

Role of Economic Diplomacy in India's Foreign Policy

Dr. Aashish Bariyar

Assistant Professor, PG Department of Political Science, CM College, LNMU, Darbhanga, India
bariyar[at]gmail.com

Abstract: *There is no gainsaying the fact that in the rapidly changing and emerging international environment, the efficiency of a state's foreign policy does not remain a simple function of its political functions or military might but also its economic capacities. The foreign policy of a nation is often geared to achieve specific economic objectives and it influences and is influenced in return by the economic considerations of the foreign policy formulations. This paper is a modest attempt to explore and delineate the broad nuances and contours of economic considerations in the shaping and reshaping of India's foreign policy.*

Keywords: Economic diplomacy, foreign policy, new economic policy, liberalization, investment, economic reforms

1. Introduction

Around the world there is an acceptance of the fact that Economics is central to foreign policy¹ and that the promotion of a country's external interests, means first of all, the promotion of economic objectives. The very character of Diplomacy has undergone, and is still undergoing a transformation and it is expected to lead to a situation in which the traditional concerns of foreign policy as well as the context, in which it is made, will get changed.

However, it is not very easy to conceptualize the contents of the foreign (economic) policy of a country. To begin with, does foreign (economic) policy focus upon the economic contents of the foreign policy or does it concentrate upon the foreign contents of the economic policy?² Presumably, the former assumes increasing importance as a country gains in political and economic status. However for a policy to succeed there has to be a convergence of the two. The economic contents of the foreign policy have traditionally been an important component of the foreign policies of the major powers. These foreign policies were often geared to achieve specific economic objectives. Equally important, economic policies were devised to attain specific economic objectives. The response of the West towards the Iraqi invasion of Kuwait and the reaction of Britain to the nationalization of the Suez Canal can be cited as classic examples of where the foreign policy was almost totally dictated by economic considerations. Currently, it is the same economic compulsions that are bringing US and India closer, despite occasional irritants. In the backdrop of the above, this paper marks an honest effort to explain how economic factors have begun to assume a centre stage in the formulation of foreign policy of India. It also aims to explore the mutual interactions between political and economic factors in the vital foreign policy considerations in

the vastly changing socio, political and economic global milieu.

Growing importance of the economic factor in foreign policy formulations: -

In the changing and rapidly emerging international economic environment, the efficiency of a state's foreign policy does not remain a simple function of its military might but also its economic capacities. While state actors still remain important, growing emphasis has come to be attached to the realization that the power of a state does have a determinate relationship to its economic strength, even though it is never reducible to it, nor always pivoted on it.³ The use of the e - factor as one of the determinants of shaping foreign policy could be gauged from the fact that both the super powers in the post - cold war era were able to consolidate and retain their position only because of their highly industrialized and economically developed status.

The global perspective and policies of nations are again governed by their vast economic and industrial resources.⁴ The level of economic development also determines the scope of relations that a nation wishes to establish with other states. In fact, the issue of economic strength has become more important both as a goal and means of a state's foreign policy.⁵ Given this background the issue of India's economic strength is going to be of increasing importance to the question of India's foreign policy effectiveness. The question of India's economic prospects is therefore pitched into the centre of debate about the current purposes and future prospects and limits of India's foreign policy. The criteria for economic strength are few - ⁶ rising average standards of living, total GNP, total industrial productions per capita industrial production in key high tech areas et al.

¹ See "The Economic Bases of Indian Foreign Policy" by J. Bandhopadhyay in K.P. Mishra (edit) Foreign Policy of India, Thomson Press (India) Ltd. N.Delhi, 1977, p.37.

² See A.N. Ram "Challenges to India's Economic Diplomacy" in Nancy Jaitley (edit) India's Foreign Policy - Challenges and Prospects" Vikas Publishing House Pvt. Ltd., N. Delhi, 1999, p.115.

³ Ibid, p.147.

⁴ See "The Economic Bases of Indian Foreign Policy" by J. Bandhopadhyay in K.P. Mishra (edit) Foreign Policy of India, Thomson Press (India) Ltd. N.Delhi, 1977, p.31.

⁵ Vandana Asthana "India's Foreign Policy and Sub-Continental Politics" Tanishka Publishers, N.Delhi, 1999, p.189.

⁶ Dutt & Sundaram, Indian Economy, S. Chand Publications, N.Delhi, 1999, p.245.

Changing dynamics of India's Foreign Policy:

The end of the Cold War and the collapse of the Soviet Union and other Socialist states have radically altered the international economic environment. Market economics have gained ascendancy and around the world in every region, barring isolated exceptions, nations are engaged in market based reforms and liberalization of economic policy.⁷ What is even more significant is that considerable shifts have taken place, both in the context of diplomacy and in the method of conducting diplomacy. With the realization that economics is central to foreign policy and that the promotion of a country's external interests means first of all the promotion of economic objectives.⁸ The foreign policy makers in India however took some time in realizing the fact. In the past, Indian diplomacy has tended to place too great an emphasis on the political aspects with the economic side being left.

During the 90's, the NEP (New Economic Policy) added a new dimension to India's foreign policy as the opening up of Indian economy characterized by Liberalization, Privatization and Globalization, created new tasks for foreign policy making. The new economic reforms represented a paradigm shift for India, marking the second de - facto liberation of India from the clutches of Pseudo - Socialism.⁹ In the post - 1991 period, India moved away finally from regulated economy to a deregulated one with free play being permitted to the market; from state controlled and regulated economy to a market driven demand and supply economy.¹⁰ With the burgeoning size of the economy that India has achieved in the industrial, agriculture and service sectors and the rapid growth that is projected for it, the Indian market is being increasingly targeted by international players.

Some of the changes have been the direct result of the political and strategic reshaping while others have been unleashed by the latent forces that have now surfaced in an open and market driven international trading and economic regime.¹¹ While some changes are spontaneous and market driven, others have been imposed¹² - the first and foremost task of India's economic diplomacy is therefore to understand the nature, content and direction of these changes and occasions which could be used to one's own interests, to understand the underlying current and future nuances that have conditioned and impinged upon the new international economic environment, with the aim of making India economically strong, influential and less vulnerable to international pressures, both political and economic. It will permit the country to realize the full potential as a world

⁷ See 'The fall of Communism' in Sridhar Krishnamurthy in The Hindu dt. 24 July, 1992.

⁸ See "The Economic Bases of Indian Foreign Policy" by J. Bandhopadhyay in K.P. Mishra (edit) Foreign Policy of India, Thomson Press (India) Ltd. N.Delhi, 1977, p.37.

⁹ See Dutt & Sundaram - Indian Economy', S. Chand Publishers & Co., N. Delhi, 1999, p. 246

¹⁰ Ibid p. 249

¹¹ See - Challenges to India's Economic Diplomacy - A.N. Ram in Nancy Jelly edit "India's . Foreign Policy - Challenges and prospects." Vikas Publishing House Pvt. Ltd. 1999, New . Delhi, p. 114

¹² Ibid, p.115.

power and a significant global player. Economic Diplomacy from India's perspective focuses on some of these areas -

- To ensure that in the emerging and rapidly evolving international economic environment. India's economic and commercial interests are safeguarded and opportunities created for preserving and enlarging India's economic space.
- To ensure that India is able to form and be an effective part of emerging coalition groupings and in which its major economic and commercial interests could be pursued in an effective manner based on an issued based pragmatic and flexible approach.
- To consolidate lines with major trading partners - SAARC, ASEAN, APEC, IOR - ARC, Gulf and Central Asian countries and other regional and sub - regional groupings.
- To ensure continued market access, including preferential access for our goods and services in major exports market.
- To promote India as an advantageous and preferred destination for FDI's, technology tie - ups, Joint venture, tourism and partnership.
- To conduct and participate in purposeful negotiation at the bilateral and multilateral fora with a view to promoting economic and commercial interests.

Change in socio - political and economic world order juxtaposed with concurrent changes in India's foreign policy:

The juxtaposition of the simultaneous trade liberalization on MFN basis with the increasing regionalism of global trade has made the task of foreign economic policy ever more complex. Developing nations like India shall have to manage gradually and spatially restricted liberalization within the parameters of regional economic required to face MFN based liberalization with minimum economic and political costs.¹³ India for example has continuously evaluated the strategic options available and negotiates simultaneously with several economic groupings at different levels. While the negotiations with EU (European Union) are essentially focused on the development of economic cooperation as an external entity those with ASEAN are on how to come closer to the groupings based on an institutional mechanism, already established by the ASEAN; status of a dialogue partner.¹⁴ In SAARC, however, India often plays the role of prime mover as the most important member of the grouping.¹⁵ India will have to be consistently in the lookout for new groupings so that emerging market opportunities do not get missed. For example, Latin America is gaining importance as possible trade partners - how to acquire and maintain market access in such groupings and possibly new ones will have to be seen at the top of the agenda for the country's economic diplomacy.

¹³ A.N. Ram : Challenges to India's Economic Diplomacy in India's Foreign Policy (edit) Nancy Jaitley .

Vikas Publishers, New Delhi, 1999, p. 116.

¹⁴ Ibid. p. 117.

¹⁵ India's Foreign Policy and Subcontinental Politics : Vandana Asthana, Kanishka Publishers & Distributors, N. Delhi, 1999, p. 189.

Some of the major issues that would be of utmost concern in India's economic diplomacy are as follows¹⁶ –

- Globalization implies integration of the national with the global economy and the acceptance of free flow of goods, markets and services –the cross border flows of FDI is bound to place some restraints on the policy making power of any state. A careful appraisal of the strategic options available to India will have to be worked out lest the economic costs to India as the flows of FDI may get adversely affected.
- The simple model of the North - South divide will get increasingly irrelevant as the ideological chasm between the two, blurs. India therefore will have to continuously seek allies in a specific context, independent of their development status.
- There can be a potential trade - off between a nation's strategic foreign policy needs and economic compulsions. India, as of now, has managed to strike a delicate balance between the two. But the threat perception is evident as was discernible in the US – UK – Japan backed economic sanctions against India - in the wake of India conducting Pokharan - II.¹⁷ The ability to pursue an independent foreign policy would therefore be largely dependent on India's success to go up the economic ladder in the emerging market league.

It thus becomes clear that the tasks of foreign economic policy will be much more complex and comprehensive in nature as compared to the traditional ones. It is therefore absolutely necessary that a national consensus emerges on the stand that the country should take on these issues.¹⁸

Analysis and appraisal of economic element India's Foreign Policy in the post - 1990 world order period: -

The Indian elections of 1996 have broadly confirmed that there is a broad national consensus on economic reforms and variations regarding the details. This optimism is reflected in the high levels of growth, in flow of foreign capital particularly FDI's, predicted on the expectations of generating profits. The step wise in actual inflows from 600 million USD in 1993 to an anticipated 3 billion USD in the year 1999 - 2000 is not an inconsiderable achievement; the comparison with China seldom takes into account the early start that it made in its opening up in 1979. It is in such an environment that India's foreign (economic) policies are placed. The prime object, meshed in with domestic policy is to find the external support for sustaining the high level of growth and developing the nation's capacity to its full potential.

As argued by A. N. Ram in his seminal work “**Indian Economic Diplomacy**”, in the rapidly evolving global economic situation, India's economic environment continues to remain less than propitious. Less than 20% of its GDP comes from external trade and investments (abysmal as compared to other industrialized nations). India's share of

world trade is less than 1%; India is a marginal player on world economic scene and it has little influence or control over international economic decision making; both in the WTO and IMF/WB context its role is still peripheral.¹⁹ However the situation is not all gloomy. The economic reforms imitated by the New Economic Policy appear to have taken off well, slowly but firmly. Moreover India seems to have benefited from Globalization, integration with the WTO and international economic cooperation. Then again, India is poised to enter the knowledge era as a significant player and is considered to be an IT Super Power. Not only India's exports and external trade have done remarkably well under the new WTO regime (1996), it has also amassed a sizeable FOREX reserve of nearly 100 Billion US Dollars. The new international economic structure though not entirely in India's favour, has helped India to be more resilient, strong and less susceptible to external pressures.

The German economist Professor Dr. Keans Gretschmann in a speech in New Delhi in 1999 had predicted that the present century will be the century of knowledge or the '**Knowledge - driven era**'.²⁰ It is already one of the world leaders in IT and well poised to make a contribution in areas such as Biotechnology, Life Sciences, Space Exploration and peaceful uses of Nuclear Energy. The relevance of these in the context of India's overall economic security lies in the fact that its knowledge power will enable it to play a leadership role in which India's own pivotal contribution will help forge partnerships and develop a common stake for all in peace and stability. However there is a word of caution here – if India has to become a world knowledge power, it will have to reassess and reevaluate its rather short term and narrow approach to issues like Intellectual Property Rights (IPR) and Patents.²¹

Although India is not yet a significant recipient of Foreign Direct Investment (FDI) – (around 3 - 4 Billion US Dollars) per annum in FDI²²– India is considered to be a promising potential destination for global transfer of capital. Foreign investment along with trade and technology are powerful factors in promoting peace and stability. Economics thus creates a formidable basis for mitigating political or military frictions. It has been suggested that had India had large foreign investments and trade the external political pressures on India would have been much more manageable. The political fall out after Pokharan–II conceivably would have been much more measured and restrained had India been a major economic entity with large foreign investments and foreign trade.

It is estimated that there are approximately 15 million Persons of Indian Origin (PIO's) and Non - Resident Indians (NRI's) outside India who represent a significant force with

¹⁶ See A.N. Ram in “India's Economic Diplomacy”, World Focus, N. Delhi, Oct – Dec. 1999, pp.26-29.

¹⁷ S. Krishnamurthy – ‘Nuclear Explosions and their aftermath’ in The Hindu, 16th May, 1998.

¹⁸ See “Indian Diplomacy” by A.N. Ram in World Focus, N. Delhi, Apr – June. 2000, p.78.

¹⁹ See – ‘Indian Economic Diplomacy’ by A.N. Ram in World Focus, Oct-Dec 2003, p.6.

²⁰ “Emerging India” by Stephen P. Cohen, Oxford University Press, Washington D.C., 2002, p.78.

²¹ See – “India's Foreign Trade Policies and Development” by T.N. Srinivasan in Uma Kapila (edit) “Indian Economy since Independence”, Academic Foundation, N.Delhi, 2001, p.670.

²² Source – India 2000, Information and Broadcasting Publications Division, N.Delhi, 2000.

considerable strength and clout in other countries.²³ When one considers the growing strength and potential of Overseas Indians, it is ardent that they can be a formidable asset for India, both in political and economic terms. For most of these Overseas Indians, their links with their motherland continue to remain strong, abiding and deep and many of them would not only be prepared but would consider it a privilege to remain associated with India and be of same assistance to the country of their origin. The growing financial strength and success of NRI's & PIO's now, is available for furthering India's national interests and developmental needs. Apart from financial resources that could be tapped, the considerable technological and scientific talents and skills of Indians is recognized and acknowledged the world over and can under certain conditions become a major impulse for India's own scientific and technological advancements. These need to be explored, harnessed and used to further national objectives and interests. This should be seen as an asset and as a reassurance against vulnerabilities.²⁴

In the past few years, India understood the imperatives of a globalized world and has begun to evolve strategic and sectoral economic partnership to further economic security in a rapidly evolving international scene. Such issue based and selective cooperation is an integral element of India's international economic policy. Today it is fair to conclude that economies have become a significant agent of political and strategic security. **Good Economics is also seen to be good politics.** The benign effect of economic partnership, networking and linkages are bound to have beneficial effect on international peace and stability. In the immediate context of India, it is important to create such mutually beneficial arrangements with neighbours in South Asia, South East Asia, the Gulf, and Central Asia and with traditional partners in Europe, North America, the United States, Japan, China and Russia.

The best insurance for India against vicissitudes and vulnerabilities lies in rapid growth and development through partnerships in trade, investments, joint ventures, technology, tourism and services. If India's GDP can grow by 10% per annum and its share of and investments can grow to 10% of world trade and investment flows, India's economic security will stand automatically enhanced.²⁵ In an increasingly globalizing and integrating world, no country can remain an island of insularity; India must seek and optimize its opportunities as a player in the international market place. India too, is learning to work within the reality and constraints of this flawed order; but its hope lies in what Swaminathan S. A. Aiyar believes²⁶ to be the best opportunity for the developing countries whose growth and development is indispensable and is inextricably linked to the well being and prosperity of the developed countries.

²³ See – Indian Economic Diplomacy' by A.N. Ram, World Focus, Oct-Nov-Dec 1999, p.29-30.

²⁴ See – Indian Economic Diplomacy' by A.N. Ram in India's Foreign Policy – Challenges and Prospects (edit) Nancy Jaitley, Vikas Publishing House, N. Delhi, 1999, p

²⁵ See – Indian Economic Diplomacy' by A.N. Ram, World Focus, Oct-Nov-Dec 2003, p.11.

²⁶ Swaminathan S. Anklesaria Aiyar in The Times of India October 13, 2002.

This shall perhaps be the biggest challenge for India's economic diplomacy in the times to come.

The acceptance of rapid economic development as the most important national objective, the basic compulsions generated by the development programme and the pattern of growth India has so far adopted, give India's foreign policy, a powerful economic orientation. To use a phrase of Eugene Black, "Diplomacy of Economic Development"²⁷ should constitute one of the most important elements of Indian Foreign Policy. The argument in this article has been that India's approach to the problem of national security, the extent to which and the manner in which it must obtain foreign aid, the structure and orientation of its foreign trade and its general approach to the given state of international relations are all profoundly influenced by India's economic needs and policies and these in turn have specific logical implications for India's Foreign Policy.

Finally, however strong India may be economically, national power also depends upon internal order. During his 1994 visit to US and Russia, Narshimha Rao repeatedly drew attention to a shared commitment to political pluralism in the interest of not only international but also internal order. He frequently argued that Economic reforms, while necessary and desirable, had to be crafted with an eye to domestic stability.²⁸

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- [3] Ibid, p.147.
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Author Profile

Dr Aashish Bariyar presently working as Assistant Professor, PG Deptt of Political Science, CM College, LNMU has more than 14 years of active experience in Govt of Bihar working in various administrative positions throughout the state. He has been awarded by Hon'ble Chief Minister, Bihar for his administrative prowess and successful execution of govt schemes. A UGC - JRF in Political Science, Dr Bariyar has his Post Doctoral dissertation on “*Dynamism in India’s Foreign Policy since 1990’s*” and has an avid interest in International Relations & Politics. Prior to joining administration, Dr Bariyar had a varied experience as a Visiting Faculty in Patna Women’s College, PU and a brief stint at the Intelligence Bureau.