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India's Economy: Its Global Calling Card

As outlined in the two chapters immediately before this one, many observers of India now describe the country as an emerging great power with game-changing capabilities. However, such assessments of the country's potential are recent and follow on the launch of India's economic reforms 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 chapter focuses on the impact of India's economy on Indian foreign policy since the country's independence in 1947. The first half deals with India's economic development, and 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 (1947–66); autocracy and socialism: a toxic mix (1966–90); reforms, globalization, and growing global interdependence (1990 onwards).

Not coincidentally, the three periods 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, giving rise to a hard-nosed realism expressed by a large degree of alignment towards 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 chapter 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.

Finally, the chapter concludes that a transition has taken place in Indian foreign policy from the primacy of politics and geostrategic considerations to a new emphasis on economic interests and ties, although economic factors always influenced Indian leaders in their foreign policy choices from Nehru onwards.

Desperate times in the wake of the Raj: the search for an autonomous economic policy (1947–66)

In the pre-colonization period of the early 1700s, India's economy likely accounted for nearly one-quarter of the world's economic output.[3] In the mid-eighteenth century, Britain's East India Company—a formerly trade-oriented colonial entity—reinvented itself from a trading firm into a ruling hierarchy exercising effective sovereignty, buttressed by a significant military capacity. While India's commodities fed the industrial revolution in the United Kingdom, this led to the stagnation of its own economy, which 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. Indeed, the relative weight of India in the world economy plummeted during the two centuries of British colonial domination and the effective economic growth rate of the country was, on average, zero. In brief, the economic benefits of Indian colonization to Britain were very significant, while the Indians themselves bore the costs thereof.

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 agricultural production unable to feed a rapidly growing population.[4] Its economy was a shadow of what it had been before the colonial adventure. The early years of independence were marked by widespread hunger and the threat of famine.[5] At independence, about 60 per cent of India's GDP came from agricultural activities that were mainly dependent on monsoon rains with no significant irrigation systems in place.[6] Although some industry existed in the country at that time, 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 4 December 1947, 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. Ultimately, *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].[7]

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.[8] These leaders believed a dominant role of the state would be vital in ensuring rapid industrial and agricultural growth.[9] Simultaneously, 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. 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.[10] India's second five-year plan, starting in 1956, adopted a new strategy focused on developing heavy industries. This model was supported by a variety of controls, involving both tariffs and quantitative restrictions.[11]

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, Nehru sought financial and technical help from nearly all industrialized countries in addition to borrowing from the World Bank for long-term infrastructure development.[12] 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.[13] This aid was vital to India at the time.[14] Further, '[t]here is some evidence that during the 1960s, aid helped to increase investment in India'.[15]

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 under the British Empire. Moreover, 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 subcontinent, notably in West Bengal and in India's south during the final decades of their rule.

Autocracy and socialism—a toxic mix (1966–90)

By the mid-1960s India was experiencing discouragement with slow economic progress and suffering from external developments, 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—a tremendously expensive one—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 IMF and World Bank) to liberalize its restrictions on trade (its trade deficits having reached unmanageable proportions over some years).[16]

In addition, India's war with Pakistan in 1965 had led to worrying levels of deficit spending (around 24 per cent of total expenditure) and accelerating inflation.[17] 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). 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 aid package, designed to support both devaluation and further trade liberalization measures, collapsed after one year when the USA 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 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.[18] According to economist T. N. Srinivasan, 'devaluation was seen as capitulation to external pressure which made liberalization politically suspect'.[19] 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 as of 1964). In these circumstances, the country was particularly sensitive to the threat of foreign 'blackmail'.[20] 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).[21] 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 (see Box 1).[22]

Box 1 THE GREEN REVOLUTION

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 hydroelectric 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 subdivision 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 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 and the demand for food rising inexorably as India's population expanded and achieved greater prosperity, did the limitations of earlier policy become clear to all.

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 had 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). Populist programmes and policies were now replaced by greater pragmatism. But not all of her new policies were successful. For example her emphasis on growth with equity was supported by policies that did not do enough for either. Consequently, while poverty levels declined between the mid-1960s and the mid-1980s, much of the population continued to struggle for mere survival. Over these decades, the informal economy grew at a faster rate than in the past, and planned economic development was relegated to a secondary position.[23]

Among her notable economic policy planks, beyond support for the Green Revolution, Mrs. Gandhi 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.[24] 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.[25] During these years, India 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.[26] Nevertheless, the eradication of poverty eluded her grasp and the private sector failed to revive significantly.

After 1984, Mrs. Gandhi's son and successor as Prime Minister, Rajiv Gandhi, attempted greater liberalization of the economy. The government 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 seventh 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 per cent annually (or 3.3 per cent on a per capita basis). Industry grew at an annual rate of 6.6 per cent and agriculture at 3.6 per cent. A high rate of investment (up to 25 per cent from about 19 per cent 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, capital-intensive 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 per cent of GDP at its peak in 1986–7.[27]

These macroeconomic imbalances, and a gradual depletion of reserves, threatened the sustainability of growth rates and made the economy particularly vulnerable to shocks.[28] 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 plagued the Indian population.[29]

Reforms, globalization, and growing interdependence (1990 onwards)

After a few 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 the government rose from 9.0 per cent of GDP in 1980–1 to 12.7 per cent in 1990–1. The GDP growth rate declined from 6.9 per cent in 1989, to 4.9 per cent in 1990 and to 1.1 per cent in 1991. For the Union government in Delhi alone (leaving aside State-level deficits), the gross fiscal deficit rose from 6.1 per cent of GDP in 1980–1 to 8.4 per cent in 1990–1. As a result, the internal debt of the government accumulated rapidly, rising from 35 per cent of GDP at the end of 1980–1 to 53 per cent of GDP at the end of 1990–1.[30] In March 1991, a financial crisis developed as India's hard currency reserves fell to \$2.1 billion—less than the value of six weeks of imports—with \$1.5 billion in payments to multilateral financial institutions due at the end of March.[31]

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. Thus they profoundly, if perhaps not sufficiently, transformed the nature of India's economy. The reforms did away with import licensing on all but a handful of intermediate inputs and capital goods items. The new Government announced a floating exchange rate regime in March 1992 that eventually served India well.[32] This proved particularly true during the global financial and economic crisis of 2008–10, when a falling rupee absorbed much of the shock. 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).[33]

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 1998–9, 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 (RBI), the direct impact of the slowdown 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. 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—both troubled economies—towards developing countries in Asia (including, increasingly, China) and the USA.[34] Trade with Western Europe also grew considerably.

Liberalization of trade in services, so important to India during an era of Western 'outsourcing', started during this period. In public sector banks, up to 74 per cent of FDI was permitted—in theory. In reality, the RBI heavily policed where foreign banks were allowed to invest, preferring to channel foreign funds into unprofitable ventures the RBI hoped the international investors could turn around—and they often did. In telecommunications, up to 74 per cent FDI was permitted for many services. Foreign equity was encouraged in software and almost all areas of electronics. In the information technology

Box 2 INDIA'S COMPANIES GO GLOBAL: ADITYA BIRLA GROUP[1]

Today, Indian 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, which created the world's largest steel company, is perhaps the best example. According to the data released by the RBI, the total outward investment from India, excluding that made by individuals and banks, rose 29.6 per cent to US$17.4 billion in 2007–8, 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).[2]

The Aditya Birla Group was India's first truly multinational corporation. Its origins can be traced back to the nineteenth century, when Seth Shiv Narayan Birla started trading in cotton in the town of Pilani, Rajasthan. In the early part of the twentieth century, the 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, then Chairman, put the group on the global map. He set up nineteen 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 the group's further expansion within India when conditions there for private corporate entities started to improve in the 1980s. Under Aditya Birla's leadership, the group became the 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's demise in 1995, at the age of 52, his son Kumar Mangalam Birla took over.

Today, the Group has an annual turnover of US$24 billion, market capitalization of US $23 billion, over 100,000 employees belonging to over twenty-five different nationalities on its rolls, and a presence in twenty countries. 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.

[1] See also Joe Leahy and John Reed, 'Troublesome Trophy', *Financial Times*, 31 July 2009 (on Tata's purchase of Jaguar Land Rover).

[2] See 'Indian Investments Abroad', India Brand Equity Foundation, www.ibef.org/economy/indianinvestmentsabroad.aspx

sector, 100 per cent foreign investment was permitted in units set up exclusively for exports.

India's share of world exports, which had declined from 2 per cent at independence to 0.5 per cent in the mid-1980s, bounced back to 0.8 per cent in 2002 and stood at 1.21 per cent in 2010.[35] From 1998 to 2008, the ratio of total goods and services trade to GDP rose from 17.2 per cent to 30.6 per cent. In February 2009, Kamal Nath, then India's Minister of Commerce and Industry, predicted that along with other BRIC and Gulf Cooperation Council economies, India would contribute about 35 to 37 per cent of incremental global GDP growth during the years through 2012.[36]

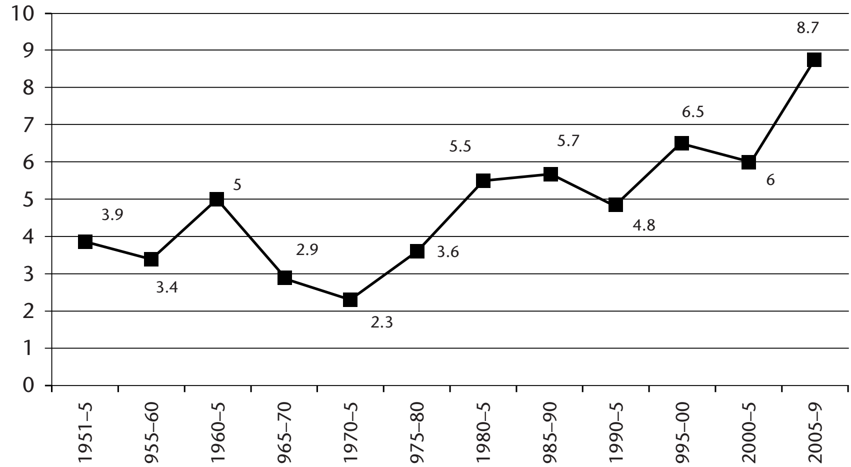

Figure 4.1. India's average annual GDP growth rate 1951–2009

Note: These averages were calculated using the data on annual growth rates at factor cost and at constant prices (at base year 1999–2000).
Source: Reserve Bank of India, *Handbook of Statistics on Economy, 2008–9*.

More broadly, India's reforms led to a meaningful shift in the growth rate of GDP after 1993, which rose at unprecedented rates of 6 to 7 per cent, averaged 8.6 per cent between 2003 and 2007, and peaked at 9 per cent 2007 (see Figure 4.1). Unlike growth in the 1980s, which was fuelled by excessive borrowing at home and abroad, this new growth was largely driven by domestic consumption and continuing high levels of savings and investment.

Gross Domestic Investment (GDI) rates rose from 24.3 per cent of GDP in 2000–1 to 33.8 per cent in 2005–6 and domestic savings from 23.7 per cent in 2000–1 to 32.4 per cent during 2005–6. Over this period, the fiscal management of the country improved, with the combined fiscal deficit of the Union and States declining from 9.5 per cent of GDP in 2000–1 to 6.4 per cent in 2006–7. However, combined public debt as a proportion of GDP remained high at over 70 per cent.[37] Internationally, India came to be ranked the fourth largest economy in terms of purchasing power parity, and at current growth rates could well overtake Japan as the third most significant economic power within ten years.[38] 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).[39]

Until the global financial and economic crisis of 2008 demonstrated that the notion of 'de-coupling' between major economies had been somewhat of a delusion, there seemed no limit to the ambition (and sometimes overreach) of the Indian private sector as reflected in coverage by India's 'pink' (financial) press, which came to embody the excesses of the 'India Shining' enthusiasms of the early twenty-first century.[40] India's ability to ride out the 2008–9 global economic downturn while racking up growth rates of 6 per cent demonstrated how resilient its domestic market and robust its savings had become, in sharp contrast to Western economies.[41] That said, rising inflation and a deteriorating current account position as of mid-2010 required active management by the government and the RBI.[42]

The face of Indian business changed dramatically. Indian firms were no longer merely seekers of foreign technology, producers of indifferent goods, or providers of low-end services. Their engagement with the world acquired new dimensions. India became the leading nation in software services—Tata Consultancy Services (TCS), Infosys, and Wipro became acknowledged world brands, and Indian companies, as well as Indian professionals, were constantly seeking to move up the value chain.[43] Several Indian oil companies are today part of the Fortune 500 list of top companies worldwide.[44]

Recently, India's 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 produced in India; and the role of Indian nationals in global corporations, particularly in the fields of science, technology, and finance are now taken for granted—unlike twenty 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 USA and Europe have set up larger 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.

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 twenty years (in sharp contrast with China).[45] However, whether this phenomenon turns into a demographic boon or a demographic 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.[46]

Mostly unnoticed by the rest of the world, in a field where India's geostrategic and economic interests coincide, successive Indian governments have been startlingly effective at developing a credible space programme with the capacity for multiple satellite launches from a single rocket, missile and missile delivery systems, and also, in 2008, the successful launch of a lunar probe, *Chandrayaan 1*. The Indian Space Research Organization (ISRO) in 2009 operated the world's second largest fleet of remote sensing satellites after the USA.[47]

As the balance of economic and geostrategic influence (even power) shifts towards Asia, Indians have increasingly engaged with the idea of a world dominated by Indian and Chinese economic success.[48] But, while Western economic policy mistakes are undeniable, and the USA's geostrategic overreach 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.[49] For example, Angel Gurria, Secretary-General of the OECD, recalling the 'lost decade' of Latin American economic performance in the 1980s, argues that India needs to reduce both Union and state-level deficits and the national debt in order to protect the impressive 'growth dividend' from its economic reforms.[50] 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.

Economic imperatives guiding Indian foreign policy

Economic considerations played a pivotal role in shaping the nation's foreign policy. As emphasized by Nehru when he first articulated his vision of Indian foreign policy in a speech to the Constituent Assembly 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.'[51] He added, idealistically, that India's foreign policy was shaped by its commitment to the development of all developing economies. He had in mind the pursuit of an independent foreign policy that would maximize 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. 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. This would help to develop strategic autonomy of choice, and thus, in the longer run, smooth the path of its emergence as a more meaningful global actor.

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, fertilizer, and chemical industries.[52] In pursuit of the necessary financial and technical assistance to advance these plans, Indian diplomacy worked hard to cultivate both Moscow and Washington (and, through Washington, the international financial institutions headquartered there).[53] The policy of non-alignment that emerged during the 1950s facilitated the achievement of this objective, allowing Delhi to cultivate cordial relations with the two contending Cold War bloc leaders.[54]

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. A strategic relationship with India fit well into the Soviet worldview focused on thwarting the geopolitical pretensions of both the USA and China, particularly in wider South Asia.[55]

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 the two countries began in 1960 when they agreed on a programme of military cooperation, and by 1965 the Soviet Union was the second largest bilateral contributor to India's development, culminating in the 1971 bilateral treaty. Soviet power and capacities provided India with substantial economic, political, military, and diplomatic support during much of the Cold War.[56] 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 programmes, 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 markets for finished products. These bilateral arrangements were made in non-convertible national currencies, helping to conserve India's scarce foreign exchange. Thus, Indians generally regarded the Soviet contribution to Indian economic development 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.

Ties with Washington were increasingly strained by Delhi's growing de facto alignment with Moscow. Washington contributed significantly, particularly through food aid (the PL 480 programme), to the development of the Indian economy. By 1964, India depended heavily on aid from the USA.[57] Americans had been much taken by Nehru's flair during his first official visit to the USA in 1949 and continued to entertain a fascination for India. The Kennedy Administration sent John Kenneth Galbraith as US Ambassador to India in 1961, and his arrival in Delhi was soon followed by a highly mediagenic visit by Jackie Kennedy. The positive dimensions of the relationship were critical in sustaining India psychologically at the time of the China–India border war of 1962.

However, 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 programmes ten days later.[58] Washington's 'tough love' approach to India was clearly dictated, at least in part, by irritation with Delhi's criticism of the US role in the Vietnam War, but India's ineffective economic policies also played a central role—and this is often not fully appreciated in India.

India's own foreign aid programme today

Economic diplomacy has been a significant means of achieving broader foreign policy objectives in India. India's foreign aid programme, the Indian Technical and Economic Cooperation programme (ITEC), was 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 programme, 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.[59] The MEA also oversees the Indian Council of Cultural

Table 4.1. Principal destinations of India's Aid & Loan Programme (excluding lines of credit)

Aid to countries (in Rupees Crore)	2007–8	2008–9	2009–10
Bhutan	731.00	1205.92	1301.98
Bangladesh	60.00	6.00	3.76
Nepal	100.00	113.00	150.00
Sri Lanka	28.00	30.00	80.00
Maldives	19.50	504.70	3.50
Myanmar	20.00	35.00	55.00
Afghanistan	434.00	418.50	287.00
African Countries	50.00	95.00	125.00
Central Asia	20.00	18.82	–
Latin American Countries	1.53	2.00	2.00
Others	240.08	215.75	205.55

Source: Government of India, Ministry of External Affairs, Annual Report 2007–8, 158; Annual Report 2008–9, 185; Annual Report 2009–10, 199.

Relations, which provides assistance and programmes to improve cultural ties, for instance through student and teacher exchange programmes.

India has been providing substantial military and economic assistance within South Asia since independence with aid to Bhutan alone constituting 42.9 per cent of India's total aid and loan budget (see Table 4.1). 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 regional banks in Africa.[60]

India's economic growth rates since the 1990s and its own international aid programme call into question its continued need for international assistance beyond multilateral lending (although on this front, India can gain international commercial credit on very favourable terms in light of its economic performance).[61] A decade ago, the issue was a lively one under the National Democratic Alliance (NDA) coalition government, which sought termination of the smaller foreign assistance programmes to India (portrayed as more trouble than they were worth). While the UPA coalition that followed in 2004 reversed the decision, foreign assistance programmes in India are fast winding down.[62]

The '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, some scholars have been tempted to cast scorn on Nehru's interventionist economic policies, focused on self-sufficiency in food and on industrial development. However, thanks to activist social policy underpinning public health and education programmes, in just forty years following 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. Compared with East Asia, India fared badly. Its share in world output and exports fell, and social indicators lagged far behind those of others.[63] India's self-imposed isolation from the global trading order, consonant with its strategy of import-substituting industrialization discouraging foreign investment, accrued serious costs. At the same time, the 'license raj' empowered much, and corrupted some, of the public sector while alienating the private sector. Meanwhile, in broad terms, India stagnated and the value of the rupee relative to the US dollar declined by 40 per cent.

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 per cent 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. Thus, ideology at the time trumped a pragmatic approach to alleviating India's economic plight.

Gradually, 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. Its bilateral diplomacy became more vigorous and creative, and India increasingly participated in Asian regional discussions, while redoubling its 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.[64] The simultaneous collapse of the Berlin Wall and of the Soviet bloc also forced a rebalancing 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, while maintaining at least a strong rhetorical commitment to a large role for the state in combating poverty and regulating the economy.[65] India's excessive external debt of the late 1980s and the balance of payments crisis of 1991 triggered corrective action that put it on a path from which it could hope to compete with China for economic leadership of the continent.[66] Indeed, China's economic rise perhaps proved a more powerful spur to reform impulses within the Indian government than was apparent at the time.

Today, in spite of the still modest share of the external sector within India's economy, both its absolute weight and the emphasis placed 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

United States

As outlined above, India's traditional relationship with the USA was marked by considerable development assistance dependency combined with frequent friction over regional and geostrategic issues. With India's economic reforms, its growing success, the decreasing 'pull' of its relationship with Moscow, and a sense in the USA 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 after 2003 and Afghanistan after 2001 were generating distress and when American standing internationally was seriously undermined by the excesses of the 'war against terror'.

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 geostrategic, but perhaps even more so, economic and commercial.

Meanwhile, the US corporate sector connected with India not only through its own market, but also by accessing for its global purposes India's

Box 3 BOEING CORPORATION'S INDIA STORY

The signal improvement in USA–India official relations since 1991, as well as the reorientation of the Indian economy away from state control to private-sector-led expansion is vividly illustrated by the Boeing Corporation's India story, and it in turn suggests how inflected US policy can be by commercial opportunities for its private sector.

From the earliest days of the indigenous Indian commercial airline business, Boeing, through its forerunner, 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. 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 major phase in Boeing's relationship with India, constrained by the often touchy relations between the USA 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, which rapidly purchased aircrafts from both Boeing and Airbus in large quantities. 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, who served as US Ambassador to India in 1992–3, recalls USA–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 Soviet Union (although these would soon be shifted to a 'cash and carry' basis by the Russian Federation). 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.

Pickering in January 2001 moved to Boeing as a Senior Vice-President. 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, 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 aircrafts, to replace its MIG fleet, and Boeing, together with Indian partners, had placed a bid on what is likely to prove the single largest such contract for some time outside the USA. Meanwhile, as of 2009, it had an order book in India of 100 aircrafts valued at $17 billion and was expanding its footprint in the IT sector and eying space cooperation with India.[2]

[1] Interview with Thomas Pickering, 19 June 2009 and correspondence 30 June 2009.
[2] For a fuller account, see David M. Malone and Rajeev Ranjan Chaturvedy, 'Impact of India's Economy on its Foreign Policy since Independence', Research Report (Vancouver, BC: Asia Pacific Foundation, November 2009): www.asiapacific.ca/sites/default/files/Indian__Economic__and__Foreign__Policy.pdf

information technology, business processing, and 'back office' capacities, eventually coming to encompass even legal services. In key sectors where liberalization 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 USA as its own passport to greater personal prosperity in an increasingly globalized world. As well, the aspirations of middle class Indians are very close to those of individual Americans. These factors taken together 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.[67] Further, the upper echelons of India's bureaucratic and military elite, often featuring personal familiarity (frequently involving higher education) with the USA, increasingly support closer ties, although significant resistance to the trend comes from some academic, think-tank, and political circles fearful of Indian submission to US aims.[68]

The success of the India–USA negotiations on nuclear cooperation in 2008, and the IAEA and the Nuclear Suppliers Group's acceptance of the terms of this agreement, offered India both enhanced economic partnership and geostrategic 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 programme in India, on the grounds that India's economic success had made it redundant in much of the country.[69]

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 refit of the Russian aircraft carrier *Gorshkov*, which India had purchased, ballooned, India's navy complained pointedly and publicly.[70] Moscow stood on the sidelines of the Indo-US nuclear negotiations, holding in abeyance any active nuclear cooperation of its own until the agreement was sanctioned by the IAEA and NSG. But it had been careful to negotiate the provision of further nuclear reactors to India contingent on these developments (as had France). 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 counterweight in its discussions with Washington. Today, the two capitals maintain a good understanding of each other's bilateral and geostrategic concerns while retaining their autonomy of action and expanding their relations with other countries.[71]

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, geostrategically, Russia's once again increasing influence in Central Asia and its dominance over most pipeline routes originating in that region suggest that Delhi will take care to maintain friendly ties and economic lifelines with the Russian Federation and its friends.[72] Indeed the emergence in 2001 of the so-called Shanghai Cooperation Organization (SCO), including China and Russia, but not the Indian government, was viewed by Indian analysts with some disquiet.[73]

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 geostrategic 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. 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.[74]

Trade between the two countries has been expanding exceptionally fast since the late 1990s, indeed by as much as 33 per cent in 2008, to nearly $52 billion.[75] 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.[76] 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. 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 co-operation between two countries. As a goodwill gesture, China formally abandoned its claim to the tiny Himalayan state 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 agreement may prove elusive, such differences could be mitigated eventually by a more comprehensive economic relationship.

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 2008–10 economic downturn in Dubai was keenly felt for those reasons in parts of India. As well, India, always keen on multiplying its options, has looked to the Gulf countries as an attractive source of investment flows.[77] Taken together, these factors have made the Gulf commercial 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. Overall, 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 Southeast Asia has been one spur for greater Indian engagement—and China’s expanding relationships in those areas another—but India's own immediate neighbourhood on the periphery of South Asia has always claimed more of its attention.[78]

Liberalization and economic growth in India, while likely positively influencing related trends in Pakistan and Bangladesh, have not led to a more economically-oriented Indian diplomacy in the area (with the exception of Bhutan, from which India derives significant hydroelectrical 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 subregion. As a result, 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 Southeast Asia (and with their regional organization, ASEAN).[79] And, beyond China, economic ties with South Korea and Japan, while still well below potential, are valued in India. India's 'Look East' policy launched in 1992 is built on economic rather than primarily geostrategic imperatives as Chapter 9 details.[80]

Western Europe

Europe, which has not played a major role in India's worldview since the colonial era, is nevertheless a major trading and economic partner for India (see Figure 4.2). 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 policymakers at a time when European disunity, rather than commonality of perspective and purpose, is mostly on display. 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 most underperforming today. 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 geostrategic outlook. In 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 in Figure 4.2 suggests they do).

The significance of India's recent economic growth in the multilateral sphere and in the balance of power and influence are considered in Chapters 11 and 12.

Emerging issues and future challenges

Indians have naturally been very taken with the narrative of Western decline and the rise of Asia, as promoted by Kishore Mahbubani and others.[81] The 'India Shining' 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 2008–10, throughout which India continued to grow economically but 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.

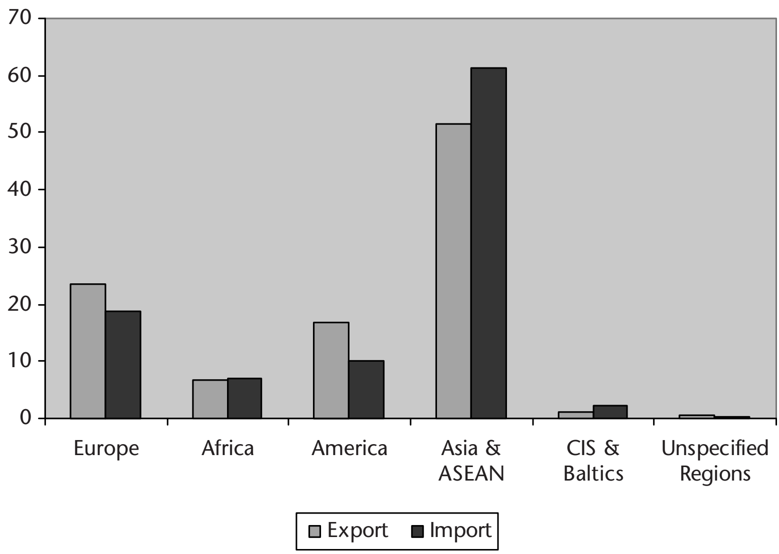

Figure 4.2. India's foreign trade by region (%)

Source: http://commerce.nic.in/ftpa/rgnq.asp

As well, its internal market remained buoyant, with savings and the potential for investment still high.

Thus, whether or not India and China will displace the West as 'action central' for the global economy (as pundits and forecasters were wont to predict early in the millennium), Indian economic progress is likely to continue, and could do so at a very brisk pace if future Indian governments can tackle the challenges of weak public education, health service delivery, and inadequate national infrastructure more effectively.[82] Forecasting firms and specialists tend to advance exciting but questionable projections twenty-five to forty years into the future. For example, based on current trends, by 2025 India's economy can be expected to amount to about 60 per cent 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.[83] The recent economic and financial crisis makes clear how chancy long-term projections can be, but the trend-lines for India remain hopeful.[84] Indeed, Goldman Sachs (whose strategic guru Jim O'Neill coined the BRIC grouping) has offered a scenario under which India, within a decade, will be outgrowing China by a wide margin (see Table 4.2).[85]

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 environment. 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 the likelihood of expanded

Table 4.2. BRICs' real GDP growth (%): Five-Year Period Averages

	Brazil	China	India	Russia
2000–05	2.7	8.0	5.3	5.9
2005–10	4.2	7.2	6.1	4.8
2010–15	4.1	5.9	5.9	3.8
2015–20	3.8	5.0	5.7	3.4
2020–5	3.7	4.6	5.7	3.4
2025–30	3.8	4.1	5.9	3.5
2030–5	3.9	3.9	6.1	3.1
2035–40	3.8	3.9	6.0	2.6
2949–5	3.6	3.5	5.6	2.2
2045–50	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, 1 October 2003, available at: www2.goldmansachs.com/ideas/brics/book/99-dreaming.pdf internal production).[86] At the same time, as Figure 4.3 indicates, India's domestic ability to produce oil has reached a plateau for now.

Internationally, the economic challenges facing Indian foreign policy are many, including those relating to 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, which provides China with greater means to support its geostrategic aspirations than India can devote to its own. This has led to fears of Chinese encirclement, most often focused on anxieties about China's constructions of naval and air facilities in India's immediate Indian Ocean neighbourhood.[87] Domestically, India's challenges include interregional 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. 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.[88] In addition, although it has been declining in relative terms, acute poverty continues to be an overwhelming drag on India, afflicting hundreds of millions.[89] 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

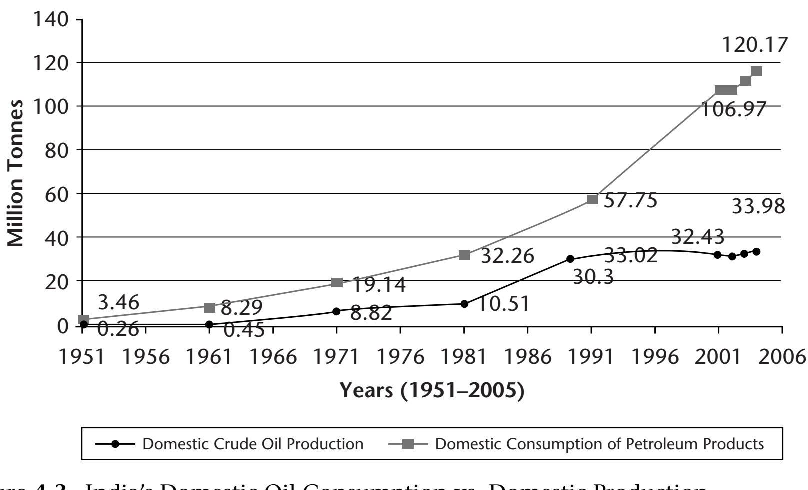

Figure 4.3. India's Domestic Oil Consumption vs. Domestic Production

Source: Government of India, Planning Commission, *Integrated Energy Policy: Report of the Expert Committee* (August 2006) 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 it has been improving. However, as India achieves significant economic growth, albeit still struggling with poverty, its multilateral policy (for example, on non-proliferation and trade) 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 sometimes been sidelined by them, 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 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, it needs to demonstrate, 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 2008–9 economic crisis) in order to secure the global recognition it believes is its due.

India's economy provides an opportunity for new beginnings in Indian foreign policy, building on existing strengths. It is now half-way towards being in a position to seize the opportunity, and much will depend on the determination of leadership in Delhi on this front.