

Indian Economic Diplomacy

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It is indeed a privilege for me to be amidst you in this historic and scenic city of Srinagar. I wish to also express my gratitude to you all for making me feel welcome with your gracious hospitality. It am honoured to deliver first-ever Ministry of External Affairs sponsored Distinguished Lecture at your esteemed university on “India’s Economic Diplomacy”. Even as this ambience is clearly academic, I seek your indulgence to speak more as a “practitioner” than an “arm chair theoretician”.

I propose to treat this subject in four distinct, but inter-related parts. Initially, we would try and get a feel for economic diplomacy, its definition, scope, importance and future. Secondly, we would try and understand India’s own economic diplomacy, its evolution through ages as well as its current objectives and focus areas. Third part would concern analysis of Indian economic diplomacy’s performance and its future. Last but not the least, I look forward to an interactive session with you listening and reacting to your relevant comments and questions.

Without fine hair-splitting, the economic diplomacy can taken to be pursuit of national economic interests abroad through diplomatic means. It has been around us from time immemorial virtually for as long as collective money motives have been around. Nations have conducted trade in goods and services, competed for scarce economic resources and honed their respective comparative advantages exercising their economic diplomatic skills. During the medieval era, the European powers’ scramble for colonies can be seen as first global bout of economic diplomacy. Specifically, the conduct of the East India Company, world’s first multinational and a non-state actor, can be taken as an innovative but increasingly coercive economic diplomacy with various Indian states. Many observers consider “beggar-my-neighbour” policies during great economic depression in 1930’s as one of the main causes for the Second World War. Creation of the post-war economic architecture,

from Britton Woods institutions to GATT/WTO was meant to codify the respective rules of engagement of the economic diplomacy so as to prevent recurrence of such a catastrophe. The process is still a work in progress. While the non-representative nature of world's political architecture is often railed against, similarly frozen international economic architecture is less talked about. It manifests itself in trans-Atlantic powers' near monopoly of management of World Bank and IMF, the Financial Markets, the role of US Dollar as the global reserve currency, and pro-west bias in most global regulatory or arbitration norms from radio waves to maritime shipping. From the western perspective, the in-built subjective advantages are great triumphs of their economic diplomacy leveraging their intrinsic advantages from history, standards, location, language, etc. The status quo gives them capacity to punch above their economic weight and perpetuate their high living standards despite their current lacklustre economic performance.

It is possible to desegregate the economic diplomacy as practiced today into the following distinct but often overlapping segments:

(i) International Trade Diplomacy: The objectives of such trade policy can be greater market access for a country's exports or restrictions on other country's foreign trade (for example, western sanctions on trade with Iran). This can, again, be divided into bilateral, regional and multilateral engagements. It may involve gamut of activities ranging from trade negotiations, holding of trade-fairs, buyer-seller meetings, arranging trade finance, brand promotional activities, signing of enabling agreements on trade facilitation and standard equivalence etc. This also involves use of market access instruments such as anti-dumping and anti-subsidy and anti-competitive processes under relevant provisions of the World Trade Organisation which is based on "Most Favoured Nation" access and "rules-based international trade" for to all member states. This domain also includes negotiations for reciprocal or regional trade agreements - provided these do not violate the relevant WTO norms.

(ii) Financial Diplomacy: This is often conducted at the World Bank (Development Finance) and IMF (Monetary Policy) under whom a swathe of high-level platforms such as G-7 etc exist. In some more active regional bodies such as the EU and EMU, similar structures also exist at regional level.

(iii) Aid and Development Cooperation: In a variant of economic diplomacy, more fortunate countries render economic assistance for development to less developed or calamity affected countries. Although such acts are almost always presented as altruistic, they may not be so. In the first place such assistance may be either grants or loans or "tied aid" under which goods and services need to be sourced from donor country. It may be given in cash or kind. Moreover, such "aid" or development assistance can be motivated by philanthropy or quest for market access, support to a specific sector, region or population in the recipient country. It may also be intended to support donor's own providers of goods and services. At a different level, the aid

can be given direct or through a multilateral agency such as the World Bank or Asian Development Bank. Often, although the project aid may be given bilaterally by various donors to a recipient country, the former coordinate their policies and terms through such institutions as the Paris Club.

(iv) Structure & Mechanism: To discuss and coordinate their economic engagements, two or more countries may set up a Joint Commission which meets periodically to review the progress made and decide on the future course of action. Depending upon intensity of their engagements, the countries may maintain Permanent Missions to such multilateral institutions as WTO, World Bank, IMF and UNCTAD, etc.

Over past few decades, the economic diplomacy has gone mainstream as global economy has become more both more evolved and dispersed among more players. As countries compete for markets, raw materials, investments, technology and trained manpower, their economic diplomacy has become more aggressive. However, this has also meant crafting of new rule of international economic engagements which are more complicated, interlinked and intrusive vis a vis national economic sovereignty as witnessed by Indian quest for food security conflicting with WTO Doha Round trade liberalisation. In fact, there is hardly any domain of current national economy from public procurement to maritime exclusive zone that does not involve economic diplomacy.

What are the attributes required for success in economic diplomacy?

Firstly, at home a country has to be clear about its own vital national economic interests and prioritise them. It should strategise its policies after due consultations with other stakeholders such as private sector, think-tanks and civil society. This requires a large and dedicated pool of experts knowledgeable in relevant segments of economic diplomacy with in depth understanding of the issues involved. They should interface with various domestic interest groups to evolve a policy consensus and plan of action. It is easier said than done in a democratic developing society such as India, where economic consensus is illusive and the foresight is often in short supply.

Secondly, a country should strive to create as broad-based a coalition of like-minded partners abroad as possible. This may require engaging in extensive discussions and negotiations to reach a consensus on the vital economic interests involved - often requiring concessions on other unrelated issues. The opposition to this position needs to be isolated and overcome through various means.

Thirdly and lastly, as the draft of the empowering agreement needs to be adopted unopposed and pushed towards full implementation, the economic

diplomats need to create a win-win context for all countries. This is often a huge challenge.

While the aforementioned attributes may be more suited to the processes of multilateral economic diplomacy, nuances shift only slightly in bilateral and regional domains depending upon the specific issues and arena involved. However, any success in economic diplomacy requires expertise, careful building of broadest possible consensus at home and abroad, anticipation of various challenges and overcoming them to final agreement.

With this backdrop, let us now focus on our second segment that concerns India's own foray with economic diplomacy. During our ancient history India had strong trade links with empires of Rome and Egypt. Ptolemy quotes a resolution in Roman Senate in 1st Century AD calling for ban on import of Indian silk because "More Indian silk comes here, more Roman gold goes to India - and we have no more gold." During medieval times, Chola and other south Indian dynasties' overseas empires in South East Asia had an economic underpinning. In times of Akbar the Great, India was world's largest economy and a coveted partner for economic diplomacy for various European trading nations - all of whom sought trading facilities and patronage. By liberally dispensing these permissions, unsuspecting Indian rulers sowed seeds of their own nemesis. Even until 1820 - before Industrial Revolution gained salience, India's economy was bigger than Great Britain's, her colonial masters. The colonialists, on other hand, showed no qualms in decimating the Indian industries such as fabled Dhaka Muslin which competed with their cruder industrial products. Their colonial policies introduced only those technologies which helped administration, ship-out raw materials and ship-in their goods. India was denied any access to manufacturing industries, well until our own entrepreneurs got these in beginning of the twentieth century. Rest as they say, is history.

Mahatma Gandhi, Father of the Nation, had the sagacity to launch Swadeshi movement to underpin our economic independence and this became a credo for our own economic profile after India regained her independence in 1947. However, economic isolation was not a viable option for a large developing country like India and by 1990s we needed to reorient our economic diplomacy to spur our economic liberalisation and globalisation.

How has India's economic diplomacy evolved since independence? I believe the question can be best answered by dividing post-Independence era into three separate periods, viz. 1947-1990, 1991-2007 and 2008 to date.

During the first period lasting nearly half a century, India followed a policy of economic self-reliance, emphasising state-run heavy industry. Our economic diplomacy, too, was mostly concerned with state-to-state relations in such domains

as official development assistance, technology transfer and Rupee-based state-regulated trade with the Eastern bloc. Under her policy of economic nationalism, India largely shunned foreign investments - forcing out such multinationals as IBM and Coca Cola. Among the few proactive economic diplomacy initiatives during this period were establishment of Indian Technical and Economic Cooperation (ITEC) Programme in 1964 to train professionals from other developing countries and the hosting of UNCTAD in New Delhi in 1969. In other words, India took some fledgling steps towards an economic diplomacy.

By 1990, India's economy was reeling under multiple shocks, such as demise of Eastern Bloc, impact of Gulf Crisis and unsustainable budgetary and current account deficits. Under such duress, India's economic reform process was launched. It progressively dismantled the Licence Raj, devalued the currency and lifted import and investment restrictions. The economic diplomacy became a priority as we needed to learn from other transitional economies, boost our exports, seek investments and technology transfer. Expatriate Indian communities had to be cultivated. We needed to make up for the lost time in globalising our economy and participate in multilateral processes, such as setting up of the WTO in 1995. As our exports grew, we faced greater resistance through use of trade protection instruments, such as anti-dumping and anti-subsidy and anti-competition investigations. As our import tariffs moved downwards and quantitative restrictions were lowered, consumer imports flooded in. As our foreign exchange reserves grew, a number of our WTO partners pressed us to dismantle the multiple "Quantitative Restrictions" (or, blanket import ban on some goods) and replace them by tariffs. They also wanted us to bind our import tariffs at lower average level. This had to be done. Foreign investors pressed for easier access and domestic manufacturers wanted protection. Following our Pokhran nuclear blasts in May 1998, western powers imposed economic sanctions against us. Our fledgling economic diplomacy had to quickly learn to swim at deep end! Even at home, elections brought in frequent changes at the helms and the economic diplomacy had to strive to be consistent and avoid knee-jerks and reversals. Overall our reform process needed to be based on our own priorities without succumbing to various lobbies - both internal and external. During this period, our economic diplomacy matured, even as it remained ad hoc and fragmented between various players such as MEA (development cooperation), Finance (Financial and Monetary policies) and Commerce & Industry (Trade, Technology transfer, investments, etc.). A number of states, too, became increasingly active in this regard.

Sharp downturn in the international economy from 2007 onwards created new challenges ushering in a new era in our economic diplomacy. The economic growth plummeted sharply. Our exports stagnated as our major markets stalled while imports zoomed due to rise in commodity prices. At home, too, a more populist government was even less willing to undertake potentially unpopular economic reforms in labour and subsidies. The policies such as import-restrictions, retail-sector

FDI curbs and retroactive taxation were widely perceived by investment stakeholders as regressive. Despite glitzy roadshows abroad, India's economic attractiveness declined. With low lying fruits already picked our economic diplomacy had to drive up hill. At another level, however, there was sharp rise in our external visibility as we joined BRICS, hosted Summits with Africa, announced major aid initiatives and interfaced with G-20. Private sector, too, began its forays abroad with groups such as Tata, Bharti and Mittal Steel making big acquisitions abroad. The ongoing political transition in New Delhi in mid-2014 was perhaps an opportune moment to reassess current profile of our economic diplomacy and realign it to new national priorities and emerging global trends.

Assessment: How has Indian Economic Diplomacy fared since 1990s? Any direct reply to this question would need to include the following aspects:

(i) Progressive liberalisation of our economy and its globalisation has spurred our economic diplomacy, both outbound and inbound. It has, in general, had a beneficial impact on our economy which has grown and diversified faster in past two decades than any time before, creating jobs and pulling at least 300 million people above poverty line. After two centuries of declining GDP ranking, India has begun its climb back to the top. We are now third largest economy by purchasing power parity and tenth largest on nominal exchange rates basis. There has been a commensurate rise in our economic profile on most accounts, such as merchandise and services trade, inbound and outbound FDI, etc.

(ii) While Indian Economic Diplomacy has not made any major mistakes or over-commitment, it has played a mostly reactive role in furthering our national economic interests. We still punch less than our economic weight and attractiveness of our market should entitle us. Further, our successes are more due to our intrinsic economic strength and use of financial resources than skilful diplomacy.

(iii) The performance can be improved by such measures as more intensive interface and coordination among concerned stakeholders, more cohesive decision making, commitment of more and better human resources and higher degree of engagement with our international partners.

(iv) A mindset change is needed to make our economic diplomacy more effective. Our economic diplomats need to be more aggressive; they should be anticipative than reactive. We need to focus more on delivering real value to the country in terms of gaining market access, creating assets abroad, etc than score debating points.

(v) A change in geographic focus is needed. The so-called Advanced Market countries may be good tourist destinations, but their economies are currently stagnant and their posture defensive and status quo-ist. The best prospects for our economic diplomacy lie in neighbouring SAARC countries, Africa, Eastern Europe

and Latin America. Human and material resources of our economic diplomacy need to be commensurately allocated to these economies.

Some of the observations and recommendations made above are already being carried out, but the speed can be accelerated.

I wish to conclude by thanking you for listening to me with interest; At this point, I would be happy to reciprocate - by listening to your inputs, comments and questions.

(2,679 words)