

Education and Capacity Development:

- About 675 annual long-term university scholarships sponsored by the Indian Council for Cultural Relations for under-graduate and postgraduate studies for Afghan students in India (cost $5.08 million per year till 2014)
- About 675 annual slots for short-term technical training courses in India (cost $3.4 million annually for 2006-2011)
- About 200 graduate and 100 post graduate/PhD fellowships for five years in the field of agriculture and related fields (announced at London Conference, 2010).
- Reconstruction of Habibia School, Kabul ($5.1 million, 2005).
- Provision of 8646 educational kits to students of Habibia School , laboratory equipments and sports goods to schools in Nimroz; Books to Kandahar and Khost Universities and teachers training (cost $5.1 million, 2005)
- Deputation of 30 Indian civil servants as coaches and mentors under the CAP (Capacity for Afghan Public Administration) programme supported by UNDP and the governments of Afghanistan and India annually ($3.2 million, 2007-09).
- Provision of services of Indian banking experts to Da Afghan Bank and Millie Bank ($ 1.8 million, 2007); Indian English teachers in five cities ($1.5 million); Vocational Training to 1000 Afghan by the Confederation of Indian Industries (1.4 million, 2008/09); Women's Vocational Training Centre in Baghe-Zanana for training of 1000 Afghan women ($1.8 million, 2008/09); establishment of Hindi and English departments at Nangarhar university ($1 million, 2009/10); supply of 20,000 school desks to Ministry of education; Computer training centres ($1.4 million, 2004/05).
- Special training courses for Afghan officials: More than 100 officials trained at Foreign Service Institute of India (2002-06); 30 staff of National Assembly at Bureau of Parliamentary Studies and Training (2005); about 300 Afghan police (2002-05); teachers training (about 60); about 60 doctors and paramedics; 60 Ariana Airlines officials; 40 officials from Ministry of Mining and Industry (2003/04)

Small and Community-based Development Projects:

- About 100 small development projects (agriculture, public health, rural development, and education) are under different stages of implementation in 19 provinces of Afghanistan (cost $20 million, 2007-10)

Other Contributions/Projects:

- Contribution to Afghan Government Budget ($10 million, 2002).
- Annual Contribution to Afghan Reconstruction Trust Fund ($ 1.8 million since 2002)
- • Contribution to UNDP ELECT Fund ($ 1 million, 2009).
- Provision of items to Afghan National Army (150 trucks, 15 ambulances, 120 jeeps, bullet proof jackets, bullet proof helmets, laser aim points, mine detectors, winter clothing, medicines, and so on) cost $13 million, 2005/06
- Setting up of Common Facilities Service Centre and tool Room at Pule-e-Charkhi Industrial Park (cost $3 million, 2006)
- Restoration of Stor Palace, Ministry of Foreign Affairs, Kabul (cost $2 million, survey completed)
- Setting up of five toilet complexes in Kabul (cost $0.9 million, 2007).
- Multidisciplinary projects in Nangarhar to wean away poppy cultivators (cost $1.6 million)
- Training of 5000 self help groups in Balkh (cost $0.8 million, 2008/09)
- Assistance in restoration of House of Screens in Murad Khane in old Kabul city (cost $0.2 million)

Some new specific projects, as part of the $2-billion Aid programme (as announced in 2011) are listed below:

- A fresh commitment of $100 million for the third phase of India's program of SDPs, over and above the previous pledge of $20 million.
- Upgradation of the agricultural department at the Kabul University to an agricultural university and providing scholarships for the study of agricultural sciences.
- Donation of 500 tractors for Afghan farmers; provision of seeds and other assistance for the agricultural sector.
- Early finalization of a $50 million Buyers Credit Line to promote exports and attract Indian business to Afghanistan.
- A grant of $10 million for preservation and revival of Afghanistan's archaeological and cultural heritage and cultural exchanges.
- A grant of $4 million to the Afghan government for the restoration of the historic Stor Palace in Kabul.
- Assistance in setting up an Afghan Institute of Mining.
- Establishment of a Jawaharlal Nehru Chair of Indian Studies at Kabul University and
- Reiterating the commitment to donate 2.5 lakh tons of wheat to Afghanistan to meet its requirements this year.

The $2-billion aid program, which commenced with the implementation of the first (comprising 50 projects worth $11.2 million) and second phase (comprising 51 projects worth $8.6 million) in July 2006 and June 2008, respectively, is on provision schedule following the clearance of $100 million backing the third phase of the SDPs in November 2012. According to the Indian government, the SDPs directly impact local communities and assist in socio-economic development, provision of livelihood, conservation of environmental and cultural heritage, women empowerment, promotion of child welfare and facilitation of community life through creation of infrastructures in education, health, agriculture and agro-industry, renewable energy, trade, transport and communication, and sectors in recreation and community development.[61]

India as a donor to Afghanistan is a reflection of the former's quest to magnify its role in the South Asia region and feels strongly about maintaining peace and security within its neighbors. To ensure that Afghanistan would remain internally diplomatic post 2014, India expressed willingness in participating in any Afghan-led operations against insurgencies and prefers the absence of terrorist training camps in the country.[62]

INDIA AS A DONOR: STRENGTHENING ENTITY DESPITE OF WEAKNESSES

Even though economic growth and future perspectives are raising hopes for India's own development, in 2005 more than 40% of the population were living on less than $1.25 / day. Within BRICS, India is by far the leading receiver of ODA which amounted to $2.5 billion in 2009 (Walz/Ramachandran 2010: 7)[63]. On the other hand, India is meeting the challenge of being a political heavyweight by supporting LICs worldwide, but especially in its neighbourhood. Between 2005 and 2008, the main recipients of India's aid programmes were Bhutan (36% in 2009/ including hydropower projects), Bangladesh and Nepal as well as Sri Lanka, Myanmar and the Maldives (Katti *et al.*: 2009: 2)[64]. An increasing amount of aid is spent within SSC, especially with Mauritius. India has contributed $200 million to the NEPAD (New Partnership for Africa's Development) initiative and is improving technology based know-how through the Pan-African E-Network Project and the TEAM-9 Initiative (Techno-Economic Approach for Africa-India Movement, a credit facility for the promotion of socio-economic development in eight African countries with the help of Indian technology). India contributed a lot to Afghanistan's reconstruction and is a key supporter of African peace keeping missions (Katti *et al*: 2009: 3)[65]. As it appears, India's aid to its neighboring countries is strategic in nature in terms of proximity and benevolence. India's ODA program largely prioritize its neighboring countries where much of the aids given are in the areas of infrastructure, education, health and are humanitarian in nature. Apart from the long history of friendship and cooperation enjoyed by India with its neighbors, one of the evident purposes for extending assistance is to enact its foreign policy where mutual benefit is supposed to be gained in a bilateral structure.

Among the traits that should be observed by emerging countries that have shifted from being an aid receiver to aid giver are: 1) past experience of developed countries acting as donors highly influences their way of aid provision considering traditional aid rest on the aberrant incentives behind the donor-recipient relations (Chaturvedi 2012); 2) move to becoming 'rule makers' as new donors are in the process of designing a systematic approach and structure to aid provision; and 3) identified reasons for ineffectiveness such as feeble aid administration and even poor program planning. India's response to this may be attributed to the creation of DPA where straightforward objectives of projection conception, launch, execution and completion has been presented. With the switch in India's economic position as evidenced by the rise in foreign-exchange and reserves, India's embryonic role as a donor country has received numerous criticism considering the country is home to more than 20% of the world's poor. With billions of US dollars being granted not only to its neighboring countries, a question rises regarding India's ability to sustain its role as a donor and its ability to alleviate its population from poverty.

However, through its assistance to other countries, India is not only strengthening its bilateral ties, it is also exerting itself, showing to the world the power it holds. This is demonstrated by its quick response during the Indian Ocean tsunami where its military troops were the first to reach Sri Lanka and the Maldives. It also refused any foreign assistance during the 2001 Gujarat earthquake and the Indian Ocean tsunami. To become an effective developing

61 Article from NDTV website (2012) http://www.ndtv.com/article/india/india-clears-100-million-aid-to-afghanistan-290213

62 Article from the Foreign Policy Journal (November 2012) http://www.foreignpolicyjournal.com/2012/11/30/indias-role-in-afghanistan-past-relations-and-future-prospects/

63 Ibid

64 KATTI, Vijaya / CHAHOUD, Tatjana / KAUSHIK, Atul (2009): India's Development Cooperation – Opportunities and Challenges for International Development Cooperation. DIE Briefing Paper 3/2009. URL: http://www.die-gdi.de/CMSHomepage/openwebcms3.nsf/(ynDK_contentByKey)/ANES7QAGRV/$FILE/BP%203.2009.pdf

65 Ibid

partner, India should be able to grasp the donor and recipient matching which is focused on the donor's ability to identify what the receiving country needs because what happens is that infrastructures are built however while this is good in an economic standpoint (facilitates trade and growth), the country's lack of capability to maintain business and infrastructures would only reflect unsustainable development. In addition, as an emerging donor, India should develop its financial assistance credit line framework to carry out proper governance and reporting structure. This way, India would be seen as a country capable of executing sovereign debt workout leading to a perception of a reliable associate in nation building.

1. *India is seen as the donor country with great interest, as it is also the recipient country. The extreme poverty exists here along with the sustained indices of economic growth. As per World Bank estimates 37% of its population is below the poverty line of USD 1.25 per day. Even it ranks below than its beneficiaries like Sri Lanka, Bangladesh, Nepal and Pakistan in some indicators.*

2. *India still is one of aid receiving country. In 2011, the total net Official development assistance received by India was around USD 3,502 billion.*

3. *Since 1950s India started delivering development assistance to its neighbours, which primarily focused on technical assistance. In 1964, India started Indian Technical and Economic Cooperation (ITEC), which provided training, educational and technical expertise to NGOs, scholars, and leaders.*

4. *Since last few years, India has diversified its foreign assistance. From 1993-2010, as per the annual report of Ministry of External Affairs, it was around USD 4,473 million.*

5. *In 2012 India formed a separate agency called Development Partnership Administration to manage Indian foreign assistance.*

6. *Although lots of studies and analysis is available to understand the logic and consideration of aid from traditional donors, but very few literature is available about India. Some analysts raise the doubt about the need of poor and developing countries to act as donors of other developing countries.*

7. *Some argue that India might be using its foreign assistance to gain access to the overseas markets for its goods and services or to secure access the natural resources. Others feel that India aid is used as a foreign policy tool to expand the country's geopolitical and diplomatic influence. There is ample literature available to substantiate the fact the traditional donors have used foreign assistance for both the above reasons. Like any other donor commercial and political self-interest also influence India's aid allocation.*

South - South Cooperation

Chapter 5

An internationally accepted definition of SSC is yet to be formulated. The UNFPA (United Nations Population Fund) has defined SSC in the context of achieving the goals set at the ICPD and the MDGs. UNFPA defines SSC in its Policy and Procedure Manual as:

"*a means of development by an exchange of knowledge, experience, technology and information and capacity development between and among developing countries through governments, civil society organizations, academic institutions, national institutions and networks to accelerate the implementation of the ICPD agenda and achievement of MDGs in participating countries*".

Other organizations and individuals in the field have defined SSC in varied ways which are meant to provide a broad perspective on the concept. It is an exchange of expertise between governments, organizations and individuals in developing nations. Through this model, the developing countries help and support each other with knowledge, technical assistance, and/or investments. SSC means countries of the South helping each other by sharing technical or economic knowledge and skills to facilitate development. As stated in the Accra Agenda for Action (2008) article 19d), "South-South cooperation on development aims to observe the principle of non-interference in internal affairs, equality among developing partners and respect for their independence, national sovereignty, cultural diversity and identity and local content" provides a good conceptual, operational and practice definition that could be adopted, expanded and developed into a policy and framework of engagement. In the Nairobi Outcome (2009), participants in the UN's high-level conference on SSC reaffirmed that it differed from ODA as "a partnership among equals, based on solidarity", and must be guided by the principles of respect for national sovereignty and ownership, free of any conditionality.

Distinctive Features of SSC within the Aid Effectiveness Agenda:

Within the aid effectiveness agenda, the following distinctive features of SSC can be highlighted:

- Capacity Development: South-South technical cooperation tends to strongly focus on capacity development as a process as opposed to a "product"; technical cooperation is embedded as a tool for mutual learning.
- A broader choice of support, leading to horizontal partnerships: South-South technical cooperation offers a different type of relationship and might improve the diversity of choices for technical cooperation at the country and regional level, while also creating more horizontal forms of development partnerships.
- Cost effectiveness: Drawing on regional and national resources, South-South technical cooperation delivers superior value for money.
- Demand-driven Character: Given the scarce resources and the horizontal relations between the partners, South-South technical cooperation is more aligned with recipients' priorities and needs.
- Adaptability: Since recipient and provider share similar development challenges, South-South technical cooperation can generally provide highly-adapted and relevant solutions, especially in terms of relevant technology and cultural understanding.
- Southern Knowledge: South-South technical cooperation diversifies knowledge and expertise beyond industrialized models.

SSC should also be seen as an expression of the growing capacity of middle-income countries to contribute to the attainment of the MDGs as aid donors, not only as recipients. The political component of SSC should at no time be ignored, since one of the main objectives of SSC is reform of the international order and the global economic system. SSC is primarily a mode of cooperation, aimed at strengthening bilateral relations among the southern countries and providing them with tools that will help the South develop and increase its collective bargaining power. SSC creates solidarity among developing countries and aims to ensure national self-sufficiency whilst providing support to the South as it becomes part of the global economy.

Factors which differentiate SSC from traditional North-South Cooperation are namely:

a) Non-interference in internal matters

b) Increased sensitivity to specific contexts

c) Equality between partner countries

d) Respect for their independence and national sovereignty

e) Promoting self-sufficiency

f) Diversification of ideas

g) Approaches and methods of cooperation

h) Preference for the use of local resources

i) Generating broader elements of ownership

j) Greater flexibility

k) Simplicity and speed of execution

l) The preservation of diversity and cultural identity.

These factors are further strengthened by their adaptation to national priorities. SSC is generally reckoned to be better value than traditional North-South Cooperation. It tends to be less expensive and has a greater impact. SSC has a distinctly different flavor from North-South Cooperation. It tends to be driven by mutual economic and commercial linkages, including access to dwindling natural resources and not by charity. It also has a greater emphasis on technical cooperation and knowledge transfer than conditionality-based project, programs or budget support.

TYPES OF SSC:

Numerous variations of SSC exist. Depending on the criteria that have been used, several types of SSC can be differentiated. Examples of such criteria are: the way the cooperation is financed, the role of each stakeholder, the domain in which the cooperation takes place are some markers. UNESCO describes a classification system which distinguishes between several types based on the activity of the cooperation. UNESCO differentiates the following types of cooperation as follows:

- Sharing experiences and good practices: one or more developing countries with experience and expertise in a certain domain exchange(s) this experience and expertise with one or more other developing countries.
- Strengthening of networks: several institutions from different developing countries form a network and work together within this network.

- Capacity-building: Capacity-building in the context of SSC is about increasing the ability of a southern country to promote development. The southern countries help each other build up their capacity to promote development. For example, capacity-building can include the training of personnel and the purchase of equipment.
- Partnership Development: the developing countries start a partnership and set up a common project to build on development.

The key drivers of this cooperation framework that developing countries have found to have long lasting benefits and deserve further attention includes health, education, policy, science and technology, institutional capacity, interdependence, outlook towards globalization and support of the north.

History of South-South Cooperation:

The concept of SSC originated in Southeast Asia more than 50 years ago and has been used for decades as a basis for academic research and voluntary cooperative efforts between southern countries to promote South-South trade and investment. The end of World War II provided impetus for identifying the underdeveloped regions of the world which, at that time, were neither industrialized nor socialist. These underdeveloped regions were comprised of countries struggling to overcome their colonial heritage while at the same time they were being pressed to take sides in the Cold War which followed World War II. An understanding of their common interests and of the mutual benefits of cooperation was the seed which led to the creation of institutional frameworks for SSC. Both the NAM and the G-77 were instances of cooperative political mobilization and collective bargaining, wherein propositions such as a new international economic order were advanced. However, thus far the NAM and the G-77 have failed to yield the economic self-reliance and political independence that developing countries had sought. The 1970s were marked by great optimism about the ability of the South to reshape the international structure of power and economic relations in a more equitable direction.

The increased activism of G-77 and NAM during this period led to the adoption by the UN General Assembly of resolutions on the New International Economic Order and on new forms for technology transfer between countries. The UN established the UNCTAD (United Nations Conference on Trade and Development) to assist the South in the area of trade policy and promotion. The Commission for Science and Technology and the UNFSTD (UN Fund for Science and Technology in Development) were also established. In 1972, the UN General Assembly set up a working group to examine ways of intensifying technical cooperation among developing countries (TCDC). This led to the establishment in 1974 of a Special Unit within the UNDP to promote TCDC.

The World Summit on sustainable development, held in Johannesburg, South Africa, in August 2002 adopted a declaration and an implementation plan that specifically endorsed SSC and strong regional and sub-regional action. In December 2003, the UN General Assembly adopted Resolution 58/220, declaring December 19th the annual UN Day for SSC. This declaration serves to focus attention on SSC and to promote more extensive participation in SSC efforts. The General Assembly also urged all UN agencies and other multilateral organizations to mainstream SSC programmatically and to increase resource allocations to support SSC activities.

Asia too has taken a lead role in promoting SSC through regional and sub-regional integration. The 10-member ASEAN continues to lead in this area. Under a framework agreement signed in 2000, ASEAN members pursued increased digital readiness in the region. Subsequently, the SAARC was also formed and today comprises eight South Asian countries with similar objectives.

India & SSC:

As regards to India's position it sees SSC a supplement to the North-South cooperation, not as a substitute to it. It is engaging multilaterally with South Africa through the IBSA Summit and the BRICS Summit. Both platforms have emerged as vital for inter-regional dialogue and to consolidate cooperation. India is mindful of the fact that the BRIC-IBSA will be an effective instrument for promoting closer cooperation and coordination on global issues between the major and diverse countries of all major continents which comprise the BRIC-SA. As the representative of the South, it would also be the voice of the developing country's people in the global fora.[66]

India has taken the initiation and early conclusion of negotiations for finalizing trade and investment related bilateral and multilateral Agreements; especially the BIPPA (Bilateral Investment Promotion and Protection Agreements), the FTAs (Free Trade Agreements) / Comprehensive Economic Cooperation Agreements, Double Taxation Avoidance Agreements etc. that we have been engaging would provide a real impetus to its trade and investment. India is also reinforcing its efforts to promote between them FDI, development of SMEs, greater market access, and investment facilitation. India by moving to the cleaner and greener technologies, sharing of technology in developing and utilizing green and renewable sources of energy has displayed its will and intent for a cleaner and sustainable world.

CHANGING DYNAMICS OF SSC: THREAT OR OPPORTUNITY FOR PROGRESS

Developing southern nations have increasingly turned to each other for economic development assistance to complement North-South aid. This has contributed to substantial economic growth in developing countries. As countries like Brazil, China, India and South Africa emerge as regional players; the traditional ODA is being challenged. In a move that is challenging the supremacy of the North, these countries are providing increasing support and assistance to other southern countries. With considerable economic clout and an aggressive strategy of forging partnership in new markets, China has emerged as a defacto leader in SSC. India and Brazil have also worked hard to promote SSC. With the help of their fellow southern countries, the South is increasingly able to make its voice heard in international forums and claim their share of the benefits that accrue as the South becomes more developed. SSC and North-South Cooperation are complementary; the former does not have southern hegemony as its goal. The Secretary-General of UNCTAD, Dr. Supachai Panitchpakdi in his address while receiving Asia Cosmopolitan Award conferred by ASEAN in 2012 said that," The North has been much more of a partner than a competitor in the success of the South and that it will share in the dividends of the success of the South. Consumers worldwide benefit from the low-cost, high-quality products and services from the South."

Therefore, the new dynamism of the South is a cause not for fear. With this in mind, it is important firstly to note that, the North has been much more of a partner than a competitor in the success of the South. It has shared in the dividends of that success and will continue to do so. Secondly, a stronger South will generate demand for exports from other countries and boost investment opportunities with higher returns. Thirdly, consumers worldwide are already benefiting, and will do so increasingly, from the low-cost, high-quality products and services now on offer from the South. Fourthly, the fact that more and more developing countries are becoming competitive participants in global production chains and labor markets is likely to have a net job creating impact in the South and the North alike. Fifthly, the more successful developing countries set good examples for others to follow, enabling them to avoid repeating past mistakes and embark on development models that have already been proven to work. Finally, emerging countries in the South can join the ranks of other nations in confronting such global challenges as migration, environmental threats, HIV/AIDS and other pandemics.

66 Press Bureau of Ministry of Finance, Govt. of India on "India's involvement and pioneering role regarding South-South Cooperation."

1. In the SSC (South-South Cooperation) model, the developing countries help and support each other with knowledge, technical assistance, and/or investments. This means that countries of the South help each other by sharing technical or economic knowledge and skills to facilitate development.

2. Some distinctive features of SSC are Capacity Development, a broader choice if support leading to horizontal partnerships, cost effectiveness, demand-driven character, adaptability, and southern knowledge. It is in way also the expression of growth by middle-income countries to be able to see themselves, in future, not just as receivers or aid but also as donors.

3. There are many factors that differentiate SSC from traditional North-South Cooperation. Some of them are non-interference in internal matters, increased sensitivity to specific contexts, equality between partner countries, respect for their independence and national sovereignty, promoting self-sufficiency, diversification of ideas, approaches and methods of cooperation, preference for the use of local resources, generating broader elements of ownership, greater flexibility, simplicity and speed of execution, and the preservation of diversity and cultural identity.

4. Numerous variations of SSC exist. Depending on the criteria that have been used, several types of SSC exist. Examples of these criteria are: the way the cooperation is financed, the role of each stakeholder, and the domain in which the cooperation takes place. UNESCO describes a classification system which distinguishes between several types based on the activity of the cooperation.

5. The concept of SSC originated in Southeast Asia more than 50 years ago and has been used for decades as a basis for academic research and voluntary cooperative efforts between southern countries to promote South-South trade and investment.

6. India sees SSC a supplement to the North-South cooperation, not as a substitute to it. It is engaging multilaterally with South Africa through the IBSA Summit and the BRICS Summit. Both platforms have emerged as vital for inter-regional dialogue and to consolidate cooperation.

7. Developing southern nations have increasingly turned to each other for economic development assistance to complement North-South aid. This has contributed to substantial economic growth in developing countries. Therefore, the new dynamism of the South is a cause not for fear

India as an Overseas Investor

Chapter 6

Along with its rise in economic power, India has rapidly involved itself in investments abroad. India Inc is getting experimental with every passing day and as a result, is increasingly looking to invest abroad to accomplish its motives of resource-hunt or market-hunt or technology-hunt. Investments from India are no longer chasing just stressed assets in the US and Europe or for that matter mining resources in Australia but are largely placing focus on green-field projects around a larger geography encompassing the middle east, Africa, and south east Asia. Similarly, it's not just the Tatas, Ambanis and the Ruias, who are scouting for opportunities in foreign lands, corporate groups of all sizes are also exploring options outside to get greater access to the global markets.

According to Pranab Mukherjee while being the Finance Minister of India in 2012 during Pravasi Bharatiya Divas has anticipated that, while Mauritius is a going to be hot destination for Indian corporate investing abroad, the US and Singapore will also hold strategic importance for the same in coming days. The UAE is an upcoming market for Indian outflows which will change the face of Arab ties which was never been given priority till recent times.

Statistics Proving Spread of Indian Investment Wings: (Updated till February 2012)[67]

ODI by Indian companies increased by 179% to $3.30 billion in January 2013 (as against $1.18 billion in January 2012). Some of the major overseas investments made by Indian companies in January 2013 include: Bharat Petro Resources Ltd ($439 million), Cox & Kings India ($249 million), Essar Steel ($155 million), Tata International ($128 million), and Videocon Oil Ventures ($127 million). Indian companies' overseas investment in the first 10 months of FY13 stood at $23.32 billion. A recent study by Grant Thornton India has stated that the total value of PE (private equity) and M&A (mergers and acquisitions) deals in November 2012 increased five times to $10.1 billion from $1.9 billion in November 2011. The number of outbound deals in the reported month shot up to 15 deals from 10 and its total value rose to $6.7 billion from $1.9 billion in November 2011 rise in equity investment and loan amount equate to $436.1 million and $341.1 million, respectively. This overseas investment includes major international agreements entered by Indian companies such as JSW Steel, Bharti Airtel, Tata Steel, Global Green Company, Religare Capital Markets, Reliance Industries, Spice Invest, and Finance Advisor.[68]

The countries that showed interest getting into business with India are Venezuela (with the petroleum sector), Indonesia (with the rubber industry), Brazil (with business concerning pharmaceuticals, sugar and ethanol manufacturing), African countries where about 100 Indian companies have explored investments in Ghana in the business of food processing, healthcare, IT, construction, consumer durables, infrastructure and energy, among others.[69] The political framework have been flexible to some extent in terms of enhancing its policies with regard to foreign investments such as the elimination of per annum upper limit of US$100 million for automatic approval in March 2003 which enabled Indian entities to invest to the extent of 100% of their net worth. This caused the increase to 400% of outward foreign direct investments. The Indian government and other corporate entities regularly review

67 Source : India Brand Equity Foundation; Indian Investments Abroad

68 http://www.ibef.org/artdispview.aspx?in=37&art_id=32398&cat_id=599&page=1

69 http://www.ibef.org/artdispview.aspx?in=37&art_id=32398&cat_id=599&page=2

the policies and regulations including the HCM (Home Country Measures) to promote globalization by way of outward FDI devoid of any effect to the domestic economy. PwC (PricewaterhouseCoopers), a multinational professional services firm and the world's largest accountancy organization, expects India to be the largest source of emerging market MNE (multinational enterprises) by 2024 whereby India is would have 20% more MNEs than China and more than 2,200 Indian firms are estimated to invest abroad in the next 15 years.[70]

OUTWARD FOREIGN DIRECT INVESTMENT OF INDIA (OFDI):

It has been noticed that significant research and studies have been carried out so far to find out the quantum and the nature of money flowing from the foreign investor to our domestic territory in the form of FDI, but limited study has been done on the outward trend of investment going out of our country to other nations in the form of OFDI (outward foreign direct investment) . There is no doubt that India has grown impressively over the years and will soon emerge as the world's major economic power. However Indian economy is still faced with several challenges in the form of widespread poverty, high rate of unemployment, illiteracy, population outburst etc. which are obstructing the growth potential of the country. Though the future growth outlook of the Indian economy looks promising, India continued to remain poor and under developed at the grassroots level.

In this situation of economic uncertainty, India's investment abroad is not an encouraging and promising choice as the country is itself struggling hard to attract investment in some important areas of development i.e. infrastructure and manufacturing which in turn can generate employment opportunities to large number of unemployed youths within the country. In Indian context entering the foreign market involves four possible modes of entry:

- Exporting
- Licensing (includes franchising)
- Joint Venture and
- OFDI

Manufacturing sector in India as major contributor to GDP requires maximum investment in this sector. One of the major reasons behind increasing Indian investment abroad is the search for raw materials as there is scarcity of raw materials in the country. In 2010, India's investment in overseas business has exceeded the amount of foreign investors investing in India. As per a rough estimate available, Indian invested $40 billion abroad that is twice the amount of foreign investment coming to India in the form of FDI.[71] This reflects that the domestic investors are no more interested in investing their money within the country and rather prefers going for overseas investment. Thus, the failure of the Indian investors to invest their money domestically is a bad news for a country like India which needs huge investment for its infrastructure and other growth projects that can help in addressing the needs and requirements of thousands of Indians dying out of poverty. Outward FDI is playing an important role in uniting Indian economy with the outside world and promoting economic cooperation among the nations. Large corporate houses such as Tata Group, Aditya Birla, Mittal Steel, Bharti Tele Services, and Reliance Industries are also extending their reach outside the domestic territory by investing overseas. In this process of expansion, the firms have not only captured market in the developing countries but also in the industrialized nations.

Identifying some of the factors driving Indian investors out of the country and invest overseas includes the following:

1) Delayed decision making in part of Central government as a coalition salvager.

70 http://www.ibef.org/artdispview.aspx?in=37&art_id=32398&cat_id=599&page=2

71 RBI Quarterly Review Report, January 2013.

2) Lack of transparency in major policy decision with non inclusion of all stake holders in the discussion and decision making forums.

3) Frequently debated policy implementations and rollovers creating confusion for business houses and receding trust factor.

4) Corrupt practices existing in every official work procedure is forcing the domestic investors to adopt much broader outreach.

5) Governmental big boss role with imposition of many stringent rules, non uniform regulatory clauses not in sync with global requirements / parameters on the operation of private sector entities.

6) Conducive and inspiring global work space, real management principle adoption and reflection by some small yet promising states like Singapore, Mauritius, Philippines, UAE, Malaysia, and Hong Kong allures business entities to move out of domestic bay.

ASIAN COUNTRIES DRIVING GLOBAL ORDER:

According to IMF REO (Regional Economic Outlook) for Asia and the Pacific released on 29 April 2013, Asia is set to grow at 5.7% in 2013 with growth in emerging Asia reaching 7.2% leading the global three-speed recovery. Growth in the Asia Pacific region shows signs of improving as extreme risks emanating from advanced economies have receded and domestic demand remains resilient supported by relatively easy financial conditions and robust labor markets. Chinese demand and Japanese stimulus should also provide a boost to the region as predicted by IMF economists. In the case of ASEAN economies, growing integration in consumer goods trade should further contribute to favorable intraregional demand dynamics as expressed in the report.

While the average HDI for the region is 0.558, below the world average of 0.693, South Asia saw the highest growth in the index between 2000 and 2012, according to the United Nations Human Development Report 2013. The region registered an annual growth of 1.43 percent in HDI, the highest compared to other regions. It also said that the developing countries as a whole are driving the global economic growth. By 2030, the countries of the global South will account for 80% of the world's middle class and 70% of the consumption expenditure. The fasted HDI growth was in Afghanistan, 3.9%, followed by Pakistan with 1.7% and India, 1.5%. While historically, Sri Lanka has a high HDI and is ranked 92, it registered the lowest growth. The 2013 Human Development Report - "The Rise of the South: Human Progress in a Diverse World" analyses more than 40 developing countries that have made striking human development gains in recent years. The report cites rapid human development progress in India, Bangladesh, and other South Asian nations as helping drive a shift in global dynamics, pulling millions of people out of poverty and expand the global middle class. The report attributes their achievements to strong national commitments: better public health and education services, innovative poverty eradication programs and strategic engagement with the world economy. "The South as a whole is driving global economic growth and societal change for the first time in centuries," writes UNDP Administrator Helen Clark in the Report's foreword.

The report estimates that by 2020, the combined economic output of three leading developing countries alone, Brazil, China, and India will surpass the aggregate production of Canada, France, Germany, Italy, the UK, and the US. These countries have succeeded by tapping into global trade and harnessing smart social programmes, the report says. "On the one hand, they set aside a number of collectivist, centrally managed precepts; on the other hand, they diverge from the unfettered liberalization espoused by the Washington Consensus," it states. India's policies show the complexities of these choices. Investing in world-class tertiary education, building human capabilities and opening up to trade and investment allowed India to capitalize on its stock of skilled workers in technology. By 2011/12 these industries were generating $70 billion in export earnings. Similar tales can be told for India's pharmaceuticals, automobile, chemical and service industries, now vigorously competing in world markets.

In 2010, India's trade to output ratio was 46.3%, up from only 15.7% in 1990. Foreign direct investment also reached a peak of 3.6% of GDP in 2008, up from less than 0.1% in 1990. In 2011, eight of the world's biggest corporations on the Fortune 500 list were Indian.

Table 1: Stock of India's Investment Abroad

Year (Ending March)	Indian Investment Abroad ($ billion)	
	Direct	Portfolio
2003	5.8	0.8
2004	7.8	0.4
2005	10.0	0.5
2006	15.9	1.2
2007	31.0	0.9
2008	49.8	0.7
2009	67.6	1.0
2010	84.3	1.6
2011(PR)	100.8	1.6
2012 (P)	111.7	1.5

RBI classifies data as P: preliminary, PR: partially revised.
Source: RBI InIP.[14]

The above data provided by RBI clearly indicates that over the year's Indian investment overseas is making considerable progress and Indian firms are influencing a major control in the global market. Though India is the biggest and best-known example of progress, other countries in South Asia also demonstrate great success, the Report says.

Bangladesh, with much slower economic growth and half India's per capita income, does nearly as good as its neighbor, and better in some indicators. It has sustained growth by increasing the rate of public investment and achieving great success in textiles. By 2010, Bangladesh's share of world apparel exports had increased to about 4.8%, from about 0.8% in 1990. Through South-South trade, India has been able to offer other developing countries access to affordable capital goods that are more appropriate to their needs than goods from richer countries. For instance, Indian firms are supplying affordable medicines, medical equipment and information and communications technology products and services to many countries in Africa. "New ideas and entrepreneurship are coming from the South and will be the defining movers of the 21st century," says Ajay Chhibber, UNDP Regional Director for Asia and the Pacific. "In our changing world, solutions are moving across the South, not just from the North to the South."

The new middle class in the South is driving economic, social and political expectations. Increasingly, the most important engine of growth for developing countries is their domestic market. By 2025, annual consumption in emerging markets is estimated to rise to $30 trillion. By then, the South will account for three-fifths of the one billion households earning more than $20,000 a year, creating a new global middle class. However, while developing countries have reduced the proportion of the population living on less than $1.25 a day from 61% in 1981 to 36% in 2008, more than half a billion people still remained extremely poor which is a matter of worry.

In the Asian region, emerging economies like India and China are becoming a source of investment for the countries worldwide and hence these economies are getting the opportunity to participate in the global economy and competing with the other economies of the world establishing their influence over the global market. In 2000, introduction of FEMA (Foreign Exchange Management Act) changed the entire perspective on foreign exchange particularly those relating to investment abroad. It changed the emphasis from exchange regulation to exchange management. It aimed to facilitate external trade and payments as well as to promote an orderly development and maintenance of foreign exchange market in India.

INDIA INC IN ORDER:

To encourage the growth momentum India has achieved since last two decades, the Indian government is taking all possible steps to open up its economy by encouraging the Indian investors to spend and invest overseas.

Table: 24

Recently, the government has taken certain measures liberalizing its policy on foreign investment by approving long pending plan to allow more overseas investment in insurance and opening the pension sector to foreign investors. In order to ensure safe and successful overseas expansion plan, providing insurance cover has become the prior requirement as the entrepreneur carrying out investment overseas may be subjected to certain risk such as imposition of import duties by the buyer's countries, cancellation of a valid import licenses etc. The Government of India is in favor of designing out the foreign investment policy for pension sector intermediaries (including the pension funds and central recordkeeping agency) under the Foreign Exchange Management Act, 1999. The Government had told the Parliamentary Panel that spelling out the foreign investment policy in the pension sector under FEMA was in line with most of the recent legislations in the financial sector, where foreign investment is determined under FEMA. However, the Standing Committee is not in favor of such an approach for the pension sector.[72]

72 http://www.thehindubusinessline.com/industry-and-economy/economy/article2411889.ece

Trend of OFDI from India:

India's first overseas investment was started by the Birla Group in 1959 by setting up the Textile Mill in Ethiopia. This encouraged the other Indian firms to go for global expansion drive and hence the wave of investing overseas started among the Indian firms. Thereafter Birla expanded its sway in Africa by setting up an engineering unit in Kenya in 1969. 1n 1990, India had become a significant investor abroad by undertaking 229 approved projects and thereafter Indian investment overseas is rising year after year. As per the latest data available with RBI, Singapore is the largest country receiving aggregate of $14.11 billion of Indian investment in four years which is followed by Mauritius receiving an aggregate amount of $11.57 billion. Indian investment overseas in the developed countries is mainly through M&A while that in case of developing economies, it is through green-field investment.

Table: 25

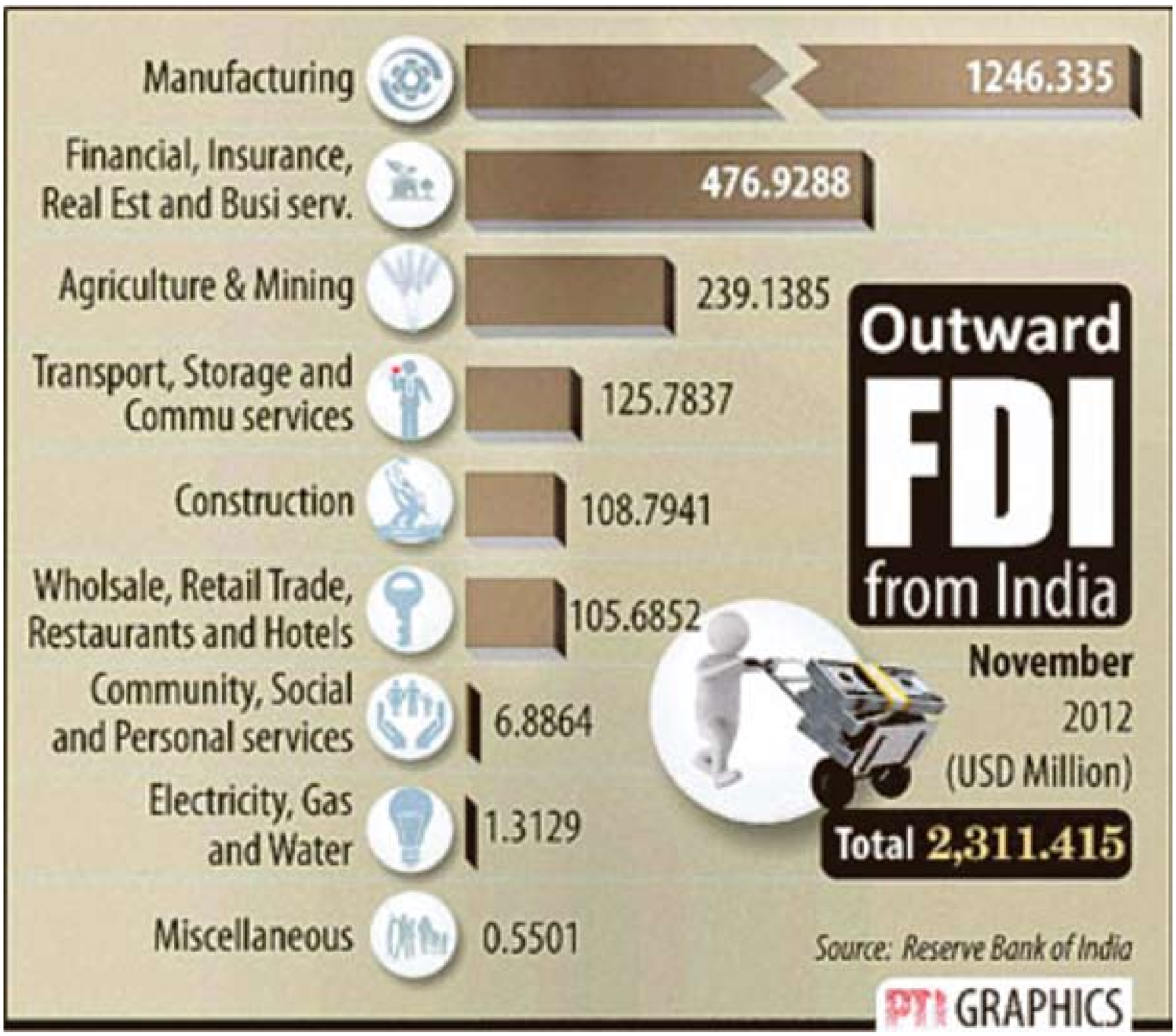


Table: 26

Top Ten Country Wise Overseas Investments by Indian Companies					
(amount in billion dollars)					
Country	**2008/09**	**2009/10**	**2010/11**	**2011/12***	**Total**
Singapore	4.06	4.20	3.99	1.86	14.11
Mauritius	2.08	2.15	5.08	2.27	11.57
Netherlands	2.79	1.53	1.52	0.70	6.54
United States of America	1.02	0.87	1.21	0.87	3.97
United Arab Emirates	0.63	0.64	0.86	0.38	2.51
British Virgin Islands	0.00	0.75	0.28	0.52	1.55
United Kingdom	0.35	0.34	0.40	0.44	1.53
Cayman Islands	0.00	0.04	0.44	0.14	0.62
Hong Kong	0.00	0.00	0.16	0.31	0.46
Switzerland	0.00	0.00	0.25	0.16	0.41
Other countries	7.65	3.19	2.65	1.23	14.71
Total	18.58	13.71	16.84	8.86	

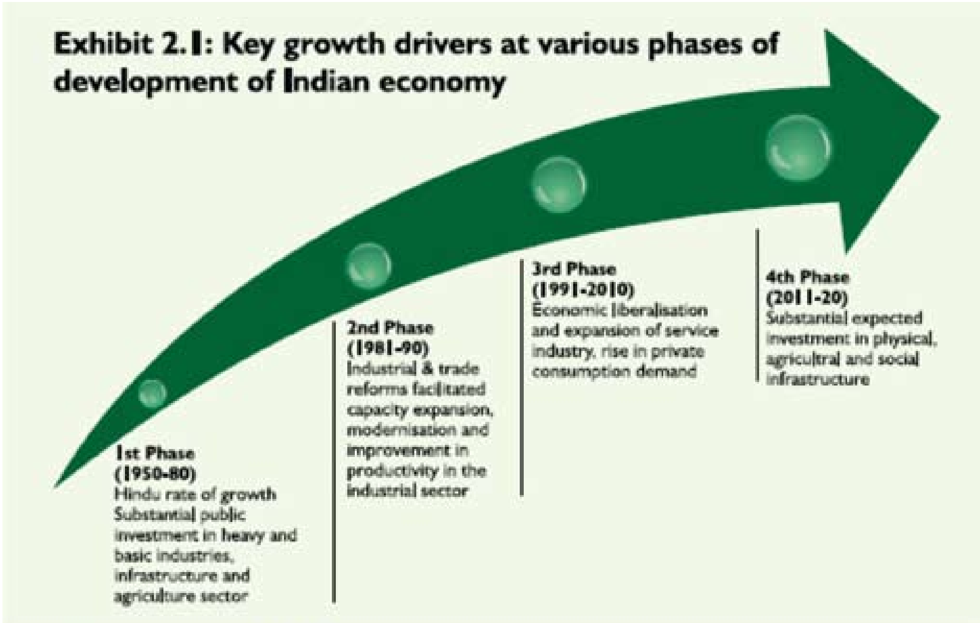
(***Source:*** RBI; http://rbi.org.in/scripts/BS_SpeechesView.aspx?Id=674)

Globalization being a two way process has opened the gate for both inward FDI and outward FDI in Indian context. If we look into the positive aspect of outward FDI, India has been benefitted in many ways such as extension of networks in the global market, sharing of research and development outcomes and also establishing a major control in the international platform. For the Corporate, investment abroad has helped in brand promotion and also in acquiring technological knowledge which is lacking in Indian context. As per the UNCTAD's World Investment Report of 2011, India was placed 21st in the world in terms of magnitude of OFDI. While in context of cross border acquisitions, India has been placed in fifth place as per the report after US, Canada, Japan, and China.

INDIAN ECONOMY SETTING GLOBAL ORDER:

India has emerged as a strong economy over the years. The recent global financial and economic crisis had an impact on India's economic growth momentum during FY09. However, the economy has been remarkably resilient against shocks such as turmoil in the global and domestic financial markets, severe drought conditions and hardening international crude oil prices, sustaining its GDP growth. It has managed to escape relatively unscathed from the global economic turmoil owing to strong fundamentals, which would continue to drive its growth.

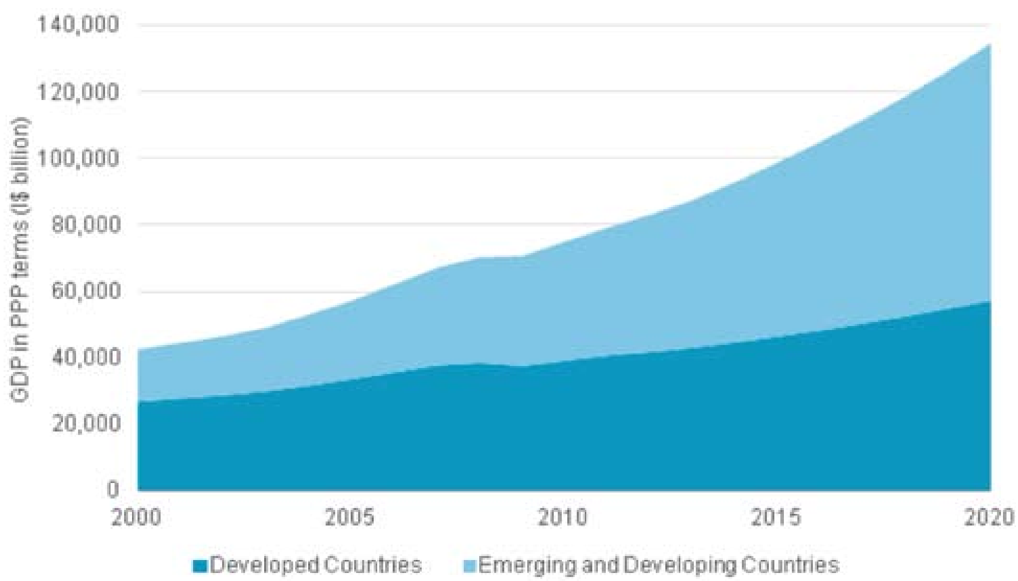
Table: 27



Source: Planning Commission, D&B India

According to Euromonitor International, in 2020, emerging markets will dominate the top five largest economies. The most symbolic shift will be when China overtakes the US as the largest economy globally followed by India. Then, the three biggest emerging economies will account for around 30% of global GDP in PPP terms in 2020 compared to 23.5% in 2012 when there were just two emerging markets amongst the five largest economies (1. USA 2. China 3. India 4. Japan 5. Germany). The most discernible shift in global power towards emerging market economies is expected to take place in 2017 when China will become the world’s largest economy.

Table: 28



Source: Euro Barometer Projection Statistics

The global economic downturn of 2008/09 and the ensuing sovereign debt crisis have accelerated this trend as advanced economies were hit much harder through greater integration in global financial markets and larger fiscal imbalances and government debt. The consequential austerity drive across much of the developed world, especially in the eurozone, has resulted in low-growth, high-debt scenarios, long-term unemployment and underemployment trends, with a potential "lost generation" amongst the severely hit youth. Economic growth in emerging and developing countries also slowed but the effects of the global downturn were not as acute and in 2014, emerging markets will overtake developed countries in their share of the global economy in PPP terms for the first time (forecast 51% of world GDP).

CHALLENGES FOR INDIA:

India's main challenges are more structural, with governance weaknesses as the key bottlenecks for growth and development. The international evidence shows that countries that have successfully developed have all tended to score well on:

a) Mobilizing resources and boosting the supply side of the economy, for example, through infrastructure development.

b) Ensuring broad-based improvements in education and health and

c) Keeping growth reasonably inclusive and broadly shared.

Successful East Asian economies such as Japan, South Korea, Taiwan, and China have done especially well in these areas, even though inequality has risen in some cases, as it has in China. By nature, these are tasks where the choices and functioning of the government and its institutions are essential. India's track record in this sphere has traditionally not been very good, although there has been some improvement recently. The dual weakness in infrastructure development and public-services delivery in India constrains growth and is reflected in macroeconomic tension.[73]

As the supply side has struggled to keep pace with strong growth aspirations and demand growth, inflation has a major structural component. Moreover, with higher expectations and a disappointing performance of the government in more broadly sharing the benefits of growth and providing basic public services, pressure on government spending is high. Better access of the poor to basic public services and more equal sharing of the benefits of growth are key to implementing growth-enhancing reforms and developing the modern infrastructure India requires. For a strong global presence with a remarkable footprint to follow, own strength of stability mechanism must be relooked first.

Looking ahead, the prospects for sustained rapid growth and development in India will depend in no small part on improvements in the quality of governance in infrastructure and the delivery of public services. Some people think that, despite relatively weak governance, India can continue to grow rapidly because of its dynamic private sector. But some eminent economists like Amartya Sen and fellow Economist Jean Dreze are disagreeing. India will probably be able to continue to grow decently in the medium term, given the scope for higher productivity and urbanization. However, growth and development along the lines of the East Asian economies which is sustained, broad-based growth of 8%-10% for a few decades will require better and stronger governance, especially in infrastructure development and public-services delivery. Then only we can imagine of a well adaptable and sustained global footprint for India Inc across the globe.

73 Fung Global Institute on Asian Perspectives on Global Issues; *India's Real Economic Challenges*.

OVERSEAS ACQUISITIONS BY INDIA:

Firstly, India has been at the forefront of acquisitions from the emerging markets (AT Kearney researchers, 2008). India has gone through deregulations in the last two decades both in terms of allowing inward and outward investments (Gopinathan S, 2007). Indian companies have certain peculiarities in terms of ownership concentration by promoters and financial institutions which make acquisition by Indian firms an interesting subject of study. (Barai, P and Mohanty, P, 2010). The deal structure of acquisitions by Indian Firms is unusual as compared to developed country acquisitions as a majority of Indian acquisitions are in cash, rather than stock, this raises questions in terms of ability to finance acquisition, the route taken to do so and the impact of additional leverage on the balance sheets of Indian Acquirers. The Indian Companies Act section 372A requires shareholder approval for investments above 60% of net worth, however many large acquisitions such as Tata Steel-Corus, Bharti-Zain deal have been routed via Special Purpose Vehicles in which case the shareholders of acquiring companies are not required to give their consent. This raises questions on protection of share holder interests and their say in large cross border acquisitions undertaken by Indian firms. Finally research on cross border acquisitions in India is at a nascent stage prompting the need to undertake further research (Gubbi, Aulakh, Sarkar, and Chittoor 2010)

Indian companies have certainly become more ambitious and certainly adventurous. Most companies are no more the ‘frogs in the well of the license-raj era’. In today’s world, Indian companies are not only setting up their own bases overseas, they have become quite ambitious to fly out of the Indian business boundaries to find new companies and potential markets for acquisition and company investment. Considering some major high value acquisitions by Indian companies outside territory, Tata group comes ahead of everyone when it acquired Corus Steel of Britain. Following is a list of major high value acquisitions by Indian firms in order of its monetary volume invested.

(1) As one of the leading steel producers in India, it acquired Corus Group for $12.11 billion (€8.5 billion) on 31 January 2007. But only after nine rounds of bidding, the acquisition process was completed. The only other competitive bidder was CSN (Companhia Siderurgica Nacional) , Brazil. This acquisition is considered to be one of the biggest foreign acquisitions by an Indian company, and after this only TATA Steel came out to be the fifth largest steel producer in the whole world.

(2) India’s largest mobile services company, Bharti Airtel’s ambition to expand into the markets outside India was completed after this complete acquisition of the African operations of Mobile Telecommunications Company (known as Zain). Bharti Airtel had acquired Zain Africa for a value of $10.7 billion. The acquisition gives Bharti Airtel a total customer base of 180 million, including 131 million subscribers it had in India at the end of April 2011. “By expanding its business outside the country, Bharti Airtel can in the long term benefit from economies of scale, including getting better deals from suppliers” says, Kamlesh Bhatia, Principal Research Analyst at Gartner.

(3) Aditya Birla Group, one of India’s leading MNCs, acquired the entire stake in the Atlanta based aluminium company Novelis for $6 billion. This company had separated from Alcan, a global aluminium company. This deal was announced on 11 February 2007 by Kumar Mangalam Birla, Chairman of the AV Birla group. The deal, in a way recapitulates India’s new appetite for international acquisitions, as it comes barely a fortnight after the Tata-Corus deal, which made Ratan Tata the toast of Indian industry.

(4) ONGC (Oil and Natural Gas Corporation) has acquired Imperial Energy in August 2008. This deal was for 1.3 billion pounds ($1.9 billion). About 96.8% of London-listed firm’s shareholders had to accept this takeover offer, for the acquisition deal to take effect. According to the then ONGC Chairman R S Sharma, “The company owed the acquisition to government support, which has seen OVL in the past seven years increase its number of projects to 39 in 17 countries, from just a single project in Vietnam,”

(5) Tata Motors, one of the leading automobile MNCs in India acquired both Jaguar and Land Rover, which are two iconic British brands with worldwide growth prospects in 2008. This deal was for a whopping $2.3 billion with Ford, the previous American owners. The deal was effective from May 2008. The deal is seen as yet another endeavor of

the fast growing Indian industries, also the latest in a string of foreign acquisitions by Tata.

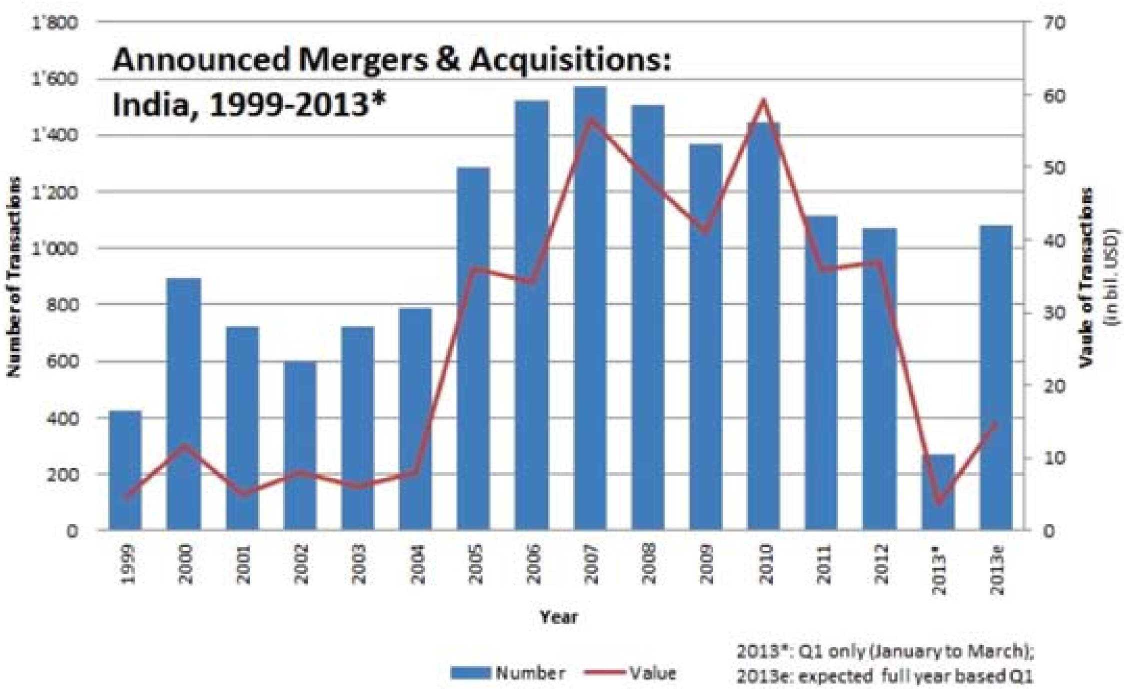
(6) Tanti group of companies jointly with Bahrain-based Arcapita Bank acquired Honiton Energy Holdings, a Chinese wind energy firm in April 2010. The joint venture partners invested about $2 billion which help to develop a 1,650-MW portfolio of wind farms in China. Tulsi R. Tanti, Chairman, Tanti Group felt that the acquisition would reinforce their commitment towards the renewable energy sector and also would have a potential growth of wind energy in developing countries like India and China.

(7) Adani Enterprises completed a $2-billion deal which acquired Abbot Point Coal Terminal in Australia in May 2011. This acquisition marked the third overseas acquisition in nine months by Adani Enterprises, the country's biggest private port and is India's largest coal importer. This deal one of the largest port acquisitions in the world. There have also been many Indian companies which have acquired many mines in foreign countries to secure coal supplies for Indian projects.

(8) Ruias owned Essar Steel Global acquired the Canadian steel company Algoma Steel at a valuation of Canadian $1.85 billion in April 2007. The arrangement must be approved by Algoma's shareholders by the affirmative vote of at least 66% (two-third) of the votes cast. Algoma Steel is an integrated steel producer based in Sault Ste Marie, Ontario. Essar Steel Holding, Essar Group's overseas investment arm made the investment possible and easy. Algoma would definitely provide Essar an excellent platform for the Canadian and North American market.

(9) India's Reliance Industries bought a $1.7-billion stake in natural-gas properties Marcellus Shale, from Atlas Energy Inc. in April 2010. This acquisition made Reliance in becoming the latest international energy company to bet on growing fuel output in U.S. shale formations. Reliance, led by Indian billionaire Mukesh Ambani, got the right to buy 40% of all new Marcellus Shale leases that Atlas acquires, after this purchase acquisition and agreement was completed. And this was one of the most lucrative deals which have been seen in the Marcellus.

Table: 29 Mergers and Acquisitions by India from 1999 to 2013



Source: IMAA (Institute of Mergers, Acquisitions & Alliances) ; a non-profit think tank based in Switzerland

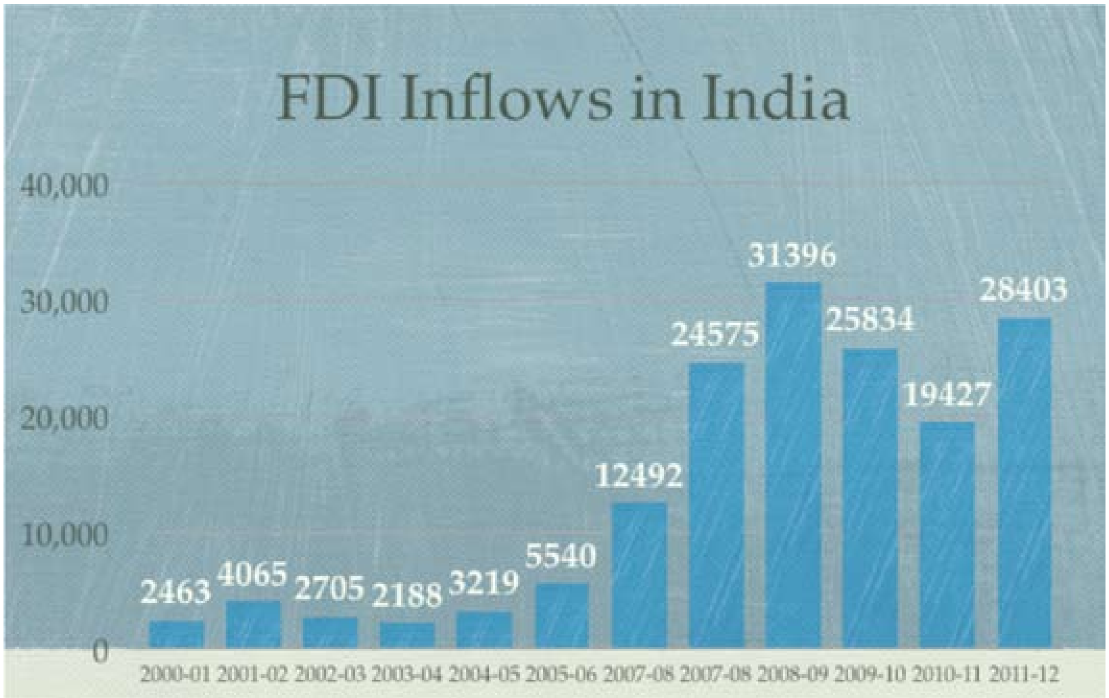
(10) Ruias owned Essar Steel Holdings, part of Essar Global, has acquired Minnesota Steel; a U.S.-based steel company with estimated reserves of over 1.4 billion tones in April 2007. Essar Global invested a sum of $1.65 billion which was used to set up a steel plant in Minnesota Steel company's facilities. The Essar Global chairman felt that the investment in Minnesota Steel was very benefiting as they would get good exposure in the North American market. He added that Minnesota's iron ore reserves will help the company to be one of the low cost producers of steel in the world.

Even though it might take some years for India Inc. to start showing the big time profit evaluations from the acquisitions made so far. However, this shows that Indian companies have certainly become confident about expanding their operations overseas successfully. In the last decade itself, many Indian companies have been on a big time acquisition spree, and that has definitely added a huge value to Brand India. Indian companies (listed and unlisted) announced 1995 overseas acquisitions from the last two which involves an investment of nearly $ 116 billion: as reported by *The Economics Times*. India has also come out as the world's 21st largest overseas and foreign investor, with more than $75 billion in foreign investment, just in the past 10 years. And during the financial year 2009/10, the investment by the native companies in foreign joint ventures and self-owned subsidiaries alone come up to about $10.3 billion, as per The Reserve Bank of India's report.

FDI IN INDIA:

Though India stands today as the largest democracy, its administrative as well as the political set up has many flaws and shortcomings. The Indian system of administration and governance is impregnated with flaws like shortages of power, bureaucratic hassles, political uncertainty, and infrastructural deficiencies .In spite of all these political shortcomings, India is perceived to be one of the most lucrative grounds for investing, in the eyes of the wealthy European as well as American investors. This is the true reason why the researches made into the sector establish more and more foreign investors coming to India and investing liberally into the various sectors of the Indian economy.

Table: 30 FDI Inflow in India from 2000 to 2012



Source: Department of Industrial Policy & Promotion, Ministry of Commerce & Industry, Government of India, January 2013 FDI Statistics Report Release

Various Indian market sectors have experienced a recent progress and boom, owing to the investment made in them as well as due to the relaxation of rules and regulations that had been levied on the foreign direct investment in India, by the Indian government. One of such sectors of the Indian economy that has seen a sudden booming phase of prosperity and sustained growth, owing to these factors is the real estate as well as the construction business in India. It was in 2005 that the Indian central government finally realized the economic prosperity that FDI in India would bring about. Thus, in an effort to encourage this, the government made a crucial amendment to some of the governing laws on the subject, in order to allow one hundred per cent foreign direct investment in India, in the real estate and construction sector. Until this point of time, the Indian law permitted only the NRIs or PIOs (persons of Indian origin) to make FDI in India. Even these people had been levied with many restrictions. With the upliftment of these restrictions, a host of foreign investors and companies stormed India with their products, services and business ideas along with their money.

These resources in turn helped the Indian economy to grow in volume as well as statures. Many major industrialists and business tycoons expanded their businesses to India with the boom of foreign direct investment in India. Some of the major foreign investment houses, that have shown trust in the Indian economy, are Lee Kim Tah Holdings, Salim Group from Indonesia, Edaw Ltd, from USA, Emaar Group from Dubai, IJM, CESMA International Pvt. Ltd, Ho Hup Construction Co., from Malaysia, and Evan Lim and Keppel Land from Singapore. Japanese and Korean firms and businesses houses like Suzuki, Hyundai and Daichi have always trusted the automobiles as well as the pharmaceutical sectors for foreign direct investment. Many of the Indian sectors have thus benefited from these foreign direct investments, and in turn given lucrative returns to the investors as well. This is the reason why most of the investors keep looking towards India as a venue for investment.

In an address to FICCI in February 2013, Indian Finance Minister Mr. P. Chidambaram said that, 'Indian economy is capable of absorbing $50 billion in FDI per year', FDI is an economic segment that enjoys intense focus and attention from policy makers of the highest rank in the administration. The government relaxed FDI regime in sectors including multi-brand retail, single-brand retail, commodity exchanges, power exchanges, broadcasting, NBFIs (non-banking financial institutions), and ARCs (asset reconstruction companies) in 2012.

There were several big-bang reforms and the government allowed 51% per cent FDI in multi-brand retail and 49% in the aviation sector. The FDI cap was also raised from 49% to 74% in broadcasting and ARCs, with an aim to bring foreign expertise in the segments. Foreign investment has also been allowed in power exchanges while FIIs (foreign institutional investors) have been allowed to invest up to 23% in commodity exchanges without seeking prior approval from the Government. Thus, reforms and policies at such a massive level indicate that Indian FDI landscape offers a plethora of opportunities to foreign investors as the economy is booming and vibrant as compared to its global peers.

Furthermore, favorable demographics and growth opportunities keep India an 'attractive' destination for M&A activities across diverse sectors including consumer goods and pharmaceuticals, according to global consultancy firm Ernst & Young. Some key statistics reveals that, India received FDI worth $30.82 billion during April-January 2012/13 while FDI equity inflows during January 2013 stood at $2.16 billion, according to latest data released by the DIPP (Department of Industrial Policy and Promotion) . The sectors which have received high level of FDI during the first ten months of 2012/13 include services ($4.66 billion), construction ($1.21 billion), drugs and pharmaceuticals ($1 billion), hotel and tourism ($3.19 billion), metallurgical industries ($1.38 billion), and automobile ($895 million). Country wise, high levels of FDI came during the period from Mauritius ($8.17 billion), Singapore ($1.82 billion), the UK ($ 1.05 billion), Japan ($1.69 billion), and the Netherlands ($1.52 billion), showed the DIPP data in March 2013.

The value of M&A deals in India stood at $4.5 billion in the March 2013 quarter, according to Thomson Reuters' India M&A First Quarter 2013 Review. Meanwhile, there were 90 PE deals valuing $1.04 billion during January-March 2013 quarter, reveal data from Four-S Services. India's foreign exchange (forex) reserves stood at $292.64 billion for the week ended 29 March 2013, according to data released by the Central Bank. The value of FCA (foreign currency assets) - the biggest component of the forex reserves – stood at $259.72 billion, according to the weekly statistical supplement released by the RBI during the first week of April 2013.

Important Developments in FDI Approach:[74]

The Indian government, in consultation with the FIPB (Foreign Investment Promotion Board) , has recently cleared 12 FDI proposals amounting to 2, 609 crore rupees ($478.47 million). These included the proposal of Decathlon Sports India's proposal for infusion of foreign equity worth 700 crore rupees ($128.37 million) to engage in single brand retail. The biggest proposal cleared was Ahmedabad-based Claris Otsuka Ltd's plan to accumulate its infusions in business into a new JV (joint venture) with FDI worth 1,050 crore rupees ($192.56 million). The board also cleared Mumbai-based Glynwed Pipe System's proposal to receive foreign investment worth 800 crore rupees ($ 146.74 million) for making downstream investment. Other proposals to have received green signal included that of Promod S.A.S, France, to induct foreign equity worth 29.69 crore rupees ($5.45 million) into an Indian JV company to be engaged in single brand retail trading and Fossil India and Le Creuset Trading's for setting up of single brand retail stores as a WoS (wholly-owned subsidiary) of a foreign company

Japanese firm Mitsubishi has formed a JV with Dubai-based ETA Group to set up Mitsubishi Elevators ETA India Pvt. Ltd, to manufacture, distribute, install, and maintain elevators for premium residential apartment complexes and industrial buildings in India. The company, which was already present in India focusing on the premium commercial segment, will now focus on the premium residential segment and the middle segment in Tier 2 and Tier 3 cities. Meanwhile, French companies are showing keen interest in parking their investments in India, pertaining to segments like defence, space, urban development, and infrastructure.

Some major policy decisions to promote FDI inflow in India in the recent time include the contemplation by Government of India to raise FDI cap in the defence sector to at least 49% from the current 26%. Finance Minister Mr. P Chidambaram has expressed confidence that the similar amendment could be introduced to the Insurance Bill very soon. The RBI is in the process of coming out with a discussion paper by mid 2013 on redefining FDI and portfolio investment, that is, FII so as to remove ambiguities. The paper will have clarifications on legal and taxation issues involved in the implementation of the new definition, how the different instruments of foreign investments would be treated, and how it would impact investments in listed and unlisted firms. Also, the DIPP has released its latest edition of consolidated FDI policy which has incorporated in itself the changes made in the regulations over the past one year. The DIPP is the nodal agency on FDI-related matters and with a view to make India's FDI regime simple and easy to understand for investors, it had compiled all the related policies into a single document.

74 Source : India Brand Equity Foundation, FDI In India April 2013 Review

1. *India has rapidly involved itself in investments abroad. India Inc is getting experimental with every passing day and as a result, is increasingly looking to invest abroad to accomplish its motives of resource-hunt or market-hunt or technology-hunt.*

2. *The countries that showed interest getting into business with India are Venezuela (with the petroleum sector), Indonesia (with the rubber industry), Brazil (with business concerning pharmaceuticals, sugar and ethanol manufacturing), African countries where about 100 Indian companies have explored investments in Ghana in the business of food processing, healthcare, IT, construction, consumer durables, infrastructure and energy, among others.*

3. *Indian economy is still faced with several challenges in the form of widespread poverty, high rate of unemployment, illiteracy, population outburst etc. which are obstructing the growth potential of the country. Though the future growth outlook of the Indian economy looks promising, India continued to remain poor and under developed at the grassroots level.*

4. *India has emerged as a strong economy over the years. The recent global financial and economic crisis had an impact on India's economic growth momentum during FY09. However, the economy has been remarkably resilient against shocks such as turmoil in the global and domestic financial markets, severe drought conditions and hardening international crude oil prices, sustaining its GDP growth.*

5. *Indian companies have certainly become more ambitious and certainly adventurous. Most companies are no more the 'frogs in the well of the license-raj era'. In today's world, Indian companies are not only setting up their own bases overseas, they have become quite ambitious to fly out of the Indian business boundaries to find new companies and potential markets for acquisition and company investment.*

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India's Stronger Economic Ties with Significant Global Partners

Chapter 7

India has important and strong economic relations with many countries in the world. Traditionally India has maintained trade relations with various countries. After the economic reforms of the early nineties, the Indian economy was opened up to further bilateral trade relations with various countries and to FDI. Import restrictions on many items were lifted which led to expansion of India's economic relations with other nations. Some of the countries with whom India has strong economic relations are US, UK, Japan, China, Canada, Germany, Switzerland, and Italy. India has continued to make economic progress by involving in stronger economic and trade relations with these states spreading out its intensions of being a global power which has set the trend as far as international economic relations are concerned. The implementation of the various reform measures and platforms like WTO has given immense opportunities to the countries of the world to have a common chord of development cooperation with each other for a fast progressing world economy.

INDIA AND THE UNITED STATES OF AMERICA:

The Indian economy's figures are convincing for any aspiring trade partner. It boasts of 30 years of 6.5% growth, and 8.5% growth in the last decade. In 2012, the Indian economy became the third largest (measured purchasing power parity in dollars), surpassing Japan and now only behind China and the US. Its trade in goods and services is worth about $1 billion. Its $4.7-trillion economy is forecasted to double every 7–10 years and its $1-trillion dollar trade figure is forecasted to double every seven years. India will need an investment of over $1 trillion dollars in infrastructure, natural gas and services and in all of these areas the United States has a comparative advantage as a supplier. In the last decade, US exports of goods to India increased by around 700%.

Exports of services have doubled in the last four years, US FDI has increased from $200 million to $6 billion, and US-India trade is balanced trade. This minimizes the scope for macroeconomic and currency-related tensions that the US has experienced with other countries.[75]

Trade and commerce form a crucial component of the rapidly expanding and multi-faceted relations between India and U.S. From a modest $ 5.6 billion in 1990, the bilateral trade in merchandise goods has increased to $62.9 billion in 2012 representing an impressive 1023.2% growth in a span of 22 years. India's merchandise exports to the U.S. grew by 1.7% from $9.50 billion during the period January-March 2012 to $9.66 billion during the period January-March 2013. US exports of merchandise to India grew by 8.89% from $4.74 billion during the period January- March 2012 to $ 5.17 billion during the period January- March 2013. India - U.S. bilateral merchandise trade stands at $14.83 billion during this period. During the period January to March 2013, major items of export from India to US include textiles, precious stones and metals, pharmaceutical products, mineral fuel and oil, organic chemicals, machinery, iron and steel products, and electrical machinery. Major items of export from US to India are precious stones and metals, machinery, optical instruments and equipments, electrical machinery, mineral fuel and oil, aircraft-spacecraft and their parts and organic chemicals.[76]

75 Source : East Asia Forum; *Deepening US India Trade Relations*, Published on 10 April, 2013

76 Source : Embassy of India at Washington DC, Website Link : https://www.indianembassy.org/economic-relations.php

Table: 31

(US $ Millions)

	2010	2011	2012	Jan – Mar 2013
India's Exports to US	29533 (39.5)	36153 (22.42)	40518(12.08)	9663 (1.69)
India's Imports from US	19250 (17.08)	21501 (11.69)	22336 (3.88)	5166 (8.89)
Total Trade	48783 (29.72)	57654 (18.18)	62854 (9.02)	14829 (4.09)

Percentage change over previous period, mentioned in parenthesis

Source: US Department of Commerce, US Census Bureau

Source: US Department of Commerce, US Census Bureau

U.S. is one of the largest foreign direct investors in India. Cumulative FDI inflows from US till July 2008 were $7.96 billion. FDI inflows from the US constitute about 8% of actual FDI inflows into India in rupee terms. In PI also, US is the leading investor. US companies in India are involved in a broad spectrum of economic activities. From infrastructure to consumer goods, and from information technology to consultancy services, American companies are represented in India as never before. In order to promote bilateral trade and investment in the knowledge-based industries, the USIBC (US India Business Council) , along with FICCI, has launched a KTI (Knowledge Trade Initiative). The US investor community is today increasingly sharing confidence in the future of the Indian economy. The growing synergy between the two countries in the technology sectors and mutually shared respect for democracy, rule of law and well established business practices make the two countries natural business partners.

INDIA & CHINA:

The economic relations between India and China constitute an important element of the strategic and cooperative partnership between the two countries. Several institutional mechanisms have been established for enhancing and strengthening economic cooperation between the two countries. Besides the India-China JEG (Joint Economic Group) on Economic Relations and Trade, Science and Technology and the India-China SED (Strategic and Economic Dialogue) , a Financial Dialogue has also been taking place between the two countries since 2006. In 2012, India was the 15th largest trading partner of China with a share of 1.72% in China's overall trade, recording a decline of almost 10% y-o-y; seventh largest export destination for China, comprising a share of 2.33% of overall Chinese exports and 19th among the countries exporting to China with a share of 1.1% in overall imports by China. India-China total trade in goods for 2012 stood at $66.57 billion, recording a decline of almost 10%. This decline in overall bilateral trade can be attributed to decline in both India's exports to China which is 20% and India's imports from China which is 5%. Commodity-wise, bilateral trade was dominated by reactors, boilers, machinery, electric machinery, sound equipment, organic chemicals, ores, and cotton. India's exports to China for 2012 reached $18.8 billion, recording a decline of more almost 20% y-o-y whereas imports touched a total of $ 47.75 billion, recording a decline of more than 5% over the figure for 2011. Trade deficit for India for January to October, 2012 stood at $29 billion.

Table: 32 India- China Trade 2007/08 to 2011/12 (billion dollars)

\Year	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012
EXPORT to China ($ billion)	10.80	9.30	11.60	15.40	18.00
%Growth		-13.96	24.21	33.27	16.75
Share of total exports (%)	6.66	5.05	6.5	6.17	5.91
IMPORT from china($ billion)	27.10	32.40	30.80	43.40	57.50
%Growth		19.71	-5.15	41.06	32.29
Share of total imports (%)	10.79	10.7	10.69	11.76	11.75
TRADE BALANCE($ billion)	-16.30	-23.10	-19.20	-28.00	-39.50

Source: Embassy of India, Beijing Newsletter on Bilateral Trade, December 2012

Chinese investment in India in 2007 was $16 million whereas in 2012, it was $25.2 million. Cumulative investments by China till December 2012 in India were $657 million. On the other hand, in 2007, Indian investment in China was $34 million involving 78 projects whereas in 2012, $29.69 million was invested by India showing a decline in trend. Till December 2012, cumulative investments in China stood at $470 million with a total of 763 non-financial direct investment projects. Regarding project contracts between these two countries, by the end of December 2012, the total value of contracts was $57.59 billion with realized turnover of $29.78 billion.[77] Various government institutions and agencies from the two countries have also been interacting with each other for furthering cooperation in the areas such as taxation, auditing, human resource development and employment, health, urban and rural development, and tourism. There is a close exchange and interaction between the economic think tanks and scholars as well.

INDIA & JAPAN:

After the 1991 economic reforms in India, the trade expanded significantly and the country attracted rising investments from abroad. At that time, India received massive support from the Japanese government in the form of large ODA and Japan became the biggest bilateral donor for India. Considering current bilateral trade scenario between these two countries, in FY 2011/12, Japan-India bilateral trade reached $18.43 billion, showing an increase of 34.33% over

77 Source : Web site of Ministry of Commerce, People's republic of China; *Trade ties with neighbours- India.*

FY 2010/11, when the total bilateral trade was $13.72 billion. India's exports to Japan grew by 24.36% as against the growth of 40.2% in its imports from Japan in FY 2011/12. The trade balance is likely to continue to be in favor of Japan in the future, given the past trends. The share of the India-Japan bilateral trade has hovered in the range of 2.21 to 2.46 of India's total trade during the last five fiscal years.

India is emerging as a favored destination in Asia for Japanese FDI. DIPP statistics show that Japanese companies have made actual investments of $12.66 billion to India between April 2000 and June 2012. This accounted for 7% of total FDI inflow into India and made Japan the fourth largest investor in India. The number of Japanese affiliated companies in India has grown significantly over the last five years and nearly 1000 Japanese companies are operating in India. Japanese companies are taking interest in India as destination for overseas investment. India continued to rank the top as promising country over long term in both FY 2012 and FY 2011 surveys conducted by the JBIC. India was also ranked as a top as promising country for overseas operations over the medium term with regard to automobile industry in the 2012 JBIC survey.

Table: 33 India - Japan Trade, 2008/09 to 2012/13 (million dollars)

	2008/09	2009/10	2010/11	2011/12	2012/13
EXPORT	3,025.70	3,629.54	5,091.24	6,328.54	6,099.06
%Growth		19.96	40.27	24.30	-3.63
%Share	1.63	2.03	2.03	2.07	2.03
IMPORT	7,886.27	6,734.18	8,632.03	12,100.57	12,514.07
%Growth		-14.61	28.18	40.18	3.42
%Share	2.60	2.34	2.33	2.47	2.54
TOTAL TRADE	10,911.97	10,363.72	13,723.27	18,429.10	18,613.14
%Growth		-5.02	32.42	34.29	1.00
%Share	2.23	2.22	2.21	2.32	2.35

Source: Ministry of Commerce, Government of India

India has been the largest recipient of Japanese ODA since 2003/04. Cumulative commitment of ODA till March 2013 reached Yen 3807.763 billion on commitment basis. As on 6 February 2013, 66 projects were under implementation with Japanese loan assistance. The loan amount committed for these projects is Yen 1640.099 billion.

These projects are in the sectors of power, environment and forests, urban transportation, urban water supply and sanitation, rural drinking water supply, tourism, irrigation, agriculture, shipping, railways, renewable energy, and financial services. Japan and India are committed to execution of the Western corridor of the DFC project through an ODA loan utilizing Japan's STEP (Special Terms of Economic Partnership) . Japan India BLF (Business Leader's Forum) is also a significant platform to strengthen ties between these two leading Asian economies which through CEPA (Comprehensive Economic Partnership Agreement) want to further evolve and establish strategic economic partnerships. However, the public and private enterprises of India need to put in further concerted efforts to nurturing this into a robust economic alliance from which both businesses benefit.

INDIA AND THE EUROPEAN UNION:

The EU and India hope to increase their trade in both goods and services and investment through the Free Trade Agreement negotiations launched in 2007. Following the EU-India Summit in February 2012, negotiations entered an intense phase. Important issues include market access for goods, the overall ambition of the services package and achieving a meaningful chapter on government procurement. The value of EU-India trade grew from €28.6 billion in 2003 to €79.9 billion in 2011. EU investment in India more than tripled between 2003 and 2010 going from €759 million in 2003 to €3 billion in 2010. Trade in commercial services tripled during the same time period, going from €5.2 billion in 2002 to €17.9 billion in 2010. The European Commission's Trade and Investments Barriers Report, published in March 2012, points out that some progress has been made to dismantle trade barriers in India. Two trade barriers were fully removed in 2012, namely export restrictions on cotton and security requirements for telecommunication equipment. Progress has also been achieved with regard to sanitary and phyto-sanitary rules. No positive movement has been seen in the area of equity caps. The report also identified India's national manufacturing policy as a key priority for reform.

Table: 34 EU's Most Important Trading Partners

Main trading partners EU27 – non-seasonally adjusted data — bn euro

	EU27 exports to		EU27 imports from		Trade balance	Trade volume
	Jan-Jun 11	Growth	Jan-Jun 11	Growth	Jan-Jun 11	Jan-Jun 11
United States	128.8	13%	93.5	13%	35.3	222.3
EFTA States	82.0	33%	93.5	31%	-11.5	175.5
-Switzerland	58.8	18%	46.0	9%	12.8	104.8
-Norway	23.2	15%	47.5	22%	-24.3	70.7
China	65.6	23%	140.2	12%	-74.6	205.8
Russia	49.9	36%	99.4	30%	-49.5	149.3
Turkey	37.7	35%	24.6	19%	13.1	62.3
Japan	23.1	12%	34.1	7%	-10.9	57.2
India	20.5	25%	20.4	25%	0.1	40.9
Brazil	16.9	14%	18.5	24%	-1.6	35.4
South Korea	15.5	20%	18.1	-7%	-2.5	33.6

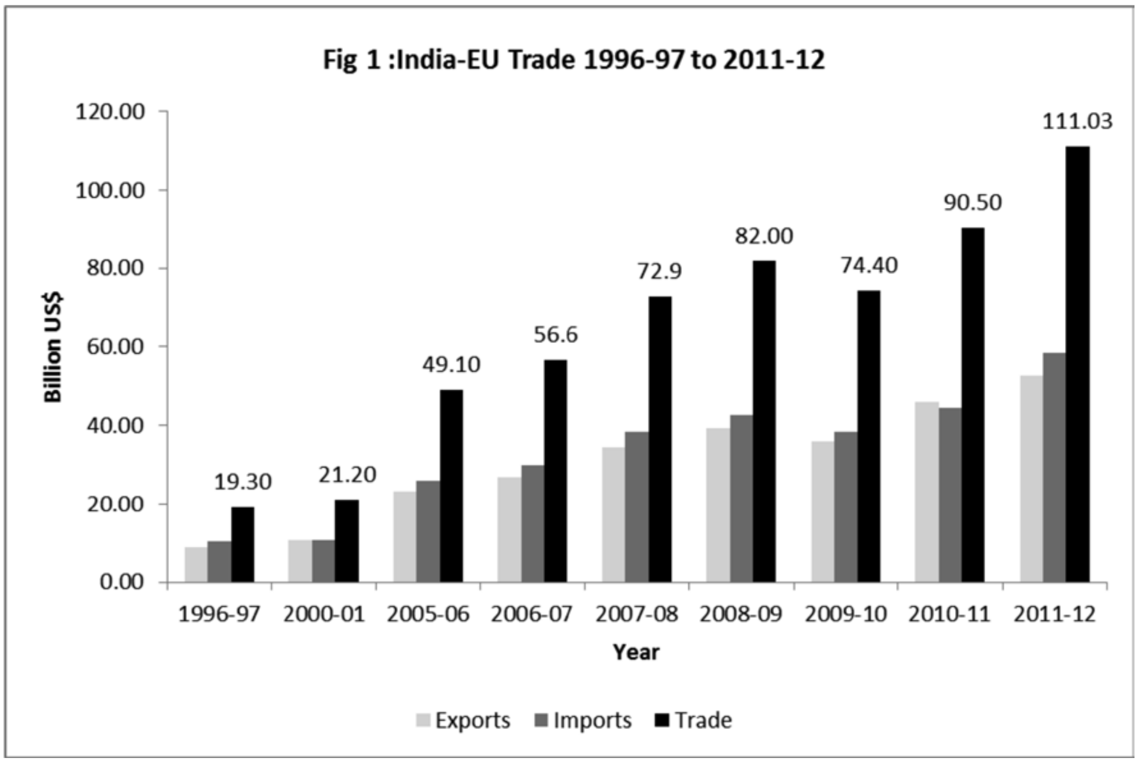
Source: Eurostat 2011

On the other hand, EU India trade negotiations are in an evolving phase which includes access to each other's markets, for goods, services and to public procurement contracts, the framework for investment, the rules that frame trade such as intellectual property and competition sustainable development and growth in trade is in tandem with the environment, social and labour rights.

EU India Free Trade Agreement:

The 27-nation EU is India's largest trading partner.. According to the Indian government, trade between the two partners has grown from about $20 billion in 1996/97 to about $110 billion in 2011/12. With the fructifying of this FTA, duties would be drastically reduced on over 90% of the trade between the two. According to a FICCI report, with the formalization of the FTA, trade is likely to exceed $207 billion by 2015. India already has comprehensive FTAs with other countries including Japan, Malaysia, and South Korea. Despite of positive response from several quarters, there are some hiccups in finalizing this free trade agreement, officially called Bilateral Trade and Investment Agreement, which seeks to liberalize trade in goods and services between India and the EU. The negotiations are stuck on issues such as reduction in tariff on cars imported from the EU. The domestic auto industry has objections on including the sector in the trade agreement, arguing that it would have an adverse effect on investments and technology inflow and the targets set under the government's AMP (Automotive Mission Plan) would be jeopardized.

Table: 35



Source: Ministry of Commerce, Government of India

Although India accepts the EU as an economic superpower, most businessmen still think of doing business with individual member-states. They seem to be more interested in the British or German market rather than the European market. There is widespread belief that the EU is over-protectionist. A large number of tariff and non-tariff barriers have become major deterrents in doing trade with the EU. In this context, the EU's health, quality standards, and environmental and social laws are seen by many as a hindrance for the developing countries in business relations with the EU. FTA negotiations stuck since 2007 but have not been able to finalize the accord due to differences over the EU's attempts to link trade with climate and other issues. Likewise, inclusion of IPRs (intellectual property rights) is another area where consensus is yet to be achieved. It has been argued that India's thriving generic drugs business will be jeopardised by agreeing to stricter IPR rules in the pact. Indian pharmaceutical companies and some NGOs have expressed concern that inclusion of IPR in the proposed agreement would affect the sector's ability to produce and export low-cost drugs.

In 2010, India brought a case to the WTO arguing that the EU was wrongly stopping and inspecting shipments of generic drugs in transit to developing countries. Some shipments were either destroyed or turned away rather than be allowed to continue to their final destination. India reached an interim settlement with the EU on preventing seizures of generic drugs in EU territory. The EU further wants India to open its services sector like accountancy, insurance, banking and retail, whereas India is resisting the move to open multi-brand retail and other sectors to foreign investments as there is no political consensus on these issues. One of the reasons that Indian exports to the EU have failed to reach their potential is the EU's stringent work permit rules that make it difficult for Indian professionals and workers to operate from the EU countries or Indian business houses to set up offices in the EU states. The proposed comprehensive free trade agreement between India and the 27-nation EU bloc includes relaxation of visa norms for Indian professionals as well as tourists.

It is imperative to understand that though the India-EU bilateral trade may have surpassed $110 billion in 2011/12, yet there is a sharp imbalance between relative levels of trade between the two where the EU accounts for roughly 21% of India's two-way trade, India's share in the EU trade is less than 1%; where the EU is India's largest trading partner, India ranks 14th in the EU's list. Further, there may be an increase in FDI into India from the EU, but India still receives only 0.2% of the EU's FDI flows. With this background, the India-EU broad based trade and investment negotiations began in 2007. Indian exports to the EU could double in a freer and more open environment, especially for products like textiles, garments, gems and jewellery, leather and leather products, electronics, agricultural, and horticultural produce.

Hence, the EU, with its 450 million consumers and the fourth-largest GNP of € 10 trillion, will remain a major attraction for India's trade, and a source for inward foreign investment. There is immense potential to increase bilateral trade between India and the EU to $ 200 billion by 2013 from less than $ 100 billion at present which will be beneficial for both India and the EU. This calls for boosting trade and investment and strengthening economic partnership to mutual advantage. It is critical for the EU to expand its ties with India as it cannot ignore India's role as a strategic balancer in the Asia-Pacific zone, in the years to come.[78]

78 Source: Eurostat Figures, EU India Country Report & EU India FTA Negotiation Documents from 2007 to 2013, Excerpts from Speech of EU and Indian heads of states/affairs and delegates during EU India FTA Summits from 2007 to 2013.

1. *India has important and strong economic relations with many countries in the world. Traditionally India has maintained trade relations with various countries. After the economic reforms of the early nineties, the Indian economy was opened up to further bilateral trade relations with various countries and to FDI.*

2. *Trade and commerce form a crucial component of the rapidly expanding and multi-faceted relations between India and U.S. From a modest $ 5.6 billion in 1990, the bilateral trade in merchandise goods has increased to $62.9 billion in 2012 representing an impressive 1023.2% growth in a span of 22 years.*

3. *The economic relations between India and China constitute an important element of the strategic and cooperative partnership between the two countries. Several institutional mechanisms have been established for enhancing and strengthening economic cooperation between the two countries.*

4. *India is emerging as a favored destination in Asia for Japanese FDI. DIPP statistics show that Japanese companies have made actual investments of $12.66 billion to India between April 2000 and June 2012. This accounted for 7% of total FDI inflow into India and made Japan the fourth largest investor in India. The number of Japanese affiliated companies in India has grown significantly over the last five years and nearly 1000 Japanese companies are operating in India.*

5. *It is imperative to understand that though the India-EU bilateral trade may have surpassed $110 billion in 2011/12, yet there is a sharp imbalance between relative levels of trade between the two where the EU accounts for roughly 21% of India's two-way trade, India's share in the EU trade is less than 1%; where the EU is India's largest trading partner, India ranks 14th in the EU's list.*

6. *It is critical for the EU to expand its ties with India as it cannot ignore India's role as a strategic balancer in the Asia-Pacific zone, in the years to come.*

Conclusion & Recommendations

Chapter 8

As a result of its outward orientation in the last two decades, Indian economy has become one of the fastest growing economies in the World. Despite many serious challenges like internal security, poverty, energy security, infrastructural bottlenecks, policy paralysis, and global slowdown, it is expected that the economy will continue to grow at reasonably high growth rates in the medium to long run. The strategic consequences of its high growth rates are clearly evident as India has been able to increase its global profile. It has also been able to forge close economic and political linkages with all major powers and concluded many trade and investment agreements in Asia and beyond. It has also been taken seriously on issues concerning global economic governance. Although India has been active in aid programs to other developing countries for quite some time, the increased scale has made India now an important player in the area of development cooperation as well.   This is clearly evident in its development activities in South and Southeast Asia (particularly Afghanistan) as well as in Africa. India's aid architecture is still evolving. Indian civil society including the voluntary sector is not fully aware of India's development cooperation programs. Although Indian NGOs have tremendous experience in different kinds of development work, they have not been involved significantly in any of the development cooperation programs by the government. The evolving Indian architecture of Indian development cooperation should focus on a) details information of its activities b) a clear strategy c) a specific institutional structure; and d) a design to involve Indian NGO sector in designing and implementation of its overseas programmers.

Indian growth story was exemplary for a decade which got some hiccups due to slogging of some major western economies. Therefore, tapping the Asian potential would be a deciding factor for strengthening India's global standing..Some positive developments in this regard could be pointed out as:

- South Asian economic integration is moving ahead (SAFTA, SAARC Agreement on Trade in Services.
- India-Sri Lanka FTA, currently negotiating India-Sri Lanka CEPA is a positive move.
- With the newly elected democratic government in Pakistan, there is a possibility of a major breakthrough in India-Pakistan trade matters.
- Comprehensive FTAs have been signed with Singapore, Korea, Japan, and Malaysia.
- FTA in goods has been signed with the ASEAN. Negotiations for an India-ASEAN comprehensive agreement on services and investment has also been concluded. .
- An Early Harvest Agreement has been signed with Thailand and a Comprehensive Agreement is being negotiated.
- ASEAN - India Eminent Persons Group (set up by the respective governments) is at work towards better economic integration.
- New opportunities in Myanmar (opening up trade route to Thailand and to other Southeast Asian countries) are being explored; Prime Minister Dr Manmohan Singh's last visit to Myanmar bringing positive outcomes.

- A new "Connect Central Asia" policy has been announced to increase Indian engagement with the region.

India has large autonomous engines of growth which need to be put on track. For example, urbanization presents a huge opportunity with large investment needs: $800 billion over the next 20 years. PPPs will play a major role in these investments. Demographic opportunity must be turned into a dividend as 50% per cent of India's population is under 25 years of age strengthening our human resource. Those who were born in 1991 when economic reforms were launched have turned 22 now whose aspirations as future youth icons are rising. The demographic opportunity is increasing for India because the percentage of population of working age will continue to increase for another 40 years. This must be exploited with greater focus on skill building, higher education, innovation, knowledge creation, and knowledge sharing.

Glancing outside Asian periphery and acknowledging other major global economies that can gel well with Indian sentiment is undoubtedly the EU. An enlarged EU that might be willing to take on greater international responsibility would need partners for international cooperation. India and the EU have perhaps the strongest joint commitment to peace, stability, liberty, and economic prosperity. India and the EU have the common objective of combating international terrorism, containing the proliferation of weapons of mass destruction and in resolving ethnic conflicts peacefully. The EU remains one of India's top trading and investment partners. The rapid expansion of a high-spending consumer class in India, the diversified EU manufacturing base, and other growing complementarities offer big opportunities to build on the economic partnership, which is reflected in the nearly 20% rate of growth registered by EU exports to India. It makes India one of the most promising customers of European products. The EU also remains one of the largest sources of FDI for India.

To follow up on aspects of common concern to Europe and India in the changing global matrix an important aspect to be kept in mind is that low income societies will continue to constitute the majority of states around the world. The new global order is not likely to allow for major improvement in their living conditions. For the same reason, the gap between the upper income groups and the have-nots will continue to grow; the latter will be pushed to the margins, both within affluent societies as well as in the developing world. Following from it social integration is not likely to be brought about by market forces that are in the ascendant today, and will continue to remain in the ascendant for a long time to come.

Aid delivery to its neighbors which is slowly reaching countries outside South Asia is a major Indian benchmark of recent times. This has been considered to be a bold step for a country that has a significant percentage of its population living in poverty. Truth to attest, India's economy has grown large in the recent decade but there seems to be some issues in prioritization considering the country invests heavily in defense, nuclear, and space programs while many of its 1.2 billion people still suffers from food security concerns, caste-based, discrimination, inability to own lands and worse, lack of education.

While India's standing of power has been gradually accepted and recognized the world over, there are still some speculations with regard to the country's ability to sustain its position in the multi-lateral platforms it belong. Although Indian policy makers assert that our aid programs are different from traditional donors, it appears, India's aid to its neighboring countries is also to some extent strategic in nature. India's ODA program largely prioritize its neighboring countries where much of the aids given are in the areas of infrastructure, education, and health and are humanitarian in nature. Apart from the long history of friendship and cooperation enjoyed by India with its neighbors, one of the evident purposes for extending assistance is to enact its foreign policy where mutual benefit is supposed to be gained in a bilateral structure.

Among the traits that should be observed by emerging countries that have shifted from being an aid receiver to aid giver are:

1) Past experience of developed countries acting as donors highly influences their way of aid provision considering

traditional aid rest on the aberrant incentives behind the donor-recipient relations (Chaturvedi 2012);

2) Move to becoming 'rule makers' as new donors are in the process of designing a systematic approach and structure to aid provision; and

3) Identified reasons for ineffectiveness such as feeble aid administration and even poor program planning. India's response to this may be attributed to the creation of DPA where straightforward objectives of projection conception, launch, execution, and completion has been presented.

With the switch in India's economic position as evidenced by the rise in foreign-exchange and reserves, India's embryonic role as a donor country has received numerous criticism considering the country is home to more than 20% of the world's poor. With billions of dollars being granted not only to its neighboring countries, a question rises regarding India's ability to sustain its role as a donor and its ability to alleviate its population from poverty. During Finance Minister Pranab Mukherjee's presentation of the Union Budget for 2012/13 to the Parliament, the following objectives were identified to be effectively addressed: focus on domestic demand driven growth recovery; create conditions for rapid revival of high growth in private investment; address supply bottlenecks in agriculture; energy and transport sectors particularly in coal, power, national highways, railways and civil aviation; intervene decisively to address the problem of malnutrition especially in the 200 high-burden districts and expedite coordinated implementation of decision being taken to improve delivery systems, governance and transparency; and address the problem of black money and corruption. However, through its assistance to other countries, India is not only strengthening its bilateral ties, it is also exerting itself, showing to the world the power it holds. This is demonstrated by its quick response during the Indian Ocean tsunami where its military troops were the first to reach Sri Lanka and the Maldives.

To become an effective developing partner, India should be able to grasp the donor and recipient matching which is focused on the donor's ability to identify what the receiving country needs because what happens is that infrastructures are built however while this is good in an economic standpoint (facilitates trade and growth), the country's lack of capability to maintain business and infrastructures would only reflect unsustainable development. In addition, as an emerging donor, India should develop its financial assistance credit line framework to carry out proper governance and reporting structure. This way, India would be seen as a country capable of executing sovereign debt workout leading to a perception of a reliable associate in nation building.

India's participation in the SSC is bilaterally complemented by its regional cooperation efforts and increasingly proactive engagements in various multilateral forums. As it currently stands, India lacks structured methods and frameworks for effective deployment of assistance. India has coined itself to be a development partner not only to its neighbors but to the far reaching south. The SSC has historically been a development partnership which included trade, investment, and technology transfer. In recent years, there has been an enhanced flow of trade and investment within and between the nations of the South (Chaturvedi 2012) – this translates to 20% of global trade and almost 50% of developing country trade (UNCTAD, 2011).

As a new entrant, India is faced with some shortcomings such as institutional problems, inadequate system for monitoring and evaluation, and a more transparent decision making process with regard to aid size and agreements with partners. As part of the SSC, India's profile is constant in its history of being a developing nation with domestic socio-economic challenges however willing to share their experiences with other countries (Chaturvedi 2012).

Apart from a more structured approach to aid provision and resulting M&E of the projects, India would be able to leverage from engaging bilaterally with other groups such as the DAC to benefit from the expertise on project impact analysis and other practices to improve quality of delivery and better assessment of mechanisms utilized in projects such as the SDPs.

With the implications of India's purpose for participating in the Aid-for-Trade where it believes such practice is an effective instrument for addressing the insufficiency of trade-related capacity in many developing countries to allow them to benefit from the opportunities offered by the multilateral trading system (GOI, 2012), India should go beyond its primary focus of economic infrastructure and the productive sectors to develop a more detailed and robust database to help identify areas of concern when scrutinizing outgoing development assistance (Chaturvedi 2012).

With the creation of DPA, India should now be able to articulate its development cooperation agenda in a well-defined manner where its unique model of 'development compact' depicts diversity in engagement though trade and investment, technology transfer finance through credit lines and capacity building by means of a flagship program. India's aid assistance program is mostly dedicated in creating technical capacities and the provision of production support.

Although reactions to some of India's actions and positions over time no doubt overstate the tilt against multilateralism in Indian foreign policy, they do raise two important questions relevant today, as India emerges as a premier global interlocutor. First, what kind of power does India aspire to be, and how will it engage with others in years to come? Second, is the Indian foreign policy establishment attuned to engaging with the multilateral system not just on India's own terms but also on ones that actually will appeal to others and contribute to positive outcomes? Similar to many other democracies, domestic politics play a key role in determining India's positions. . And domestic politics in India have largely been geared toward constraining the positions of its negotiators, or pressuring them toward intransigent and dogmatic positions (or holding patterns) on key issues, for fear they may be seen as insufficiently sensitive to parochial national interests.

Today, India's diplomacy is overwhelmingly bilateral in nature and generally quite successful in that realm. Multilaterally, it is organized more around smaller, plurilateral groupings of several meaningful states, or regional bodies.[79]

While appreciating the Indian footprints across the globe, it's not only important to consider the pace of India's growth, but also how India is growing. India has not followed the typical pattern of economic growth, from agrarian-to-industrialized-to-services economy. Instead, its recent economic development has been driven by a technologically-advanced services sector, driven by innovation, education and free markets. India is the world's second fastest-growing major economy today and is projected to become the world's third largest economy in the year 2025. It will also soon be the world's most populous country. And it is a young country. At a time when much of the industrialized world faces rapidly declining birthrates, half of India's population is under the age of 25. The strategic position of India necessitates a grand economic vision to overcome the obstacles that currently exist in the Indian market. The India Model has provided such monumental gains for its people over the last twenty years, and hopefully, going forward, its progress heretofore will be enhanced by a future economic agility - where India can further capitalize on its growing middle class, knowledge-based society, and its rock-solid democratic principles.

Amidst all kinds of major global roles played by different nations, when global challenges like climate change come to the fore, the responsibility to shoulder a part in their resolution, sometimes at real financial cost, is something other countries, including poorer developing countries, will expect India to take on. To shoulder a clearly distinctive voice and sustain its youthful and vigorous man power for a long period of time, India needs vitality, of decision making and decision defining roles on global platforms. Some analysts may argue that, India has not yet thought through the extent to which it is yet able and willing to take on such extensive and potentially expensive obligations. The voluntary, non-binding route in defining its commitments is more attractive for now, but as its economy and

79 G. Parthasarathy points out rightly that the West was very slow to notice this evolution of Indian foreign policy, in particular its growing engagement with ASEAN and other Asian actors. (Conversation, February 2010)

weight grows further, it will not find it easy to stick to this path. To create an indelible mark of an everlasting global footprint, India needs to finely balance its domestic politics with a desire for international status.

Overall, the major recommendations of the study are the following:

- With increasing global engagements, Indian policy making institutional structure needs to be expanded, with more prominent role to the civil society.
- Citizens needs to be better informed about Indian government's engagements/commitments/negotiations at various international and bilateral forums.
- A proper mechanism for timely information about Indian development activities abroad should be evolved.
- The evolving institutional architecture concerning development cooperation should target an independent professional organization, rather than a separate department within the existing ministries.
- The Indian NGOs have a long history of working at the grassroots level with successful innovative methods in various development sectors. Their development experience needs to be taken in to account while finalizing development projects for other developing countries by the government.
- A proper mechanism for the involvement of the NGO sector in development cooperation sector needs to be evolved.
- Various legal and institutional barriers restricting entry of small and medium Indian NGOs into the global development activities should be removed.

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