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Impact of India's Economy on its Foreign Policy Since Independence

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INTRODUCTION

Many observers of India describe the country as an emerging great power with game-changing capabilities. However, such assessments of the country's potential are recent and only emerged after India's economic reforms were launched in 1991. These reforms gave impetus to sharp economic growth through liberalization of government policies and the revitalization of the Indian private sector.[1] While India still faces a number of significant challenges, this tectonic shift from slower to high growth rates is important not just for India, but also for the developing world, for global institutions and for great power relationships. This essay focuses on the impact of India's economy on Indian foreign policy since country's independence in 1947. The first half, dealing with India's economic development, is divided into three periods (broadly parallel to distinct periods in India's political life):

- Desperate times in the wake of the Raj: the search for an autonomous economic policy (1947-1966);
- Autocracy and socialism: a toxic mix (1966-1990);
- Reforms, globalization and growing global interdependence (1990 onwards).

Not coincidentally, the three periods examined coincide with three different phases in the principal drivers and ideology (to the extent there has been one) underpinning Indian foreign policy. The first phase, one of Nehruvian idealism mostly tempered by prudence and a sense of India's economic fragility, was marked by efforts to keep the superpower conflict and the toxic effects of the Cold War at bay through India's leadership of the Non-Aligned Movement (along with partners such as Indonesia and Egypt). The second, even more than the first was marked by domestic economic fragility and growing tensions with the West. It gave rise to a hard-nosed realism expressed by a large degree of alignment toward Moscow (while the nostrums of non-alignment were still at hand for presentational purposes). Finally, since 1990, the main driver of Indian foreign policy can be seen as support for India's successful break-out from economic stagnation. This largely economic agenda embarrasses those Indians who believe that an emerging power should endow itself with grander aspirations, and a more interesting foreign policy framework. But, for now, most Indians seem content with it.[2]

The second half of the essay examines how evolving economic patterns and relationships have affected India's foreign policy and its ties with major partners. It addresses the impact of economic factors on India's foreign policy through a variety of prisms, for example, country and region specific, and also through cross-cutting factors such as development assistance.

The essay concludes that a transition has taken place in Indian foreign policy from the primacy of politics and geo-strategic considerations to a new emphasis on economic interests and ties, although economic factors always influenced Indian leaders in their foreign policy choices from Nehru onward.

DESPERATE TIMES IN THE WAKE OF RAJ:

The Search for an Autonomous Economic Policy (1947-1966)

In the pre-colonization period of the early 1700s, India's economy accounted for nearly one-quarter of the world's economic output. India's wealth under the Mughal and Maratha dynasties attracted traders and aspiring conquerors from Europe and elsewhere. India was a major factor in global trade, notably in textiles. (As an estimate, India's share of world income collapsed from 22.6% in 1700, almost equal to Europe's share of 23.3% at that time, to as low as 3.8% in 1952.)[3]

The European colonization of India began with Portuguese inroads in the 16th century. But it took off in earnest through the actions of Britain's East India Company, which initiated trade with India in 1600, and gradually but comprehensively changed the nature of the Indian economy.

The company, recognising the strategic trading importance of India, a land rich in salt, handicrafts (mainly textiles) and valuable spices (the transport and trade of which formerly had been dominated by non-European 'middle men'), soon sought to establish a wider British presence in India. After the decisive British military victory at Plassey in 1757, the East India Company reinvented itself from a trading firm into a ruling hierarchy exercising effective sovereignty, buttressed by a significant military capacity. India (by design of the British) missed out on the industrial revolution. India's commodities fed the industrial revolution in the United Kingdom while its own economy stagnated and served as a significant market for Britain's manufactured goods. British colonial policy in India deliberately stifled trade with the rest of the world, arrogating to Britain all useful Indian exports. While the relative weight of India in the world economy plummeted during the two centuries of British colonial domination, the effective economic growth rate of the country was, on average, zero.

In *John Company at Work*, published more than half a century ago, Holden Furber was the first professional historian to attempt a quantification of the annual drain of wealth from India to Britain, which he estimated at £1.3 million annually in the years between 1783 and 1793, a staggering sum at the time.[4] Meanwhile, as pointed out by Rajat Kanta Ray, combined with very high levels of taxation and serious famines (carrying off a third of the population of Bengal in 1770),"the flow of wealth out of India reduced consumption and employment in the country", which thus entered a vicious circle entailing stagnation and worse.[5]

The first generation of British rulers were rapacious. British salaries were high: the Viceroy received £25,000 a year and governors of the Company £10,000, truly princely sums at the time. From 1757 to 1919, India also had to meet administrative expenses in London, first of the East India Company, and then of the India Office, as well as other charges.[6] Under the rule of the East India Company, official transfers to the UK rose gradually until they reached about £3.5 million in 1856, the year before the mutiny, and they rose more sharply thereafter, with India incorporated formally into the British Empire. During the period of direct British rule from 1858 to 1947, official transfers of funds to the UK by the colonial government were called the "Home Charges," and rose precipitously.[7] Further, India shouldered a heavy burden in staffing and funding Britain's global war efforts, in 1914-18 and 1939-45. In brief, the economic benefits of Indian colonization to Britain were very significant, while the Indians themselves bore the costs.

At the chaotic conclusion of colonial rule in 1947, India inherited an economy that was one of the poorest in the world per capita, totally stagnant, with industrial development stalled, and its agricultural production unable to feed a rapidly growing population.[8] This period was also marked by recurring and widespread famines.[9] At independence, the Indian economy was predominantly agrarian. About 60% of India's GDP was based on agricultural activities that were mainly dependent on monsoon rains with no significant irrigation systems in place.[10] Some industry existed in the country at that time, but it was designed to serve the interests of the British Empire rather than of India itself – jute mills in and around Calcutta; cotton textiles in and around Bombay; tea plantations; and railways were well developed. The catastrophic partition of 1947 caused widespread disruption to the economy, for example in relation to industrial raw materials produced in Pakistan whose related factories were located in India. As well, the infrastructural framework for economic activity by way of road, railway and sea routes was fractured in the country's north.

Jawaharlal Nehru in a speech at the Constituent Assembly on December 4, 1947 in New Delhi, stated his interpretation of the relationship between foreign policy and economic policy - "But talking about foreign policies, the House must remember that these are not just empty struggles on a chess board. Behind them lie all manner of things. ltimately, *foreign policy is the outcome of economic policy, and until India has properly evolved her economic policy, her foreign policy will be rather vague, rather inchoate, and will be groping* (emphasis added)."[11]

Soon after independence, Prime Minister Nehru and other Indian Congress leaders, faced with this plight, introduced a modified Indian version of state planning and control over the economy.[12]

These leaders believed a dominant role of the state would be vital in ensuring rapid industrial and agricultural growth.[13] Simultaneously, doubtless largely in reaction to the British colonial plunder of India, Nehru and his colleagues adopted a strategy of import-substituting industrialization, which completely discouraged foreign investment.

The process of rebuilding the economy started in earnest in 1952 with the first five-year plan for the development of the Indian economy guiding government investment in industries and agriculture.[14] The Industrial Policy Resolutions of 1948 and 1956 gave government a monopoly in armaments, atomic energy and railroads, and exclusive rights to develop minerals, the iron and steel industries, aircraft manufacturing, shipbuilding and manufacturing of telephone and telegraph equipment. By the late 1950s, regulatory and licensing structures encouraged private investment into priority areas and discouraged or banned it in others.[15] India's second five-year plan, starting in 1956, inaugurated an industrialization scheme that moved away from the classical growth model, and instead based its strategy (called the Nehru-Mahalanobis model) on developing heavy industries, which were perceived as optimal for the rapid industrialization of India.[16] This model was supported by a variety of controls, both tariff and quantitative restrictions.[17]

In the 1950s and 1960s, foreign aid played an important role in India's development process and the need for it influenced foreign policy to an extent. During this period, India's profile and standing facilitated the acquisition of development assistance from both East and West. Nehru sought financial and technical help from nearly all industrialized countries in addition to borrowing from the World Bank for long-term infrastructure development.[18] Much of the assistance was used to import food and other necessary items crucial to India's survival as a fragile and potentially fractious new country.[19] In many of its aspects, foreign aid was of great benefit to India.[20] Indeed, "even in adverse world conditions, developing countries have used aid to reduce balance of payments deficit, and to increase (or at least sustain) investment rather than consumption. There is some evidence that during the 1960s, aid helped to increase investment in India."[21]

Nehru's economic policy has been much criticized in the West. But it may be helpful to see it as a product of its times and of India's unhappy economic history prior to independence under the British Empire. Further, Nehru and his contemporaries were startlingly successful in one respect: while great poverty and hunger continued to stalk India, it never again suffered a famine occasioning mass casualties such as the British had allowed to occur repeatedly when in control of the sub-continent, notably in West Bengal and in India's south during the final decades of their rule.

AUTOCRACY AND SOCIALISM:

A Toxic Mix (1966-1990)

By the mid-1960s India was both experiencing discouragement with slow economic progress and suffering from external setbacks, notably the 1962 border war with China and the 1965 war with Pakistan. In part due to India's economic policies and in part for reasons relating to the Pakistan war – which was tremendously expensive - in 1965, foreign aid from the USA, which had hitherto been a key factor in preventing devaluation of the rupee, was cut off for a year. India was pressured by the USA and other international actors (including the International Monetary Fund and World Bank) to liberalise its restrictions on trade (its trade deficits having reached unmanageable proportions over some years).[22] In addition, India's war with Pakistan in 1965 had led to worrying levels of deficit spending (around 24% of total expenditure) and accelerating inflation.[23] Indians mostly interpreted these moves, and their timing, as further evidence that the West favoured Pakistan over India. The response by the Indian government was the unpopular step of devaluation accompanied by some liberalization (a reduction of export subsidization and import tariffs). A report by Robert Cassen & Associates underlines that the devaluation forced on

India in 1966 was much needed, but ill timed. It was forced as a condition of the resumption of US aid, against the wishes of the Indian Finance Minister, and it was the subject of major pressure and tensions between the donors and the Government of India. The Consortium's aid package, designed to support both devaluation and further trade liberalization measures, collapsed after one year when the US pulled out. Such a degree of leverage over macroeconomic policy was only achieved in conditions of acute economic difficulty for India, and at a cost of chronic disruption to both aid and relationships, and Indian economic management. In the medium term India's response was to diversify its sources of political and economic support; the donors who sought to promote internal changes by strong leverage in fact failed to secure these changes and, in the process, lost the capacity to influence future Indian policy.[24] According to the eminent Indian economist, T N Srinivasan, "devaluation was seen as capitulation to external pressure which made liberalization politically suspect."[25] In light of the backlash, Delhi soon reversed most of the liberalization measures.

In spite of early successes with agriculture, food shortages during the 1960s created a sense of insecurity within the country, which was also somewhat unsettled by changes in political leadership (Indira Gandhi became the Prime Minister in 1966 after a brief interlude of Lal Bahadur Shastri as Nehru's successor from 1964 onwards). In these circumstances, the country was particularly sensitive to the threat of foreign "blackmail".[26] Indira Gandhi threw her full support behind efforts to overcome the chronic food shortages through experimentation with hybrid grain seeds that could vastly expand production in the country's north (particularly in the Punjab).[27] The ensuing "Green Revolution", one of the great successes of Indian and global agricultural development, engineered by Indian and some foreign experts, with significant assistance from foreign donors including the Ford and Rockefeller Foundations, extended from roughly 1967 until 1978 and transformed India from a food-deficient country to one of the world's leading agricultural producers.[28]

__Box 1 -- The Green Revolution__

As noted previously, for all of the disappointments of India's early industrial policy, Nehru's focus on agriculture, infrastructure and social organization placed Indians beyond the risk of large-scale famines. But the progress so painstakingly achieved in the 1950s proved to be insufficient to meet the needs of a country whose population was continuing to rise in part due to a few basic improvements in public health. But with so much else to worry about, agricultural development was neglected, placing the country at a constant risk of hunger, if not famine.

India's impressive Green Revolution was brought about under tremendous pressure: disastrous government finances, drought, and Western pressure to tend more effectively to agriculture. As of 1966, Mrs. Gandhi understood that further humiliation at the hands of the West, and specifically of Washington, could only be avoided if India moved beyond the need for short-term food aid. She thus decreed that India must so organize its affairs as to be able to feed itself and provided single-minded and effective support to Indian and foreign researchers (notably, M.S. Swaminathan, in India) working to develop high-yield hybrid grain varieties and new approaches both to irrigation and to fertilizers that could achieve this end

In fact, the input requirements of the Green Revolution also served India well in the short run: areas hosting high-yield crops needed more water, more fertilizer, more pesticides, fungicides and certain other chemicals. This spurred the growth of some sectors of India's industry. The increase in irrigation created the need for new dams to harness monsoon water. In turn, the water stored was used to create hydro-electric power, available to boost industrial production, create jobs and improve the quality of life in rural regions. India was able to pay back the multilateral loans it had taken from the World Bank and its affiliates to support the Green Revolution and this improved India's credibility in the eyes of lending agencies. Meanwhile, talented and energetic farmers from Punjab – rendered redundant by more efficient production methods and by the limit to sub-division of family plots -- migrated to the West (notably Canada) *and sent significant remittances back to India.*

The environmental costs of the Green Revolution, notably those exacted by excessive use of water and of chemical fertilizers that eroded the soil and sometimes contaminated ground water supplies, were not well understood for many years. Only early in the new millennium, with agricultural productivity growth stalling, did a second Green Revolution seem necessary and more daunting than the first, given the need for more sustainable agricultural practices. The demand for food will increase inexorably as India's population achieves greater prosperity. The middle class all over the world eat more and waste more than the poor can ever afford to.

In spite of dramatic progress on the agricultural front, external events continued at times to undermine India's development trajectory. The huge cost of the 1971 war with Pakistan was barely registered when the oil price shock of 1973 also contributed to a drop in industrial output. Perforce, Mrs. Gandhi now started to move away from some of the policies adopted by her predecessors. Even though during her early years in power the public sector continued to grow, she later sought to revive the private sector (with only modest success, given a widespread lack of confidence in the durability of her change of heart). Populist programs and policies were now replaced by greater pragmatism. Not all of her new policies were successful. Her employment programs yielded disappointing results -- perhaps because of constantly mixed messages. For example, her emphasis on growth with equity was supported by policies that did not do enough for either. Consequently, while poverty levels did decline meaningfully between the mid-1960s to the mid-1980s, much of the population continued to struggle for mere survival. The parallel economy grew at a faster rate than in the past and planned economic development was relegated to a secondary position.[29]

Despite economic difficulties, Mrs. Gandhi managed to ride a crest of popularity after India's triumph in the war of 1971, and the nuclear test of 1974. Her appealing slogans and her campaigning to eradicate poverty (under the banner *garibi hatao* -- "abolish poverty" in Hindi) commended her to much of India, even as support for her Congress Party eroded.[30] Among her notable economic policy planks, beyond support for the Green Revolution, she pursued a vigorous policy of land reform in 1969; placed a ceiling on personal income, private property and corporate profits; and gave high priority to the promotion of savings. Most large commercial banks were nationalized in 1969. In 1970, the Monopolies and Restrictive Practices Act was introduced. Conspicuous consumption by the rich was discouraged or simply banned through licensing requirements, and princely privileges were abolished.[31] During her tenure, India came to possess a large and diverse skilled scientific and technological sector, building on Nehru's far-sighted commitment to champion indigenous Indian scientific capacity.[32] India during these years became the world's fifth military power, the sixth overt member of the global nuclear weapons club, the seventh engaged in the race for space and the tenth industrial power.[33] Nevertheless, the eradication of poverty eluded her grasp and the private sector failed to revive significantly.

Following her assassination, in 1984, the government led by Mrs. Gandhi's son, Rajiv, attempted greater liberalization of the economy. It removed price controls and reduced corporate taxes. India once again welcomed foreign businesses and investment inflows in some sectors, and gave priority to modernization of the economy through computerization and telecommunications. It also worked hard to improve relations with western governments. In the 7th plan (1985-89), greater emphasis was placed on the allocation of resources to energy and social spending (at the expense of industry and agriculture).

From 1980 to 1989, the rate of growth of the economy improved to 5.5% annually (or 3.3% on a per capita basis). Industry grew at an annual rate of 6.6% and agriculture at a rate of 3.6%. A high rate of investment (up to 25% from about 19% of GDP in the early 1970s) contributed to this significantly improved level of economic growth. But fiscal and current account deficits also increased dangerously. Moreover, most investment was devoted to large, long-gestating, capitalintensive projects, such as electric power, irrigation and infrastructure that were marred by delayed completions and cost overruns. Corruption became a major public issue, including the Bofors weapons procurement scandal that tainted Rajiv Gandhi himself. With state resources and private savings tapped out, by the mid-1980s India came to rely increasingly on borrowing from foreign sources. During this time, the central government fiscal deficit increased rapidly, to 8.5% of GDP at its peak in 1986-87.

These macroeconomic imbalances, and a gradual depletion of reserves, threatened the sustainability of growth rates and made the economy particularly vulnerable to shocks.[34] The deteriorating internal economic basics were compounded by worsening external balances. International developments were not favourable: the collapse of the Soviet Union, India's major trading partner, and the first Gulf War in 1991, which cut the level of remittances from Indians working abroad, contributed to a major balance-of-payments crisis for India. A precipitous drop in India's reserve position created a growing perception that it might default on its international obligations. High inflation in 1991 particularly distressed the Indian population (particularly the rural poor, who were highly dependent on basic foods and other commodities, the prices of which rose rapidly).[35]

REFORMS, GLOBALIZATION AND GROWING INTERDEPENDENCE:

1990 Onwards

After a couple of years of unstable coalition governments, a Congress-led coalition under Prime Minister Narasimha Rao faced a serious financial crisis that required drastic measures. The gross fiscal deficit of government rose from 9.0% of GDP in 1980-81 to 12.7% in 1990-91. The GDP growth rate declined from 6.9% in 1989, to 4.9% in FY 1990 and to 1.1% in FY 1991. For the Union government in Delhi alone (leaving aside state-level deficits), the gross fiscal deficit rose from 6.1% of GDP in 1980-81 to 8.4% in 1990-91. As a result, the internal debt of the government accumulated rapidly, rising from 35% of GDP at the end of 1980-81 to 53% of GDP at the end of 1990-91.[36] In March 1991, a financial crisis developed as India's hard currency reserves fell to US$2.1 billion – less than the value of six weeks of imports – with US$1.5 billion in payments to the multilateral financial institutions due at the end of March.[37]

In June 1991, the government launched a series of far-reaching reforms focused on freeing up the investment and trade regime; reforming the financial system; modernizing the tax system and divesting public enterprises. Over ten years, these reforms, in a controlled way, gradually expanded to other areas—such as agriculture, pensions, insurance, capital markets and infrastructure, and came to include full-blown privatization. They thus profoundly, if perhaps not sufficiently, transformed the nature of India's economy.[38] The reforms did away with import licensing on all but a handful of intermediate inputs and capital goods items.[39] The new Government announced a floating exchange rate regime in March 1992 that served India well, not least during the global financial and economic crisis of 2008-2010, with a falling rupee absorbing much of the shock.[40] As a result of the reforms, and accelerating growth, the hitherto limited Indian middle class expanded to somewhere between 50 and 350 million people (depending on the measurements involved).[41]

Less than three years after the reforms were introduced, foreign direct investment (FDI) started pouring in from American companies such as Pepsi Cola, Coca-Cola, General Motors, General Electric, International Business Machines and McDonald's (several of which had been forced out of India in earlier decades) and from similar companies in Great Britain, Japan, France and Germany. Mutual funds, investment banks, securities firms and commercial banks increasingly invested in Indian securities. Indian companies raised funds in the world capital markets and began merging with each other as well as with foreign competitors.

In 1998-99, India faced a challenging international economic situation arising from the financial crisis that hit East and Southeast Asia in 1997. As an international slowdown spread, investors shied away from the emerging market economies, including India and China. But, due to India's limited external sector and large domestic market, as well as prudent management by the Reserve Bank of India, the direct impact on India was limited. Nevertheless, anxiety arose over India's capacity to sustain its recent export expansion, FDI (and financial inflows), technology transfers and, more broadly, nascent international confidence in the Indian economy. In spite of declining demand for its goods and services in Southeast Asia, serious problems in the Russian economy and in recession-struck Japan, the Indian economy held up well. And, as India started to gain economic strength, the orientation of India's merchandise trade started to change. On the export side, the major shift was away from Russia and Japan toward developing countries in Asia (including, increasingly, China) and the USA.[42] Trade with Western Europe also grew considerably.

Box 2 -- India's Companies Go Global: Aditya Birla Group[43]

During the early decades of India's independence, not surprisingly given the socialist orientation adopted for the country, much attention focused on foreign firms operating in India, many of which eventually were forced out of the country or simply gave up trying to operate there in an atmosphere of government hostility. Less well known outside India is the fact that large Indian conglomerates, several of which had been developing since the late19th and early 20th centuries alongside well-known British and other non-Indian companies -- Tata being the best known Indian name abroad -- were also negatively, sometimes very negatively, affected by the government's philosophy.

The Aditya Birla Group is India's first truly multinational corporation. The Group has an annual turnover of US$ 24billion, market capitalization of US$23 billion, and over 100,000 employees belonging to over 25 different nationalities on its rolls. Aditya Birla Group has a presence in 20 countries - India, Thailand, Laos, Indonesia, Philippines, Egypt, Canada, Australia, China, USA, UK, Germany, Hungary, Brazil, Italy, France, Luxembourg, Switzerland, Malaysia and South Korea. The group has diversified business interests and is a dominant player in all the sectors in which it operates, such as viscose staple fibre, metals, cement, viscose filament yarn, branded apparel, carbon black, chemicals, fertilisers, insulators, financial services, telecom, BPO and IT services.

The origins of Aditya Birla Group can be traced back to the 19th century when Seth Shiv Narayan Birla started trading in cotton in the town of Pilani, Rajasthan. In the early part of the 20th century, Group's founding father, Ghanshyamdas Birla, expanded the group and set up industries in critical sectors such as textiles and fibre, aluminium, cement and chemicals. In 1969, Aditya Birla, the then Chairman of the Group, put the group on the global map. He set up 19 companies outside India, in Thailand, Malaysia, Indonesia, the Philippines and Egypt. The impetus for international expansion derived from the Indian government's unfavourable regime for Indian private sector companies at the time. Overall, Birla's international ventures prospered remarkably and provided a blueprint for its further expansion within India when conditions there for private corporate entities started to improve in the 1980s. Under Aditya Birla's leadership, the group attained new heights and it became world's largest producer of viscose staple fibre, the largest refiner of palm oil, the third-largest producer of insulators and the sixth-largest producer of carbon black. After Aditya Birla's demise, his son Kumar Mangalam Birla took charge and under his leadership the group has sustained the number one position in the sectors in which it operates. Indeed, several of the large Indian corporate houses expanded into Southeast Asia and points beyond during the years of enthusiasm for state enterprise in Delhi. Paradoxically, this turned out to be good for them, both inside India and beyond.

Meanwhile in India itself, a number of British companies that have now faded in the UK, such as Einfield and Leyland, thrive under different ownership. One notable example is Morris whose Morris Oxford III model of the mid-1950s lives on as India's ubiquitous Ambassador, manufactured by Hindustan Motors.

Today, India's firms are spreading their wings internationally, across many sectors, acquiring foreign rivals and often creating very large groups, of which the takeover of the steel giant Arcelor in 2006 by the Mittal corporation to create the world's largest steel company, is perhaps the best example. Many Indian companies are investing in and taking over companies in other developing countries. According to the data released by the Reserve Bank of India (RBI), the total outward investment from India, excluding that made by individuals and banks, rose 29.6% to US$17.4 billion in 2007-08, largely due to acquisitions. Some of the major acquisitions by Indian companies abroad include Novelis (by Hindalco), Corus (by Tata Steel), Repower (by Suzlon) and Infocrossing (by Wipro).[44]

Perhaps India's most eye-catching recent foreign acquisition occurred when Tata Motors in 2008 took over Jaguar and Land Rover (not universally considered a very sound investment, but certainly one to make the Indian heart beat faster given the fabled past of the marques). And while Indian companies go global, global companies flood into India knowing that its market features a rapidly growing middle class, likely to offer one of the few remaining large bonanzas for automobiles and much else.

Liberalisation of trade in services, ultimately so important to India during an era of Western "outsourcing," started during this period. In public sector banks, up to 74% of FDI was permitted -- in theory. In fact, the Reserve Bank of India (RBI) heavily policed where foreign banks were encouraged, indeed allowed, to invest (preferring to channel foreign funds into unprofitable ventures the RBI hoped the international investors could turn around – and often did). In telecommunications, up to 74% FDI was permitted for many services. Foreign equity was encouraged in software and almost all areas of electronics. In the information technology sector, 100% foreign investment was permitted in units set up exclusively to manufacture for export.

India's share of world exports, which had declined from 2% at Independence to 0.5% in the mid-1980s, bounced back to 0.8% in 2002. In 2008 it stood at 1.04%.[45] From 1998 to 2008, the ratio of total goods and services trade to GDP has risen from 17.2% to 30.6%. Kamal Nath, then India's Minister of Commerce and Industry, in February 2009 predicted that along with other BRIC and the Gulf Cooperation Council economies, India would contribute about 35-37% of incremental global GDP growth during the years through 2012: **"**We are certainly more integrated in the world economy today. The ratio of total external transactions to GDP has increased from 46.8% in 1997-98 to 117.4% in 2007-08."[46]

More broadly, the reforms led to a meaningful shift in the growth rate of GDP after 1993, rising at unprecedented rates of 6-7%, then averaging 8.4% in the four years 2003-2007, peaking at the 9% range in 2007. Unlike growth in the 1980s, which was fuelled by excessive borrowing at home and abroad, this new growth was largely domestic demand-led, driven by consumption and continuing high levels of savings and investment. Gross Domestic Investment (GDI) rates rose from 24.3% of GDP in 2000-01 to 33.8% in 2005-06 and domestic savings from 23.7% in 2000-01 to 32.4% during 2005-06. Over this period, the fiscal management of the country improved with the combined fiscal deficit of the Union and States declining from 9.5% of GDP in 2000-01 to 6.4% in 2006-07. However, combined public debt as a proportion of GDP remained high at over 70%.[47] Internationally, India came to be ranked the fourth largest economy in terms of purchasing power parity, and current growth rates could well overtake Japan as the third most significant economic power within 10 years.[48] The growth of India's middle class was seen by economists as particularly hopeful (although advocates for the poor rightly point out that the government's social policies too often failed).[49]

Box 3 -- Corporate Governance – Not Always India's Forte[50]

Links between India's corporate sector and its governments, at the Union and State levels, are mostly opaque and are widely thought to involve the exchange of favours in each direction. Indeed, Indian "corporates" (as they are often described in India) are often represented in parliament through members of the owning family or in similar ways. While hardly a model for ethics in private-public sector ties elsewhere, and while clearly feeding party-based and individual corruption which many Indians sense is growing rather than diminishing, the Indian private sector rarely complains. While some companies are widely seen as holding themselves above the fray of such relationships, notably the Tate and Infosys groups, the cozy links between corporate leaders and much of official Delhi is striking to foreigners.

Indian politicians are sometimes drawn into disputes within the corporate world. The most striking recent example has been the continuing brawl between the Ambani brothers, Mukesh and Anil, who lead between them the Reliance corporate empire bequeathed by their father Dhirubhai. Disagreements, in the absence of a will, have led to a spectacular court case and to involvement of Indian government ministers in mediation efforts. Great soap opera, but not an edifying corporate saga.

As reported at length in The Financial Times*, the Reliance name is legendary in India. Dhirubhai started as a petrol pump attendant in the Arab port of Aden before making his fortune in India. By the time of his death he was revered by millions for his Midas touch and his brash defiance of the country's stodgy older business families and the government.*

His sons had worked faithfully under his leadership – Mukesh becoming known for his ability to execute the group's giant refinery projects and Anil for his investor relations part of the division of spoils, brokered largely by own skills. But without Dhirubhai, tensions between the headstrong duo eventually erupted into public acrimony. The siblings' mother, Kokilaben Ambani, was forced to intervene and, in 2005, the brothers forged a demerger agreement. Mukesh gained control of Reliance's polyester, oil refining and exploration businesses, including the government contract to develop the KG Basin "D6" block. Anil took over the financial, telecommunications and power business. At the time an understanding was apparently reached.

Buried in the document, which has never fully been made public, was a memorandum of understanding under which, inter alia, Mukesh's Reliance Industries would supply up to half of the KG Basin field's expected peak output of 80m cubic metres a day to Anil's Reliance Natural Resources. The gas was to be priced at $2.34 per million British thermal units, the price that Reliance Industries had earlier committed to sell to National Thermal Power, a government power company. Disagreement over this understanding (and others) soon landed the brothers in court.

What is more, the brothers agreed that Reliance Natural Resources would have right of first refusal over 40% of future discoveries. So far, Reliance Industries has explored just 4% of KG Basin D6. Analysts think there could be plenty more gas in the field and down India's east coast. Anil needs the gas for Reliance Power, his ambitious start-up electricity generation company, which is planning to build 32,000 megawatts of capacity by 2018 with an investment of about US$29 billion. Of this, nearly one-third will be fuelled by gas from the Mukesh-controlled KG Basin field.

The field could add US$20 billion to India's gross domestic product and cut its oil imports by 23%. In net present value terms, it could add US$59 billion in taxes and royalties to the government's already stretched coffers. Combined with the new Rajasthan fields of London-listed Cairn Energy, which will produce 175,000 barrels of oil per day, the KG Basin will partly satisfy India's *hunger for energy. But even more positive for the government is the fact that only a fraction of the KG Basin has been explored, suggesting there could be much more gas in the area. But the disagreement, episodically but unsuccessfully mediated to date by the Union government, also suggests that Delhi needs to tighten the regulatory structure to reduce the scope for disputes. such as those between the two Reliances.*

In a speech in Beijing in January 2008, Prime Minister Manmohan Singh, arguing that the Indian industrial sector had restructured sufficiently to become globally competitive, pointed to the success of the information technology, pharmaceutical and auto-component sectors as particularly competitive.[51] As of 2005, Indian firms spread their wings internationally to a much greater extent than they had earlier with such notable takeovers as that of Arcelor by Mittal, with other iconic (but not necessarily underpriced) acquisitions -- such as that of Jaguar and Rover by Tata Motors in 2008 -- following later.[52] Until the global financial and economic crisis of 2008 demonstrated that the notion of "de-coupling" between major economies had been a delusion, there seemed no limit to the ambition (and sometimes over-reach) of the Indian private sector as reflected in coverage by India's "pink" (financial) press, which came to embody the excesses of the "shining India" enthusiasms of the early 21st century.[53] India's ability to ride out the 2008-2009 global economic downturn while racking up growth rates of 6% demonstrated how resilient its domestic market and how robust its savings had become, in sharp contrast to Western economies.[54]

The face of Indian business has changed dramatically. Indian firms are no longer merely seekers of foreign technology, producers of indifferent goods or providers of low-end services. Their engagement with the world has acquired new dimensions. India has become the leading nation in software services – Tata Consultancy Services (TCS), Infosys and Wipro became acknowledged world brands (while the task of overcoming the wreckage of fraud at Satyam in late 2008 was managed skilfully by the Indian establishment), and Indian companies, as well as Indian professionals, are constantly seeking to move up the value chain.[55]

Several Indian oil companies are today part of the Fortune 500 list of top companies worldwide.[56] The Indian Oil and Natural Gas Corporation (ONGC) places first among the Indian corporations (ranked at 116).[57] India's leading state-owned oil firms own stakes in oil and gas fields in Sudan, Iraq, Libya, Egypt, Qatar, Ivory Coast, Australia, Vietnam, Myanmar and Russia.[58]

India's recent more wide-ranging engagement with the rest of the world is also striking: outward FDI by Indian firms, and the rise of Indian multinationals; India's prominence as a platform for R&D with global applications; the cultural influence of books, music and movies from India; and the role of Indian nationals in global corporations, particularly in the fields of science, technology and finance are now taken for granted -- but would not have been 20 years ago. These four aspects of globalized India extend well beyond the traditional notions of trade and capital flows. Moreover, during the last six or seven years, more than 150 major companies from the US and Europe have set up large research, design and development centres in India. They include big names such as Boeing, Daimler Chrysler, DuPont, General Electric, General Motors, Intel, IBM, Microsoft, Siemens and Unilever. Some of them employ thousands of professionals. These dimensions of India in the 21st century are a far cry from the dour and inward-looking global profile of India in the 1970s.

India also enjoys, almost uniquely, what many Indians think of as a tremendous demographic advantage as the only very large economy wherein the size of working population is expected to grow over the next 20 years (in sharp contrast with China).[59] However, whether this phenomenon turns into a demographic "boon," a demographic dividend, or "bomb" will depend very largely on whether India can radically improve public education at every level. Large numbers of unskilled or poorly educated Indians are unlikely to benefit the wider economy greatly in years ahead and could contribute to social instability.[60]

Largely unnoticed by the rest of the world, in a field where India's geo-strategic and economic interests coincide, successive Indian governments have been startlingly effective at developing a credible space program with the capacity for multiple satellite launches from a single rocket, missile and missile delivery systems and also, in 2008, a lunar probe, Chandrayaan 1, that launched successfully. The Indian Space Research Organization (ISRO) in 2009 operated the world's second largest fleet of remote sensing satellites after the USA.[61] These developments, slightly off-centre the broader "India Shining" narrative, confirm how effective Indian R & D can be, when adequately channeled and supported, and provides a hint of how critical for India's economy its science and technology and allied engineering sectors should remain in developing advanced national capabilities.

As the balance of economic and geo-strategic influence (even power) shifts relentlessly, if slowly, toward Asia, Indians have increasingly engaged with the idea of a world dominated by Indian and Chinese economic success.[62] But, while Western economic policy mistakes are undeniable, and US geo-strategic blunders following the events of 11 September 2001 are all too easy to document, uncertainties and fragilities abound in the outlook for both the Chinese and Indian economies.[63] Twenty years ago, nobody forecast the stagnation of Japan in the 1990s, and its continuing relative loss of clout ever since. Thus, while Asian economic successes, including that of South Korea and some of the ASEAN countries, have been tremendously impressive, the crystal ball for global economic handicapping in years beyond the immediate future remains cloudy.[64]

But India's economic future, underpinned by the successful (if incomplete) reforms of the 1990s, remains promising, and guarantees it the attention, and indeed the courtship, of the rest of the globe.

<u>IMPACT ON THE FOREIGN POLICY</u>:

Economic Imperatives Guiding Indian Foreign Policy

Guided by, on the one hand, economic deprivation and, on the other, inward looking development strategies, independent India early on was not in a position to harness its own potential nor to influence significantly international conditions favourable to its development and economic growth. Nevertheless, Indians, from Nehru on down, were in no doubt, given India's pre-colonial significance at a global level, that India could and should again become a great power. The primary task of independent India's foreign policy, therefore, in the short run, was to assist in the transformation of India's society and economy in a way that would strengthen the cohesion and viability of the nation, with an eye to developing strategic autonomy of choice, and thus, in the longer run, smoothing the path of its emergence as a major global actor.

Economic considerations played a pivotal role in shaping the nation's foreign policy. As emphasised by Nehru when he first articulated his vision of Indian foreign policy in a speech to the Constituent Assembly legislature in December 1947: "It is well for us to say that we stand for peace and freedom and yet that does not convey much to anybody, except a pious hope… What then do we stand for? Well, you have to develop this argument in the economic field."[65] He added, idealistically and altruistically, that India's foreign policy was shaped by its commitment to the development of all developing economies.[66] He had in mind the pursuit of an independent foreign policy that would maximise its overall freedom of manoeuvre. He understood that India's role in the world was likely to be achieved less by traditional balance of power politics or through strategic alliances and more by the rapid enhancement of its internal economic capabilities.

INDIA'S AID IMPERATIVE

The urgent need for resources and technology in the early stages of its economic development was a principal factor influencing the direction of Indian foreign policy. Nehru's emphasis was on industrialization, particularly the manufacturing of heavy machinery required to support India's steel, power, fertiliser and chemical industries.[67] In pursuit of the necessary financial and technical assistance to advance these plans, Nehru sought to maintain friendly relations with both superpowers (the USA and the USSR), while avoiding undue kowtowing to either.[68] Economic support in the form of capital and technology was obtained from the USA and the West mainly for the Indian private sector, while the Soviet Union generally extended assistance only to the public sector. Indeed, it was competition with the USSR that induced the World Bank and Western assistance programs to invest to a degree in India's public sector industries. Indian diplomacy worked hard to cultivate both Moscow and Washington (and, through Washington, the International Financial Institutions headquartered there). The policy of non-alignment that emerged during the 1950s facilitated the achievement of this objective, allowing Delhi mostly early on to maintain cordial relations with the two contending bloc leaders.[69]

But Nehru may have underestimated the extent to which his asymmetrical interpretation of the concept of non-alignment irritated several capitals in the West. He, in fact, forged much closer relations with Soviet Union, based on what he perceived as a broad convergence of interests. Moscow must have been delighted: a strategic relationship with India fit well into the Soviet world view focused on thwarting the geopolitical pretensions of both the USA and China, particularly in wider South Asia.[70]

The Soviet Union was the only major power to support India in developing independent capabilities in heavy industry and cutting-edge technologies. Formal cooperation between India and the Soviet Union began in 1960 when the two countries agreed on a program of military cooperation, and by 1965 the Soviet Union was the second largest bilateral contributor to India's development. The relationship culminated in August 1971 in a Treaty of Peace, Friendship, and Cooperation. Soviet power and capacities provided India with substantial economic, political, military and diplomatic support during much of the Cold War.[71] And this key bilateral relationship contributed to India's emergence as a significant industrial power.

Soviet aid was extended on the basis of long-term, government to government programs, which provided for generations of technical training for Indians, the supply of raw materials, the integration, where possible, of Indian components and other inputs, and also with markets for finished products. And these bilateral arrangements were made in non convertible national currencies, helping to conserve India's scarce foreign exchange. Thus, the Soviet contribution to Indian economic development was generally regarded by Indians as positive (although private-sector oriented Indians were alive to the pitfalls of a close economic and political relationship with the USSR). By the late 1970s, the Soviet Union was India's largest trading partner. But some Indians, as well as Western observers of the Indian scene, were critical of the effective gutting of India's earlier non-aligned stance, in spite of clear ideological contradictions between the Soviet model and Indian preferences.

Meanwhile, India tried to maintain friendly relations with the USA as well, although ties were increasingly strained over the decades by New Delhi's growing de *facto* alignment with Moscow. Washington contributed significantly, particularly through food aid (the PL 480 program) to the economic development of the Indian economy. By 1964, India depended heavily on aid from the US.[72] Americans had been much taken by Nehru's flair during his first official visit to the US in 1949 and continued to entertain a fascination for India. Those early years were marked by overall warm relations extended by the Kennedy Administration, which sent John Kenneth Galbraith as US Ambassador to India, whose arrival in Delhi was soon followed by a highly mediatic visit by Jackie Kennedy. And the positive dimensions of the relationship were critical in sustaining India psychologically at the time of the China-India border war of 1962.

But, as we have seen, the disappointing results of the Indian development model, generating only very limited exports, the huge costs of war with Pakistan in 1965 and a disastrous monsoon together contributed to foreign exchange exhaustion and encouraged the USA to adopt a “short-tether” policy of doling out food stocks sufficient only to meet requirements a few months at a time, and of explicitly tying the continuation of food aid to the adoption by India of policies aimed at increasing agricultural production and curbing population growth. (Washington adopted similar policies towards Pakistan at the time.) As a result, India devalued its currency in June 1966, despite major dissension in Cabinet and in the Congress Party. Washington resumed its aid programs ten days later.[73] Washington’s “tough love” approach to India was clearly dictated, at least in part, by irritation with New Delhi’s criticism of the US role in the Vietnam War, but India’s economic policies clearly played a central role as well – and this is often not fully appreciated in India.

INDIA'S OWN FOREIGN AID PROGRAM TODAY

Economic diplomacy has been a significant means of achieving broader foreign policy objectives in India. India has a longstanding foreign aid program, the Indian Technical and Economic Cooperation Programme, or ITEC, established in 1964. ITEC notionally covers 156 countries, together with the Special Commonwealth African Assistance Programme (SCAAP), both managed and run by the Economic Division of the Ministry of External Affairs (MEA). The Technical Cooperation program with its emphasis on capacity building, transfer of technology and sharing of the Indian developmental experience has become an important element of India’s interaction with countries in the developing world. Further, the Investment and Technology Promotion (ITP) Division in the MEA aims to project the image of India as an established economic power with attractive potential for investment and business. A new Energy Security Unit was established in the Ministry in September 2007 to support India’s international engagement through diplomatic interventions. The Unit supports the efforts of Indian private and state corporations, in acquiring energy assets overseas, in the transfer of new and emerging technologies to India and in building strategic partnerships with foreign companies.[74] The MEA also oversees the Indian Council of Cultural Relations, which provides assistance and programs to improve cultural ties, for instance through student and teacher exchange programs.
India has been providing substantial military and economic assistance within South Asia since independence. According to the MEA annual report, Aid to Bhutan accounts for 42.90 % of India’s total aid and loan budget. Other beneficiaries include Afghanistan – 25.47 %, Nepal – 5.87 %, Bangladesh – 3.52 %, African countries – 2.93 %, Sri Lanka – 1.64 %, Myanmar – 1.17 %, Maldives 1.14 %, and others – 14.09 %.”[75] One estimate for India’s development cooperation would place it between half a billion and one billion US dollars,[76] Based on the figures in table 1 below, the overall figure for 2008-2009 falls towards the lower end of the estimate, but considerable uncertainty surrounds the total amounts expended.

Outside India's immediate neighbourhood, Africa is the largest beneficiary of India's foreign aid and related commercial ventures. India has provided credit lines worth $200 million for the New Economic Partnership for Africa’s Development (NEPAD), $500 million to the Techno-Economic Approach for Africa-India Movement (TEAM-9) group of countries in West Africa, as well as bilateral lines of credit to Sudan and some other African countries. India has also made Lines of Credit available to many regional Banks in Africa.[77] “In general Exim Bank extends Lines of Credit to governments, parastatal organizations, commercial banks, financial institutions and to regional development banks to support the export of eligible goods on deferred payment terms. In total Exim Bank has 93 operative lines of credit amounting US$ 3,108 million in developing countries as of June 30, 2008.”[78]

Table 1 - Principal Destination of India's Aid and Loan Program (excluding lines of Credit)

(rupees 10 million)

Aid To Countries	2007-08	2008-09
Bhutan	731.00	1205.92
Bangladesh	60.00	6.00
Nepal	100.00	113.00
Sri Lanka	28.00	30.00
Maldives	19.50	504.70
Myanmar	20.00	35.00
Afghanistan	434.00	418.50
African Countries	50.00	95.00
Central Asia	20.00	18.82
Latin American Countries	1.53	2.00
Others	240.08	215.75

Source: Government of India, Ministry of External Affairs, Annual Report 2007-2008, p. 158 and Annual Report 2008-2009, p. 185.

“HINDU RATE OF GROWTH” AND THE EFFECTS OF CHANGE ELSEWHERE IN ASIA

Because the rate of economic growth in independent India was modest in early years, indeed barely higher than population growth, some authors and scholars have been tempted to cast scorn on Nehru's early, interventionist economic policies, focused on self-sufficiency in food and on industrial development. However, thanks to activist social policy underpinning public health and education programs, the results achieved compared favourably with the miserable returns on colonial rule for Indians that the British achieved prior to 1947. In just 40 years after independence, infant mortality was halved, life expectancy nearly doubled, and adult literacy almost tripled.

Even so, four decades of state-directed economic planning under Nehru and his immediate successors brought about decisively slower growth than in many other Asian countries, which led to rising unemployment and growing dependence on imported capital goods and technology. Compared with East Asia, India fared badly. Its share in world output and exports fell, and social indicators lagged far behind those of others. India's self-imposed isolation from the global trading order, consonant with its strategy of import-substituting industrialization discouraging foreign investment, accrued serious costs. Notably, the ensuing anaemic growth did little to alleviate rural and urban poverty at home.

During much of the 1980s, when southeast Asia and even China raced ahead through their steady integration into the global economy, India remained an economic laggard, its rate of growth barely exceeding 3.5% annually – the “Hindu rate of growth” to borrow the Indian economist Raj Krishna's evocative phrase. Thus, while India's leaders sought to address economic inequalities on a global scale, the outcomes of their domestic economic policies proved increasingly disappointing relative to those elsewhere in Asia.

At times, India's international stance stood in direct contradiction to its interests. For example, India vocally supported the efforts of the Organization of Petroleum Exporting Countries (OPEC) in the early 1970s to extract concessions from the industrialized North by dramatically raising the price of oil, but the price rises compounded India's acute energy needs. (In fact, of course, the ensuing global economic order proved to be even more inequitable for oil-poor developing countries such as India and particularly those of Africa.) Thus, ideology at the time trumped a pragmatic approach to alleviating India's economic plight.

By the end of the Nehru/Gandhi era, the doctrine of "control of the commanding heights of the economy" had produced the infamous "license raj" under which the deadening hand of the bureaucracy stifled much natural Indian entrepreneurship: by the latter half of 1980s, these policies had effectively strangled much of the private sector (some of which exiled itself, with great economic success, to South-East Asia) and had encouraged rampant corruption. Meanwhile, in broad terms, India stagnated and the value of the rupee relative to the US dollar declined by 40%.

At the same time, with pragmatism creeping into its foreign policy, India was able to play a more assertive and positive role internationally, perhaps encouraged by the success of the 1971 war with Pakistan that fractured its rival and gave birth to Bangladesh (which many Indians, with excessive optimism, assumed would, in gratitude, remain a loyal ally and compliant economic partner forever). Its bilateral diplomacy became more vigorous and creative, and India increasingly participated in Asian regional discussions, while redoubling its much admired participation in UN peacekeeping. Its strengthening military and its technological successes (not least its controversial nuclear test of 1974) imbued it with greater self-confidence.

But it was internal economic mismanagement rather than foreign policy considerations that forced its hand in introducing significant economic reforms as of 1991, yielding much enhanced economic growth, which provided India with the credibility and room for manoeuvre necessary to play a more central role on the international stage.[79] The simultaneous collapse of the Berlin Wall and of the Soviet Bloc also forced a re-balancing of India's positioning at the global level that turned out to be advantageous. India bade farewell to many of the more noxious aspects of socialism without fanfare or much regret (although growing inequalities in India continue to be widely deplored), while maintaining at least a strong rhetorical commitment to a large role for the state in combating poverty and regulating the economy.[80] Thus, the humiliation attending India's excessive external debt of the late 1980s and its balance of payments crisis of 1991 triggered corrective action that put India on a path from which it could hope to compete with China for economic leadership of the continent, thus, it was newly hoped by foreign policy experts, producing a greater degree of geo-strategic parity between the two powers.[81] Indeed, China's economic rise perhaps proved a more powerful spur to reform impulses within the Indian government than was apparent at the time.

By the turn of the millennium, India could display sufficient self-confidence to bid farewell to many of its smaller bilateral donors (while inviting the largest ones, including Japan, the European Union, Great Britain and the United States to continue with their programming, as did major multilateral donors such as the World Bank and the Asian Development Bank).[82] This decision was hotly debated within India and, in view of its negative impacts on individual communities and regions that had previously benefitted from foreign assistance, partly reversed after 2004. However, it is hard to argue that foreign assistance played a significant role in the country much after 1990, and easy to understand why some Indian politicians would feel uncomfortable as a "recipient" nation, at a time when India was emerging as a regional development assistance and reconstruction donor in its own right, with ambitious programs, for example, in Afghanistan.

Today, in spite of the still modest share of the external sector within India's economy, both its absolute weight and the emphasis placed today on economic factors in its foreign relations suggest that it may be worth reviewing how this shift has altered India's place on the global stage.

ECONOMIC TIES AND THEIR COROLLARIES WITH MAJOR INTERNATIONAL PARTNERS

US:

As outlined above, India's traditional relationship with the United States was marked by considerable development assistance dependency combined with frequent friction over regional and geo-strategic issues. With India's economic reforms, its growing success, the decreasing "pull" of its relationship with Moscow and a sense in the United States that it needed to cultivate new friends, the relationship, as of the mid-1990s, entered a new phase. On the one hand, the vast potential of India's growing market became clear to American business interests and to the US government. On the other, India's growing openness, vibrant democracy and increasing international credibility commended it as a more important partner for the USA at a time when Washington's ventures in Iraq and Afghanistan were generating distress and when American standing internationally was seriously undermined by the excesses of the "war against terror".

Box 4 -- Boeing Corporation's India Story

The signal improvement in US-India official relations since 1991, as well as the re-orientation of the Indian economy away from state control to private-sector led expansion already under way for some years before then is vividly illustrated by the Boeing Corporation's India story.

From the earliest days of the indigenous Indian commercial airline business, Boeing through its fore-runner, de Havilland, was associated with the country. J.R.D. Tata in 1932, having founded Tata Airlines (in 1946 translated into Air India), flew a de Havilland "Puss Moth" from Karachi to Ahmedabad. While early on mainly a client of McDonnell Douglas (now subsumed into Boeing) aircraft, in 1960, Air India took delivery of several Boeing 707 jet airliners, over the years expanding its Boeing fleet, eventually to include a number of 747s.

The next important phase in Boeing's relationship with India, constrained by the often touchy relations between the US and India, including sanctions following the 1974 and 1998 nuclear tests, developed from the emergence as of 1993 of India's private airlines, notably Jet and Kingfisher, as well as several low-price carriers that rapidly purchased in large quantities aircraft from both Boeing and Airbus. This, in turn, for competitive reasons, forced the Indian government to shore up failing Air India and its sister company Indian Airlines (mainly flying domestic routes) by providing the financing for them to renew their fleets. Boeing again benefited royally.

Thomas R. Pickering, one of the foremost US career ambassadors of his generation (notably to the United Nations and Russia), and Under-Secretary of State for Political Affairs 1997-2000, served as US Ambassador to India in 1992-93. At the time, he recalls US-India commercial relations in the aircraft sphere to have been limited by a number of factors, both political and economic.[1] *For military hardware, India could still rely on barter arrangements with the Russian Federation (although these would soon be shifted to a "cash and carry" basis). President Reagan had allowed some engine sales to India, but the subsequent commercial potential of the Indian market was as yet unanticipated by the USA.*

Upon his retirement from the US government, Pickering in January 2001 moved to Boeing as its Senior Vice-President, International Relations. From the outset he saw Russia, China and India as critical to Boeing's international prospects, not just as potential competitors but also as clients. Boeing had already sought out commercial partnerships with Indian information technology companies, and would, by late in the decade, set up a major maintenance and repair operation of its own in India. At first, Pickering recalls that the potential of India was a hard sell at Boeing corporate headquarters, but over time it developed into one of Boeing's largest non-Western markets.

Coinciding with the uptick in Indian commercial aircraft purchases as of 2000, the Indian government sought to renew the fleet of both the Indian Air Force and of the Indian Navy's air arm. Soon, India was in the market for 126 fighter aircraft, to replace its MIG fleet, and Boeing together with Indian partners, against avid interest from virtually all of its viable international competitors, has placed a bid on what is likely to prove the single largest such contract for several decades early this century.

Further, on the defence side, other types of aircraft are also being purchased by the Indian *military, including a several models of helicopter. The Indian navy recently decided to purchase a number of new P-8A naval patrol aircraft, the first purchaser after the US Navy. The aircraft is based on the Boeing civil 737 airframe.*

Dinesh Keskar, president of Boeing India, at the launch of Boeing's new technology centre in Bangalore, was quoted as stating that, on current orders, Boeing would be delivering 100 aircraft worth US $ 17 billion to India over the ensuing five years.[1] Meanwhile, Boeing was enlarging also its domestic footprint, for example in the India IT industry.

Further, overcoming problems created by the militarization of India's space program some years ago, the US and India in mid-2008 reached an agreement on space cooperation that creates considerable potential of interest to Boeing.

It is in light of all of these factors that US-Indian negotiations to resume nuclear cooperation (first under President Clinton, then, successfully under President Bush) may best be understood. For India, the negotiations held out the prospect of breaking India's nuclear isolation and eliminating its "pariah" status in this field, as well as offering prospects for improved energy supply. For the United States, the stakes also were geo-strategic, but perhaps even more so, economic and commercial.

Meanwhile, the United States corporate sector connected with India not only through its own market, but also by accessing for its global purposes India's information technology, business processing and "back office" capacities, eventually coming to encompass even legal services. In key sectors where liberalisation measures in India had yet to be introduced, many big Indian corporations struck alliances with US companies. In addition, in India, much of the urban upper middle class saw closer ties with the US as its own passport to greater personal prosperity in an increasingly globalised world. In many respects, the aspirations of individual Indians are very close to those of individual Americans, and this may explain why poll after poll has identified a positive appreciation of the USA among the Indian public, indeed the most positive of any Asian country.[83] As well, the upper echelons of India's bureaucratic and military elite, often featuring personal familiarity (frequently involving higher education) with the United States, increasingly supported closer ties, although significant resistance to the trend came from some academic, think-tank and political circles fearful of Indian submission to US aims.[84]

The success of the India-USA negotiations on nuclear cooperation in 2008 and the IAEA and the Nuclear Suppliers Group acceptance of the terms of this agreement, offered India both enhanced economic partnership and geo-strategic benefits not just in relations with the United States but also with the Russian Federation, the European Union and others. This period was a good one for the USA to announce the scaling back of its bilateral aid program in India, on the grounds that India's economic success had made it redundant in much of the country.[85]

Russia:

Although relations between India and the Russian Federation were never less than cordial following the collapse of the Soviet Union, India's growing international self-confidence and its intensifying ties with the USA introduced a more balanced tone (and the occasional note of mutual irritation) in the relationship with Moscow. The legacy of Soviet economic and military assistance remained an important one, but increasingly Moscow wished India to place the relationship on a strictly commercial footing, while India believed itself over-charged for some Russian military procurement. Notably, as estimates for the cost of a re-fit of the Russian aircraft carrier *Gorshkov*, which India had purchased, ballooned, India's navy complained pointedly and publicly.[86] Moscow stood on the side-lines of the India-US nuclear negotiations, holding in abeyance any active nuclear cooperation of its own until the IAEA and NSG decisions referred to above. But it had been careful to negotiate the provision of further nuclear reactors to India contingent on these developments (as had France). And, in a way that was doubtless reassuring for some Indian politicians and officials, in 2000, Russia signed a Strategic Partnership of Friendship and Peace with India at a time when US power seemed at its peak, providing India with a degree of counter-weight in its discussions with Washington. Today, the two capitals maintain a good understanding of each other's bilateral and geo-strategic concerns while retaining their autonomy of action and expanding their relations with other countries.[87]

Russia's position as an energy superpower - the world's largest gas producer and second-largest oil producer – automatically provides it with Delhi's attention in view of fragile Indian energy security. Moreover geo-strategically, Russia's once again increasing influence in Central Asia and its dominance over most pipeline routes originating in that region suggests that Delhi will take care to maintain friendly ties and economic-lifelines with the Russian Federation and its friends.[88] Indeed the emergence of the so-called Shanghai Group of Central Asian players, including China and Russia, but not the Indian government, was viewed by Indian analysts with some disquiet.[89] Prime Minister Singh attended the SCO summit of June 2009 (and a Summit of the BRIC countries scheduled to coincide with it) in Russia, perhaps to underscore the versatility of Indian diplomacy and the many options it continues to have at its disposal.

China:

After balmy days during most of the 1950s, India's relationship with Beijing deteriorated sharply in the early 1960s, culminating in the 1962 border war the outcome of which shocked India. Nevertheless, as China emerged from its Maoist hermeticism and its economic reforms started to bear fruit in the 1980s, India understood it could not afford to ignore China's economic renaissance and the implications thereof for China's geo-strategic standing.

India has engaged with China more successfully in the sphere of economic relations than on political and security issues, on which India remains somewhat defensive and on which, as C. Raja Mohan notes, the rise of both countries is likely to lead them to "rub up against each other" occasionally while simultaneously seeking to manage their differences.[90]

Trade between the two countries has been expanding exceptionally fast since the late 1990s, indeed by as much as 33% in 2008, to nearly $52 billion.[91] Indian investment in China has been welcomed and, although India continues to restrict Chinese investment in a broad range of sectors deemed sensitive from a security perspective, investment flows, while still very modest, are increasing in both directions.[92] The growing economic connections, although not yet leading to meaningful interdependence, make future bilateral strains more likely to be managed "down" rather than escalated into full-blown rows. Further, both countries are aware, given their populations and economic weight, that their economic and other ties are critical for the future of Asia and the rest of the world. The prospect of a more cooperative relationship between China and India has significant global implications, given their vast economic potential – and their voracious appetite for energy and other natural resources. In pursuing closer ties, each country is clearly eager to capitalize on the other's economic strengths -- manufacturing and computer hardware in China, services and software in India.

In 2005, India and China announced a new "strategic partnership", pledging to resolve long-standing border disputes and boost trade and economic cooperation between two countries. As a goodwill gesture, China formally abandoned its claim to the tiny Himalayan province of Sikkim, presenting Indian officials with a map showing the area as part of India. While progress on other border issues can be expected to wax and wane and concrete progress may prove elusive, such differences can be dwarfed eventually by a more comprehensive economic relationship (as is the case, for example, between Canada and the USA which have learned to handle a wide range of bilateral irritants and trade disputes in the interests of a vital economic relationship for both.

West Asia:

While India's economic relations with the greater Middle East (commonly referred to in India as West Asia, and sometimes deemed to include northern Africa and the independent republics of Central Asia and the Caucasus) have increased and diversified since the 1990s. India has needed to deal with shifting sands (not least in Iraq and Iran) in circumstances of considerable Indian dependency on the Persian Gulf countries for oil supplies. Likewise, oil and gas rich Central Asia is of interest to India primarily in terms of these and other natural resources. India has adapted with great flexibility to various upheavals in the Middle East, introducing a strong economic relationship with Israel (mainly in the area of military procurement) into the mix as of the early 1990s.

In spite of strong ties with Pakistan reinforced by a shared Muslim faith, many Arab countries and Iran have cultivated their ties with India, understanding its systemic importance and appreciating the steady nature of its engagement with them. For India, the Persian Gulf is of great significance as the destination for much Indian migrant labour from Kerala and other states. The resulting remittances are of critical importance to some local economies in India, and the 2008-2010 economic downturns in Dubai and elsewhere in the Gulf was keenly felt for those reasons in Kerala and elsewhere in India. As well, India, always keen on multiplying its options, has looked to the Gulf countries as an attractive source of investment flows.[93] Taken together, these factors have made the Gulf hub of Dubai a symbiotic partner for Mumbai in its role as India's principal financial centre, with Indian nationals playing important roles in a variety of Gulf financial institutions. All in all, India's diplomacy in West Asia, rooted in India's economic interests and buttressed by civilizational links, has been deft, in very challenging circumstances.

East and South Asia:

Economic success in much of East and South-East Asia has been a spur for greater Indian engagement, although an over-riding objective has been to protect its own security in its immediate neighbourhood of South Asia.[94]

Growing liberalization and economic growth in India, while likely positively influencing related trends in Pakistan and Bangladesh, has not led to a more economically-oriented Indian diplomacy in the area (with the exception of Bhutan, from which India derives significant hydro-electrical resources). The South Asian regional cooperation forum, SAARC, remains largely inert, with few convincing economic achievements, whereas growing economic prosperity and integration in the region might serve to promote India's security. Unfortunately, other than a useful Free Trade Agreement with Sri Lanka and greater physical connectivity within the region, Indian policy has displayed neither imagination nor much energy in promoting economic ties within the South Asian sub-region, with the result that South Asia stands as one of the least integrated regions in the world.

On the other hand, building on a Free Trade agreement with Singapore, India has been engaging more systematically and productively with the countries of South-East Asia (and with their regional organization, ASEAN).[95] And, beyond China, economic ties with South Korea and Japan, while still well below potential, are valued in India and their importance is increasing. India's "Look East" policy launched in 1992 is built on economic rather than primarily geo-strategic imperatives. [96]

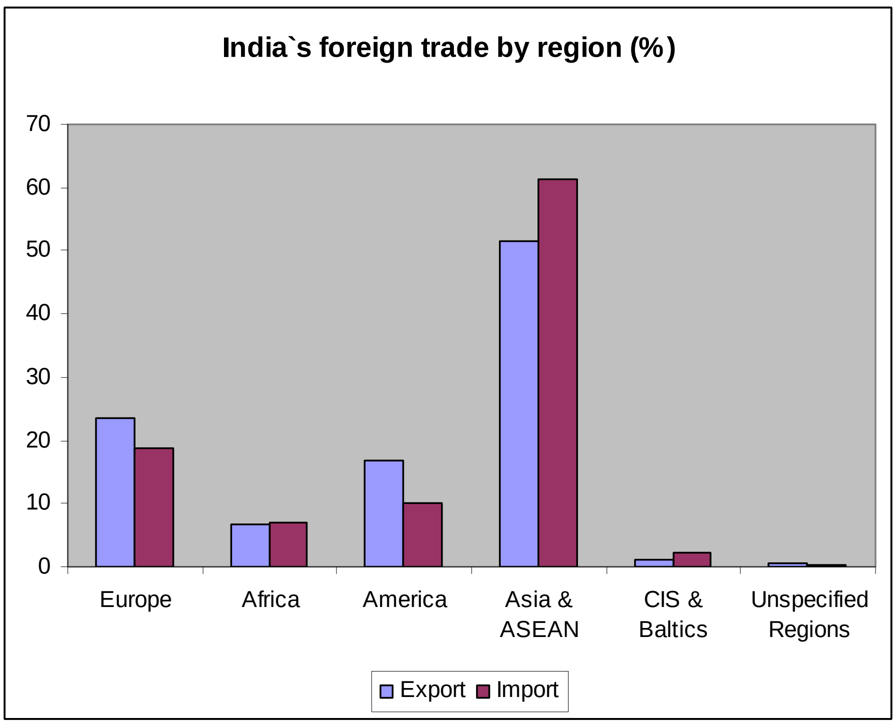
Western Europe:

Europe, which has not played a major role in India's world view since the colonial era, is nevertheless a major trading and economic partner for India (see graph below). Britain, Germany and France are taken seriously as political, economic and, to a degree, military powers, but the pretensions of the European Union puzzle Indian policy-makers at a time when European disunity is more often on display than commonality of perspective and purpose. Indeed, India's reservations over the role of the European Commission and the European Council in international relations are such that leading European Union figures, such as foreign policy supremo Javier

Solana, rarely interact with Indian opposite numbers. India's view of Europe holds up a mirror to European aspirations and suggests that rhetoric goes only so far when undermined by competition among the major member states for India's favour and contracts.

Indeed, of all of India's potentially significant partners, Europe is the one that today seems to underperform the most. European companies have been bold in moving into India since liberalization, and have often performed very well. But beyond luxury industries, and as a tourist destination for an increasingly footloose Indian upper middle class, Europe has decisively failed to capture India's imagination (as opposed, notably, to the United States), Europe is the rare case in which very meaningful economic relationships have not translated into a major place in India's geo-strategic outlook. For Britain, as India's former colonial master, this reality must be somewhat distressing. For France and Germany, it must also be perplexing. It is perhaps the countries of Europe, and others such as Canada, that most come face to face with the implications of India's rise: in relative terms, others shrink. The absence of a genuine European Union with a cohesive and credible foreign policy, individual European capitals are bound to count for less in Delhi even if bilateral economic ties prosper (as the chart below suggests they do).

Figure 1



(Data Source: http://commerce.nic.in/ftpa/rgnq.asp).

EMERGING ISSUES / FUTURE CHALLENGES

Indians have naturally been very taken with the narrative of Western decline and the rise of Asia promoted by Kishore Mahbubani and others.[97] The "Shining India" story was premised largely on assumptions of uninterrupted Indian growth and development, unconnected to wider patterns of international economic performance. The global financial and economic crisis of 2008-2010, throughout which India continued to grow economically albeit at lower rates, put paid to these fantasies, but should not obscure India's assets in the sphere of international economic competition. Its Central Bank managed India's financial institutions prudently, and India's liberalization and gradual opening to global markets was a relative rather than an absolute process. These factors served it well at a time of global economic downturn. As well, its internal market remained buoyant, with savings and the potential for investment remaining high.

Thus, whether or not, as pundits and forecasters were wont to predict early in the millennium, India and China will displace the West as "action central" for the global economy, Indian economic progress is likely to continue, and could do so at a very brisk pace if future Indian governments tackle more effectively the challenges of weak public education and health service delivery and of inadequate national infrastructure.[98] Forecasting firms and specialists tend to advance exciting but questionable projections 25-40 years into the future - for example, that on current trends, by 2025, India's economy can be expected to amount to about 60% the size of that of the USA. One reason statisticians and economists tend to be optimistic for India relates to its demographics, but these are changing fast, so while India can count on a youthful and growing population for some years, the picture could look quite different by 2050.[99] The recent economic and financial crisis makes clear how chancy detailed long-term projections can be, but the trend-lines for India remain very hopeful.[100]

Nevertheless, it is doubtless worth citing here projections from Goldman Sachs (an economist and strategic commentator of which, Jim O'Neill also coined the BRIC grouping) for growth of the BRIC countries through 2050, which make clear how dominant a factor economic growth is likely to be at the global level over the next forty years – even if the figures turn out to be overoptimistic (and the figures for China turn out to be over-conservative).[101]

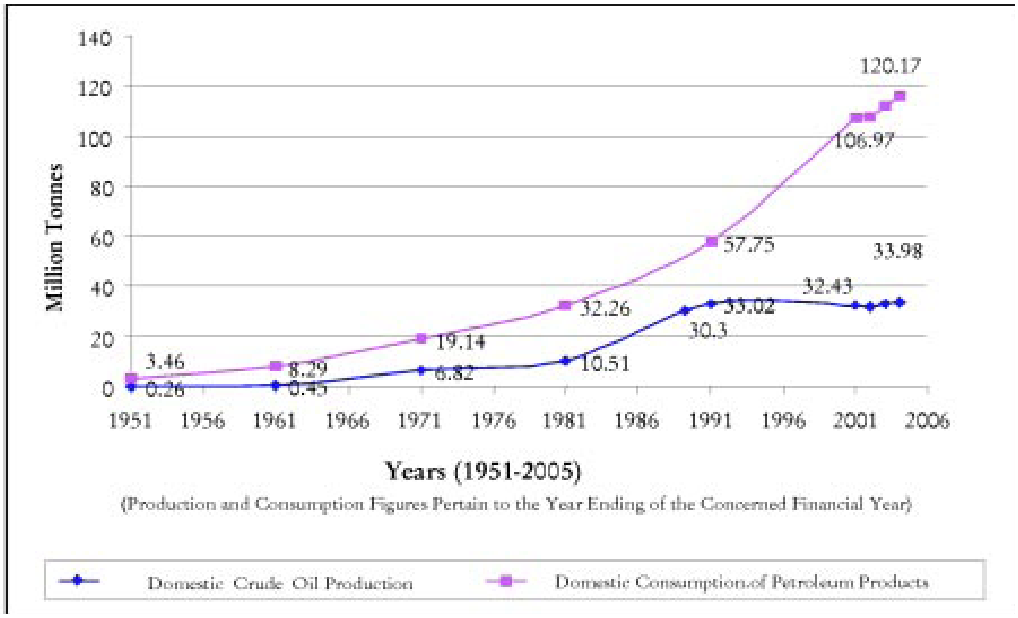
Table 2 -- BRICs Real GDP Growth: 5-Yr Period Averages

%	**Brazil**	**China**	**India**	**Russia**
2000-2005	2.7	8.0	5.3	5.9
2005-2010	4.2	7.2	6.1	4.8
2010-2015	4.1	5.9	5.9	3.8
2015-2020	3.8	5.0	5.7	3.4
2020-2025	3.7	4.6	5.7	3.4
2025-2030	3.8	4.1	5.9	3.5
2030-2035	3.9	3.9	6.1	3.1
2035-2040	3.8	3.9	6.0	2.6
2949-2045	3.6	3.5	5.6	2.2
2045-2050	3.4	2.9	5.2	1.9

Source: Dominic Wilson and Roopa Purushothaman, "Dreaming With BRICs: The Path to 2050", *Goldman Sachs Global Economics Paper No. 99*, October 1, 2003, available at *www2.goldmansachs.com/ideas/brics/book/99-dreaming.pdf.*

One obvious implication of these projections is that India's need for natural resources, including those required to produce energy, can only increase sharply, barring unforeseen changes in energy technologies. Another is that the environmental implications of Indian growth, unless carefully managed, could blight the country's future and affect the rest of the global. Some studies indicate that while China's demand for oil could peak earlier than we might expect, India may experience rising demand for imported oil and gas for some time (even taking into account expanded internal production).[102] At the same time, as Figure 2 indicates, India's domestic ability to produce oil has reached a plateau.[103]

Figure 2 -- India's Domestic Oil Consumption vs. Domestic Production



Internationally, the economic challenges facing Indian foreign policy are many. To list a few: energy and food security and the unpredictable economic consequences of potential instability in the Middle East. Indians are much preoccupied by China's accelerated economic growth, outstripping their own, which provides China with greater means to support its geo-strategic aspirations than India can devote to its own. This has led to fears of Chinese encirclement, most often focused on anxieties about China's purported "string of pearls" strategy involving naval and air facilities in India's immediate Indian Ocean neighbourhood.[104] Domestically, its challenges include inter-regional and urban-rural disparities; a languishing agricultural sector, infrastructure grossly inadequate to the needs of a rapidly growing economic power and a lack of skilled manpower due to disappointing education opportunities and misaligned training.[105] Failing public service delivery is at the root of slow progress in tackling a number of social challenges, such as illiteracy, malnutrition and gender inequality.[106] In addition, although it has been declining in relative terms, acute poverty continues to be an overwhelming drag on India, afflicting hundreds of millions.[107] And the local consequences of global warming and climate change, not least in terms of its challenges for water management, are rightly beginning to worry thoughtful Indians seriously.

Nevertheless, it is India's sharply positive economic performance since the mid-1990s that has shifted international perceptions of its potential and that has fuelled acceptance of its rise on the global stage. And it is these perceptions that create greater opportunity for India in redefining and advancing a foreign policy for a new era, one more strongly marked by Asia than has been the case for many centuries.

India's bilateral diplomacy has mostly been deft beyond its own immediate neighbourhood, and even in the latter is has been improving, However, as India both struggles with and achieves significant economic growth, albeit in ways that have reduced poverty too slowly, its multilateral policy (for example, on non-proliferation and climate change) has too often been marked by a sense of defiance against an admittedly skewed international economic and political order. India's frustrations are understandable, but its response has been disappointing. It has sought to forge negotiating alliances with other key emerging states but has been dropped or sidelines by them and has thus been isolated on key issues, for example by China in CTBT negotiations in 1996, Brazil at a key moment in the WTO Doha Round in 2008 and again by China on Climate

Change in late 2009 when President Hu Jintao created a very positive impression globally with a speech to the UN General Assembly that offered domestic goals to contain emissions growth. More creativity and calculated risk-taking would doubtless yield better results for Delhi as it moves centre-stage internationally. Indeed, until it demonstrates more systematically a willingness and ability to help manage collectively major global challenges (as Prime Minister Singh and his economic advisors did, gaining considerable credit, in the G-20 during the 2008-2009 economic crisis) it is unlikely to succeed in its campaign to obtain a permanent seat in the UN Security Council, where China is well placed to deny its aspirations in the absence of very strong support from elsewhere.

Thus, India's economy provides an opportunity for new beginnings in Indian foreign policy, building on existing strengths. Given India's new international importance, its friends and admirers all hope it will rise to the challenge.

Notes

[1] I am deeply grateful to Ms. Tejdeep Kaur for early research assistance relative to this text.

[2] See Rohan Mukherjee and David M. Malone, "Polity, Security and Foreign Policy in Contemporary India" in T. V. Paul (Ed.), *South Asia's Weak States: Understanding the Regional Insecurity Predicament*, Palo Alto, CA: Stanford University Press, Forthcoming, 2010.

[3] See Angus Maddison, *The World Economy: Historical Statistics*, Paris: OECD Publishing, 2003.

[4] Holden Furber, *John Company at Work: A Study of European Expansion in India in the Late Eighteenth Century*, Cambridge: Harvard University Press, 1948, p. 309-310. See also F.S. Gaastra, "British Capital for the VOC in Bengal," in Prakash, Om and Lombard, Denys (eds.), *Commerce and Culture in the Bay of Bengal 1500-1800,* Delhi: Manohar Publications, 1999.

[5] Rajat Kanta Ray, "Indian Society and the Establishment of British Supremacy, 1765-1818" in Louis, William Roger et al. (eds.), *The Oxford History of the British Empire: The Eighteenth Century*, Oxford: Oxford University Press, 2001, p. 514.

[6] For example, the cost of British staff was raised by long home leave in the UK, early retirement and lavish amenities in the form of subsidized housing, utilities, rest houses, etc.

[7] For more detail, see Chapter 3 ("The Economic and Social Impact of Colonial Rule in India") in Angus Maddison, *Class Structure and Economic Growth: India & Pakistan since the Moghuls*, Oxon: Routledge, 1971.

[8] Tirthankar Roy, *The Economic History of India, 1857-1947*, Delhi: Oxford University Press, 2000, p. 1.

[9] P. Sainath, "The Raj and the famines of good governance," *The Hindu***,** Aug 16, 2005.

[10] S. Mahendra Dev, "Agriculture and Rural Development: Policy Issues for Growth and Equity" in Manmohan Malhoutra ed. *India: The Next Decade*, New Delhi: Academic Foundation, 2006, p. 205. Also see *G*.S. Bhalla, *Indian Agriculture Since Independence*, New Delhi: National Book Trust, 2007.

[11] Quoted in Sanjay Baru, *Strategic Consequences of India's Economic Performance*, New Delhi: Academic Foundation, 2006, p.58.

[12] For about four decades after India's independence, foreign trade of India suffered from strict bureaucratic and discretionary controls. Similarly, foreign exchange transactions were tightly controlled by the Government and the Reserve Bank of India. From 1947 till the mid-1990s, India, with some exceptions, always registered a deficit in its balance of payments, i.e. imports always exceeded exports. This was characteristic of a developing country struggling for modernisation of its economy. Imports galloped ahead because of increasing requirements for capital goods, defence equipment, petroleum products and raw materials. Exports remained relatively sluggish owing to the lack of exportable surpluses, competition in the international market, inflation at home and increasing protectionist policies of the developed countries. For more details see Vibha Mathur, *Foreign Trade of India 1947-2007: Trends Policies and Prospects*, New Delhi: New Century Publications, 2006.

[13] Sanjaya Baru, "Self-Reliance to Dependence in Indian Economic Development," *Social Scientist*, Vol. 11, No. 11 (Nov. 1983), pp. 34-46.

[14] One apparent anachronism in India today is the continuation of five-year economic plans that serve as a framework for discretionary resource allocation at the Union level and also between New Delhi and the states. Ironically, by the 1990s, the Planning Commission of the Indian government had evolved into a champion of reform, and has mostly remained a positive actor in the management of India's economy, although the achievement of further necessary reforms should eventually achieve the task of making it altogether redundant.

[15] Jerome B. Cohen, "Problems of Economic Development in India," *Economic Development and Cultural Change*, Vol. 1, No. 2, 1953, pp.196-208.

[16] Jawaharlal Nehru, the first prime minister, a scientist and founder of the Indian Statistical Institute, conceived of and oversaw economic policy of a hybrid nature, involving both state-directed and private-sector efforts.

[17] Arvind Virmani, "The Dynamics of Competition: Phasing of Domestic and External Liberalisation in India," New Delhi: Planning Commission of India, Working Paper No. 4/2006-PC, pp.6-7.

[18] James Heitzman and Robert L. Worden (eds.), *India: A Country Study*. Washington: GPO for the Library of Congress, 1995. Government of India, Ministry of Finance, *Annual Report 1994-95*, New Delhi, 1994. Government of India, Planning Commission, *Ninth Five Year Plan*, Vol.1, New Delhi: Yojana Bhavan, 1992.

[19] Paul Hallwood, "The Impact of Foreign Aid Upon India's International Trade 1951-65," *Bulletin of Economic Research*, Vol. 25, Issue 2, 1973, pp. 129-145.

[20] See generally Jagdish Bhagwati, "*The Tying of Aid."* In J Bhagwati and R. S. Eckaus (eds.), *Foreign Aid*, Harmondsworth: Penguin, 1970.

[21] Robert Cassen & Associates, *Does Aid Work? Report to an Intergovernmental Task Force*, Oxford: Clarendon Press, 1986, p. 28.

[22] See *Praveen* K.,*Chaudry*, Vijay L. *Kelkar,* and Vikash *Yadav*, "The Evolution of Homegrown Conditionality in *India*: *IMF* Relations," *Journal of Development Studies*, Vol.40, no.6, August 2004, pp. 59-81.

[23] Defence spending in 1965/1966, of around 24.06% of total expenditure, was the highest in the period from 1965 to 1989. See Uma Kapila (ed.*), Indian Economy Since Independence*, New Delhi: Academic Foundations, 2001, p.195.

[24] Robert Cassen & Associates, *Does Aid Work? Report to an Intergovernmental Task Force*, Oxford: Clarendon Press, 1986, p.88.

[25] Devika Johri, and Mark Miller "*Devaluation of the Rupee: Tale of Two years, 1966 and 1991."* Centre for Civil Society, p.86, available at www.ccsindia.org/policy/money/studies/wp0028. See also Surendra K. Kaushik, "India's Evolving Economic Model: A Perspective on Economic and Financial Reforms," *.American Journal of Economics and Sociology*, Vol. 56, no.1, 1997, pp. 69-84.

[26] Ashok Gulati, "Trade Liberalization and Food Security" in Anwarul Hoda (ed.), *WTO Agreement & Indian Agriculture*, New Delhi: Social Science Press, 2002, pp.39-40. Also see Gurcharan Das, *India Unbound: From Independence to the Global information Age*, New Delhi: Penguin Books India, 2000.

[27] I owe to R.K. Pachauri the information that work on seeds by Indian scientists had started as early as the 1930s: "The whole approach for high yielding hybrid seeds was pioneered by Dr. B.P. Pal who was the first Indian to become Director of the Imperial (later Indian) Agricultural Research Institute (IARI) in Pusa and then the first Director General of the Indian Council of Agricultural Research (ICAR). In fact, Dr. Pal conceptualized the project of using high yielding hybrid seeds as early as 1937 when he published a paper called 'The search for new genes. *Agriculture and livestock*. 7(5): 573-578.'" Correspondence with the author.

[28] See "The Green Revolution," available at http://www.edugreen.teri.res.in/explore/bio/green.htm.
See also David M. Malone, "India: Challenges in Agriculture," *The Hindu*, 7 February 2009.

[29] See Ashok Bhargava, "Indian Economy during Mrs. Gandhi's Regime," in *Yogendra K.* Malik, and Dhirendra K. Vajpeyi (eds.), *India: The Years of Indira Gandhi*, Leiden: E J Brill, 1988, pp.42-59.

[30] The rallying cry of *Garibi Hatao*, was sufficiently effective and compelling that Sonia Gandhi revived it at times over 30 years later in the run-up to and during the years of the Congress Party-led UPA coalition government, notably in 2004-9.

[31] Kangayappan, Kumar, "Some Policy Issues on Mitigating Poverty In India." *Land Economics*, Vol. 49, no.1, 1973, pp. 76-81.

[32] For a useful outline of India's approach to Science and Technology Development, see a commencement address in 2003 by Dr. RA Mashelkar, then Director General of India's Council of Scientific and Industrial Research, available at http://www.scribd.com/doc/9626774/positivism-by-R-Mashelkar

[33] See a brief, incisive and authoritative article by author and prominent newspaper editor Inder Malhotra, a biographer of Indira Gandhi, for the BBC, "Indira Gandhi's Legacy," October 28, 2004, available at http://news.bbc.co.uk/2/hi/south_asia/3960877.stm.

[34] John Williamson and Roberto Zagha, "From the Hindu Rate of Growth to the Hindu Rate of Reform,*" SCID Working Paper 144*, The Stanford Centre for International Development, Stanford University, 2002, available at http://scid.stanford.edu/publicationsprofile/1359.

[35] Inaugural Address at the 55th Annual Conference of the Indian Society of Agricultural Economics by Montek Singh Ahluwalia, "New Economic Policy and Agriculture: Some Reflections," available at http://planningcommission.gov.in/aboutus/speech/spemsa/msa014.doc.

[36] Government of India, Ministry of Finance, *Economic Survey 1991-92, Part II Sectoral Developments*, New Delhi: Govt. of India Press, 1992, p.13.

[37] Shyam J. Kamath, "Foreign Aid and India: Financing the Leviathan State," Washington, DC: Cato Institute, May 1992, available at http://www.cato.org/pubs/pas/pa-170.html**.**

[38] Many useful details on the process of change and the reforms introduced over the last ten years are provided in the Ministry of Finance Annual Economic Surveys, and the RBI Annual Reports on Currency and Finance.

[39] "As noted earlier, tariff rates in India had been raised substantially during 1980s to turn quota rents into tariff revenue. This is evidenced by the fact that tariff revenue as a proportion of imports went up from 20% in 1980-81 to 44% in 1989-90 (Government of India 1993). In 1990-91, the highest tariff rate stood at 355%, and the average of all tariff rates at 113%. With the removal of licensing, these high tariff rates became effective restrictions on imports. See Arvind Panagariya, "India's Trade Reform: Progress, Impact and Future Strategy," *International Trade*, March 2004, available at http://ideas.repec.org/p/wpa/wuwpit/0403004.html.

[40] Valerie Cerra and Sweta C. Saxena, "What Caused the 1991 Currency Crisis in India*?,"* IMF Staff Papers, Vol.49, No.3, pp. 395-425, 2002, available at www.imf.org/external/pubs/ft/staffp/2002/03/pdf/cerra.pdf.

[41] See generally Leela Fernandes, *India's New Middle Class: Democratic Politics in an Era of Economic Reform*, New Jersey: University of Minnesota Press, 2006. According to one estimate, in 2007, the middle class numbered some 50 million people, but by 2025 should have expanded dramatically to 583 million people -- some 41% of the population. S ee Diana Farrell and Eric Beinhocker, "Next Big Spenders: India's Middle Class," May 19, 2007, available at http://www.mckinsey.com/mgi/mginews/bigspenders.asp .

[42] See Cerra, Valerie and Saxena, Sweta C., "What Caused the 1991 Currency Crisis in India*?"* IMF Staff Papers, Vol.49, No.3, 2002, pp.395-425, available at www.imf.org/external/pubs/ft/staffp/2002/03/pdf/cerra.pdf: "The share of Japan declined from 10.3% in 1987-88% to 3.4% in 2001-02. The share of Russia declined from 12.5% to a paltry 1.8% over the same period. The share of developing countries as a whole grew from 14.2 to 30.9% with each region -- Asia, Africa and Latin America -- absorbing a larger share of India's total exports. The share of developing Asia rose from 11.9% to 23.6%. The United States has remained a steady trading partner of India accounting for approximately one fifth of India's merchandise exports throughout the period."

[43] The authors are grateful to Joe Leahy of the *Financial Times* for prompting some of this box further to an entertaining box of his own on July 31, 2009 accompanying the article "Troublesome Trophy," co-authored by John Reed on Tata's purchase of Jaguar Land Rover.

[44] See "Indian Investments Abroad" available at http://www.ibef.org/economy/indianinvestmentsabroad.aspx.

[45] India's merchandise trade share in total world exports is 1.04% and commercial services trade's share in world total exports is 2.73%. See *WTO Trade Profile*, Geneva: World Trade Organization, *2008*, p. 81.

[46] Press Release, Government of India, Department of Commerce & Industry, "Kamal Nath says India remains fastest growing economies in the World," Feb 12, 2009 available at http://commerce.nic.in/pressrelease/pressrelease_detail.asp?id=2384. BRIC, an acronym that refers to the fast-growing developing economies of Brazil, Russia, India and China, was first coined by Goldman Sachs. For some much-cited BRIC projections from Goldman Sachs, see http://www2.goldmansachs.com/ideas/brics/index.html. The Gulf Cooperation Council (GCC) was established on May 25, 1981 to promote stability and economic cooperation among Persian Gulf nations, specifically Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates.

[47] "Some Perspectives on the Indian Economy," Address by Y.V. Reddy, Governor, Reserve Bank of India, at the Peterson Institute for International. Economics, Washington D.C., USA on October 17, 2007, available at http://rbidocs.rbi.org.in/rdocs/Bulletin/PDFs/81163.pdf.

[48] Ibid

[49] See Surendra K. Kaushik, "India's Evolving Economic Model: A Perspective on Economic and Financial Reforms," *American Journal of Economics and Sociology*, Vol. 56, no.1, 1997, pp.69-84.

[50] These paragraphs draw heavily on Joe Leahy's, "Brotherly Shove," *The Financial Times*, August 12, 2009.

[51] "India and China in the 21st Century," Speech by Prime Minister Manmohan Singh,at the Chinese Academy of Social Sciences, Beijing, on January 15, 2008, available at http://www.indianembassy.org.cn/Press/20080116_3.html.

[52] An excellent account of recent Indian FDI trends can be found in Jean-François Huchet and Joël Ruet, "Chinese and Indian Multinationals Out to Conquer the World," *The Emerging States: The Wellspring of a New World Order*, Christophe Jaffrelot (ed.), London: Hurst and Company, 2008, pp. 186-196.

[53] Enthusiasm over the potential of India's private sector is shared outside the country, See Fareed Zakaria, *The Post-American World*, New York, NY: Norton, 2008, particularly pp. 129-166.

[54] For a detailed analysis of the impact of the global financial crisis on India's economy see Sanjaya Baru, "India: Rising Through the Slowdown" in Asley J. Tellis, Andrew Marble, and Travis Tanner (eds.), *Strategic Asia 2009 -10: Economic Meltdown and Geopolitical Stability*, Seattle: The National Bureau of Asian Research, 2009, pp. 198-230.

[55] "India and Globalisation," Speech by P. Chidambaram, Indian Minister of Finance, London, UK, February 3, 2005.

[56] For the 2008 compilation, see http://money.cnn.com/magazines/fortune/global500/2008/.

[57] See BRICs WWF-India Survey by Saqib, Mohammed, Sehgal, Rajesh, and Pamlin, Dennis, *Indian Companies in the 21st Century: An Opportunity for Innovations that can Save Planet*, available at http://www.wwf.se/source.php/1158890/indian_companies_in_the_21st_century.pdf. ONGC and its subsidiaries have established operations in the Caspian Sea and Persian Gulf regions, thereby expanding onto the global stage.

[58] http://www.ibef.org/industry/oilandgas.aspx. At least 100 Indian companies have invested more than US $2.5 bn in Sudan, led by ONGC Videsh (a public sector company), which built a 700 km pipeline project in the country. For more information on Indian international energy sector investments, see Vibha Mathur, *Foreign Trade of India 1947-2007: Trends Policies and Prospects*, New Delhi: New Century Publications, 2006.

[59] Nandan Nilekani, co-founder of INFOSYS, frequently argued that Indian demographics are a singular advantage for the country over the next 20-40 years. See Nandan Nilekani, *Imagining India: the Idea of a Renewed Nation*, New York, NY: Penguin, 2009, notably pp. 45-54.

[60] India's Knowledge Commission established in 2005, ably chaired by Sam Pitroda and with impressive membership, including Nandan Nilekani, made a number of useful recommendations on education reforms required in India in recent years. See www.knowledgecommission.gov.in. Two of its prominent members, Andre Beteille and Pratap Bhanu Mehta, resigned in protest in 2006 over the Indian government's decision to expand "reservations" (quotas, generally caste-based) rather than engage more creatively with notions of affirmative action in centrally-funded Indian higher education institutions.

[61] Ramesh Thakur, a keen observer of developments on the Indian scene, cited these and other S & T achievements of India in a lecture he delivered at the International Development Research Centre on February 5, 2009 making a strong case for India's too often under-estimated R & D prowess and its significance for the country's future.

[62] Kishore Mahbubani's engaging *The New Asian Hemisphere: The Irresistible Shift of Global Power to the East* (New York: Public Books, 2008) was very well received in India, perhaps too uncritically in fact. One might expect theories on the irresistible rise of Asia to be questioned more widely in a country where nearly everything is questioned. See also generally B.M. Jain, *Global power: India's foreign policy, 1947-2006*, New Delhi: Lexington Books, 2008, and Shamsi Nayyar, *India: A Global Power*, New Delhi: Anmol Publications Pvt. Ltd, 2004.

[63] "Indian Economy Overview," *Economy Watch*, available at www.economywatch.com/indianeconomy/

[64] The instability in Thailand after 2005 demonstrates the extent to which nascent economic success can be derailed by political unrest. Argentina after the 1930s is the most striking case of a "first world" economy that managed to decline precipitously over many decades due to dysfunctional politics. Narratives of Asia's assured, uninterrupted rise are thus more hopeful than fully convincing. But the continued relative decline of Western economic performance seems, for structural and other reasons, a more likely prospect.

[65] "Indian foreign policy has had a basic consensus," Address by the Prime Minister Manmohan Singh on February 15, 2006, available at http://www.rediff.com/news/2006/feb/15guest1.htm.

[66] Prime Minister Manmohan Singh speech at the India Today Conclave in New Delhi on February 25, 2005, available at http://pmindia.nic.in/speech/content.asp?id=78.

[67] S. Venkitaramanan, "The Rediscovery of Jawaharlal Nehru," *The Hindu Business Line*, 10 December 2007, available at http://www.thehindubusinessline.com/2007/12/10/stories/2007121050690900.htm.

[68] See Kaushik, Surendra K., "India's Evolving Economic Model: A Perspective on Economic and Financial Reforms," *American Journal of Economics and Sociology*, Vol. 56, no.1, 1997, pp.69-84.

[69] See generally Jayantanuja Bandyopadhyaya, *The Making of India's Foreign Policy*, New Delhi: Allied, 1970.

[70] See B.M. Jain, "India and Russia: Reassessing the Time-Tested Ties," *Pacific Affairs*, Fall 2003, Vol. 76, No. 3.

[71] Zorawar Daulet Singh, "Reviving the India-Russia Partnership," *Asia Times* Online, November 14, 2006, available at http://www.atimes.com/atimes/South_Asia/HK14Df01.html.

[72] Ram Puniyani "Nehru and India's Foreign Policy," November 12, 2007, available at *http://www.countercurrents.org/puniyani121107.htm.* Kumar, Arun, "60 years after partition US de-hyphenates India, Pakistan," *The Indian Star*, August 12, 2007, available at http://www.theindianstar.com/index.php?udn=2007-12-11&uan=1310.

[73] Dietmar Rothermund, *India: The Rise of An Asian Giant*, New Haven and London: Yale University Press, 2008, pp.77-78 and Deepak. Nayyar, *India's Exports and Export Policies in the 1960's*, Cambridge: Cambridge University Press, 2007.

[74] Ministry of External Affairs, Government of India, Annual Report 2007-08, New Delhi: Policy and Planning Research Division, pp. 108-112.

[75] Government of India, *Ministry of External Affairs Annual Report 2007-08*, New Delhi: Policy and Planning Research Division, p. 158.

[76] Vijaya Katti, Tatjana Chahoud and Atul Kaushik, "India's Development Cooperation – Opportunities and Challenges for International Development Cooperation," Bonn: German Development Institute Briefing Paper, March 2009, p.2.

[77] Rajiv Sikri, *Challenge And Strategy: Rethinking India's Foreign Policy*, New Delhi: Sage India, 2009, p. 236.

[78] Vijaya Katti, Tatjana Chahoud, and Atul Kaushik, "India's Development Cooperation – Opportunities and Challenges for International Development Cooperation," Bonn: German Development Institute Briefing Paper, March 2009, p.2.

[79] "The Indian economy in the global setting," Address by Dr Rakesh Mohan, Deputy Governor of the Reserve Bank of India, September 8, 2005, available at http://rbidocs.rbi.org.in/rdocs/speeches/pdfs/65814.pdf.

[80] Ramesh Thakur, "India in the World: Neither Rich, Powerful, nor Principled," *Foreign Affairs*, July/August 1997.

[81] "The country's economic problems came to a head in August 1990 when Iraq invaded Kuwait, and the price of oil soon doubled. Many Indian workers resident in Persian Gulf states either lost their jobs or returned home out of fear for their safety, thus reducing the flow of remittances. The rise in oil prices fed an inflationary spiral in India (spiking at 17% in 1991) that, given pervasive continuing poverty, threatened serious consequences." See chapter 9 in James Heitzman and Robert L. Worden (eds.), *India: A Country Study*. Washington: GPO for the Library of Congress, 1995. See also Chakravarti Rangarajan, 1991a, 1991b, 1993, 1994 and 1996 "Recent Monetary Policy Measures and the Balance of Payments," *Reserve Bank of India Bulletin*, New Delhi. For an account of the gathering crisis, see C.P. Chandrasekhar, "India's Balance of Payments under the New Regime," *Social Scientist*, Vol. 13, No. 9, Sep. 1985, pp. 31-43. See also Ajai Chopra, Charles Collyns, Richard Hemming, Karen Parker, Woosik Chu, and Oliver Fratzscher, *India: Economic Reforms and Growth*, *IMF Occasional Paper 134*, Washington: International Monetary Fund, 1995; "*Exchange Rate Adjustments: Causes and Consequences," Reserve Bank of India Bulletin*, New Delhi, September; 1993; *"India's Balance of Payments Problems,"* in Kapila, Uma (ed*), Indian Economy Since Independence*, New Delhi: Academic Foundations, 2001; "India's Balance of Payments: The Emerging Dimensions," Shri Govind Ballabh Memorial Lecture, *Reserve Bank of India Bulletin*, New Delhi, January 1994; Arvind Panagariya, "India in the 1980s and 1990s: A Triumph of Reforms," *IMF Working Paper*, *04/43*, International Monetary Fund, 2004; Ashok V. Desai, "The Economics and Politics of Transition to an Open Market Economy: India," OECD Development Centre Working Papers 155, Paris: OECD Development Centre, revised, 1999.

[82] Gareth Price, "India's Aid Dynamics: From Recipient to Donor?," London: Royal Institute of International Affairs, Chatham House, 2004, available at http://www.chathamhouse.org.uk/publications/papers/view/-/id/229/.

[83] For example, Indians registered as the most pro-USA among 16 populations polled by the Pew Global Attitudes Project in a study released in February 2006, with 71% expressing a favourable view of the United States. See http://pewglobal.org/commentary/display.php?AnalysisID=1002.

[84] See C. Raja Mohan, "India and the Balance of Power," *Foreign Affairs*, July/August 2006.

[85] "US slashes aid to India by 35%," *The Financial Express*, July 25, 2007.

[86] "Rethink Russia ties," *The Times of India*, Dec 06, 2007; "India to take up Gorshkov, SU-30MKI price hikes with Russia," *The Financial Express* Aug. 28, 2007; "With Russia hiking Gorshkov price, India goes for indigenous carrier," *The* Hindu, February 23, 2009.

[87] Sergei I. Lounev, "Russia and India Political Cooperation in the Sphere of Global, Regional and Bilateral Relations," *China Report*, Vol. 38, No.1, 2002, pp.109-111. In a diplomatically bizarre apparent scheduling conflict, visiting Indian Foreign Minister Pranab Mukherjee failed to meet with his Russian counterpart Sergei Lavrov during a visit to Moscow in October 2007 to co-chair with Russian Deputy Prime Minister Alexander Zhukhov and India-Russian Intergovernmental Commission (even though Lavrov was in town, busy receiving US Secretary of State Condoleezza Rice at the time). Some months later, Moscow insisted that for protocol reasons, the host for visiting Prime Minister Manmohan Singh was the (largely irrelevant) Russian Prime Minister rather than President Putin (who did receive Dr. Singh). While neither occurrence was particularly serious, these were not diplomatic blips senior visiting Indians

needed to worry about in Washington at the time. See a Press Trust of India dispatch, available from outlook.com at http://www.outlookindia.com/pti_news.asp?id=512270.

[88] Zorawar Daulet Singh, "Reviving the India-Russia Partnership," *Asia Times* Online, November 14, 2006, available at http://www.atimes.com/atimes/South_Asia/HK14Df01.html.

[89] India secured observer status of the Shanghai Cooperation Organization, founded in 2001, along-side such countries as Iran and Pakistan.

[90] Correspondence with the author, January 17, 2009. Leading China Analyst Sujit Dutta provided very useful analysis on Indo-China relations in his article on India-China Relations in India-Russia Future Strategic Trends, Eds. V.D. Chopra, pp. 151-155.

[91] "India-China Trade Tensions Rise" at http://www.businessweek.com/globalbiz/content/feb2009/gb20090211_202935.htm.

[92] According to the Chinese Ministry of Commerce, in the year 2007 Chinese companies contracted projects worth US$4.56 billion in India, the value of projects executed in 2007 totalled US$1.99 billion. The cumulative value of all projects contracted by Chinese companies in India till the end of 2007 was US$11.57 billion, while the cumulative value of projects completed by Chinese companies in India was US$4.09 billion. Chinese projects in India are found in infrastructure construction, including roads, airports and bridges; power projects, including EPC; industrial projects mainly in the iron and steel sector, including boilers, turbines and pelletization plants, as well as telecommunications. Chinese investments in India for 2007 stood at US$16 million and cumulative investment till September 2007 is US$20.33 million. According to the Chinese Ministry of Commerce, the total amount FDI from India to China in during 2007 was US$34 million. The cumulative FDI from India into China till November, 2007 was US$200 million. Chinese investment in India is still highly restricted whenever it touches on areas considered "strategic" by India, a definition all too expansively applied, even of late. Detailed information about India-China trade and investment is available on Embassy of India in China website at http://www.indianembassy.org.cn/.

[93] C. Raja Mohan, "India's "Look West Policy," *The Hindu*, June 17, 2004.

[94] Ibid.

[95] *A vision for a 21st Century: Economic Powerhouse and Global leader – Asia Society,* March 17, 2005, available at http://www.asiasociety.org/publications/21st_century_india.html.

[96] See Ranjeet Gupta, "India's `Look East` Policy" in Atish Sinha and Madhup Mohta (eds.), *Indian foreign Policy: Challenges and Opportunities*, 2007, New Delhi: Academic Foundation, pp. 351-381.

[97] See Kishore Mahbubani, *The New Asian Hemisphere: The Irresistible Shift of Global Power to East,* New York: Public Affairs Books, 2008.

[98] "The Challenges Ahead for India's foreign policy," remarks by Shivshankar Menon, Foreign Secretary of India on April 10, 2007, available at www.observerindia.com/cms/export/orfonline/modules/orfdiscourse/attachments/menon_1181047978452.pdf.

[99] Dominic Wilson and Roopa Purushothaman, Dreaming with the BRICs: The Path to 2050, Goldman Sachs Global Economics Paper no. 99, October 1, 2003. Online at: www2.goldmansachs.com/insight/research/reports/99.pdf.

[100] "Some Perspectives on the Indian Economy," Address by Dr. Y.V. Reddy, Governor, Reserve Bank of India on October 17, 2007 at the Peterson Institute for International Economics, Washington D.C., available at www.rbidocs.rbi.org.in/rdocs/Bulletin/PDFs/81163.pdf.

[101] For projected rates of industrialization in India, see *Economist Intelligence Unit, India Country Report*. (London: Economist) December 2008. Although these projections may be somewhat more modest in light of the global financial and economic crisis in full swing as of mid-2008, industrialization in India likely to grow sharply in decades ahead.

[102] Govt of India, Planning Commission, *Integrated Energy Policy: Report of the Expert Committee.* Government of India, August 2006.

[103] Ibid.

[104] See C. Raja Mohan, "Sino-Indian Rivalry in the Western Indian Ocean," Institute of South Asian Studies (ISAS), National University of Singapore, Insights, No. 52, 24 February 2009.

[105] Despite GDP growth averaging over 8% in the last few years, India's per capita electricity consumption continues to be one sixth of the world average. In 2007, 67% of its electricity came from burning fossil fuels, and 70% of its oil was imported. If only for environmental reasons, India will have to increase the share of non-fossil fuel based energy resources in its energy mix. The India-US agreement on nuclear energy cooperation is one step in this direction. This was enumerated by India's Foreign Secretary Shivshankar Menon in New Delhi. See Rajeev Sharma, "Peace process 'based' on Pak promise on terror," *The Tribune, Chandigarh,* April 11, 2007. On food security, see "The Report on the State of Food Insecurity in Rural India" by the World Food Programme and the MS Swaminathan Research Foundation (MSSRF) issued in February 2009.

[106] *A vision for a 21st Century: Economic Powerhouse and Global leader – Asia Society*, March 17, 2005, available at http://www.asiasociety.org/publications/21st_century_india.html.

[107] Arjun K. Sengupta, *Report on Conditions of Work and Promotion of Livelihoods in the Unorganised Sector*, New Delhi: Academic Foundation, 2008.