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**India as a Promoter of Regional Development
and the Role of the EU**

Author:	Dana de la Fontaine
Institution:	Universität Kassel / Germany Promotionskolleg Global Social Policies and Governance
Address:	Gottschalkstr. 35 34127 Kassel / Germany
E-mail:	danadlf@yahoo.com
Telephone:	(+49) 0179-7429275

Abstract: With a focus on the South-Asian sub-region, my presentation will concentrate on India's growing bilateral and regional foreign assistance policy (FAP). One question here is what kind of development concepts and what sorts of interest alliances are supporting these policies. Is there a clear anti- or maybe even a pro-capitalist discourse behind them? Another question is about the bilateral and regional institutional frameworks themselves, as in the context of SAARC (South Asian Association for Regional Cooperation) for instance. Do these go hand in hand with foreign trade liberalization between India and its regional neighbours? Should they be seen as regional redistribution mechanisms, aiming to balance social inequalities related to liberalization? A third questioning brings in the role of the EU. Often functioning as a model and promoter for regional integration, the EU has played a major role in supporting regional integration processes especially in the south. So, how is the cooperation between the EU and India in this specific case? What kind of understandings and disagreements can be seen?

1. Introduction to India's Foreign Assistance Policy (FAP)

In the recent years India has visibly shown a change in foreign policy behaviour, especially concerning the topic of foreign development assistance. Still until the beginning of the new millennium India was¹ one of the biggest receivers of Official Development Assistance (ODA) coming bilaterally (from Japan, UK, USA, Germany and Russia) or multilaterally (as through the EU, World Bank, the International Monetary Fund and the Asian Bank of Development)².

During the administration of Prime Minister (PM) Bihari Vajpayee (Bharatiya Janata Party, BJP) between 1998 and 2004 there was a clear will to change the image of India as a receiver of foreign aid. Understanding itself as one of the biggest growing economies worldwide, the Finance Minister Jaswant Singh announced that India would only accept development aid from its biggest contributors. Furthermore it would expand its own infrastructure of foreign development assistance to other countries of the region and the developing world with the so called India Development Initiative (Price 2004).

In this paper I want to discuss what may have been the reason for this will of change in India's Foreign Policy. By tracing back the main concepts and actions behind the FAP since 1947, I will try to relate this to a shift of interest-patterns and interest groups in foreign policy. Furthermore I will analyze the effect on India's FAP itself, focussing on the bilateral and multilateral development efforts. Finally I shall bring in the role of the European Union (EU) in this context, asking about new dynamics for development cooperation with the South Asian region through India.

2. Concepts and Interest groups behind Indian Foreign Policy and FAP

India's relatively young foreign policy has gone through major changes since its independence in 1947. The biggest was for sure the economic opening up to world market since the early 1990s, bringing an end to the model of a protectionist development state. Until the 1990s there had been a clear dominance of the Indian National Congress Party (INC) - and especially of the Nehru-Gandhi Family - in the political system, which had particular opinions about how foreign policy should look like.

Being caught between the two major power blocks during the cold war, the INC did not want to choose to stand on either side. By going its third way on the path of non-alignment, India's foreign policy was closely linked to anti-colonialism and the will of becoming an independent industrialized nation (concept of self reliance). In that sense the ideological background shaping India's foreign policy until the 1990s was a mix between socialist and capitalist elements. The socialist part of it can be seen in its efforts for achieving a new economic world order (by regulating international capitalism in order to protect the newly industrializing economies and prevent imperial power relations) as well as in its internationalist approach, supporting other countries of the third world in their struggle for independence and development. Also

¹ India continues to get ODA, receiving around 5 Billion USD per year in foreign aid, mainly multilaterally from the World Bank and the Asian Development Bank, as well as bilaterally from Japan, Germany and UK among others (<http://www.indiadaily.com/editorial/09-27b-04.asp>).

² Other bilateral donors should instead channel their assistance through NGOs, UN agencies or multilateral institutions (see Price 2004).

the close economic and political ties to Moscow were part of that scenario, although India - for reasons of national independence - rejected a direct commitment with the Soviet Block. The capitalist elements of foreign policy were as well linked to the developmental state (state capitalism) and its dependence of the world market. To put it simple: Just as an enterprise India needed to export to the world market in order to obtain foreign currencies, again needed for purchasing industrial devices for domestic industrialisation (Chibber 2004; Wagner 2006).

This system was - more or less - stable until the 1990s, collapsing then with the economic debt-crisis in 1991 related to the end of the Soviet Union (the major trading partner and supplier of oil) and the high prices for oil on the world market due to the gulf-crisis. Under PM Rao (INC, 1991-1996) and his Finance Minister Manmohan Singh India took a credit-line with the IMF, being obliged to cope with the required structural adjustments, amongst them the liberalization of the economy. With the continuous deconstruction of the developmental state and the diminishing role of state owned companies due to privatization, the socialist component of the INC-led foreign policy started to diminish. Under the concepts of "look east" and "look west" the surrounding region of south and south-east Asia as well as the USA and Europe gained a new importance for building economic ties.

With the growing importance of parties like Bharatiya Janata Party (BJP) and the Communist Parties on the national level also the dominance of INC was being undermined. For the first time since independence there was an opening up for new interest groups in the shaping of foreign policy. Compared to the INC, the BJP represented a more conservative and clearly hindu-religious sector of the society. Mostly being part of the well educated and good earning middle and upper casts, the supporters of the BJP gathered the new urban entrepreneurial class that was interested in participating actively in globalization. And foreign Policy was one way in achieving their interests. In that sense Wagner (2005: 263) notices that trading-related institutions like the Federation of Indian Chambers of Commerce and Industries (FICCI), the Confederation of Indian Industries (CII) or the PHD Chamber of Commerce gained access to foreign policy making. And that is closely related to growing foreign activities and investments by Indian enterprises (Kumar 2006).

In this context - as Jobelius (2006) notices with the concept of "tied aid" - strengthening FAP has to be seen as developing a further instrument for gaining more influence on the international level. In this sense the interests related to FAP since the Vajpayee Administration mainly have (1) an economic and (2) a political nature. Economically the BJP Government needed to assure the access to new markets and natural resources in order to maintain a continuous domestic industrial growth (Salma Bava 2007). Especially energetic resources (oil, gas etc.) play a major role, since India is only capable of covering 30% of its own needs. In this sense India is not only interested in the South-Asian region, but furthermore in East- and Western Africa, Central Asia and the Middle East (Wagner 2007, Biallas/Knauer 2006; Singh 2007).

But: India claims to be willing to play a different role than the former imperial powers in a way that it wants to establish win-win partnerships. In this sense - as in the example of India's investments in several African nations -the current Indian Consul General in South Africa Navdeep Suri (2007: 520) notices: "We are aware of Africa's enormous wealth of natural resources and the manner in which these resources

made Africa the target of rapacious exploitation over the last 150 years. In our own efforts to secure access to some resources needed for our own growing industries, we must strike a careful balance between our needs and the imperative of respecting Africa's own development priorities and environmental concerns. There is an obligation on us to show that India is different, that we can give back to the local economy more than we take away from it".

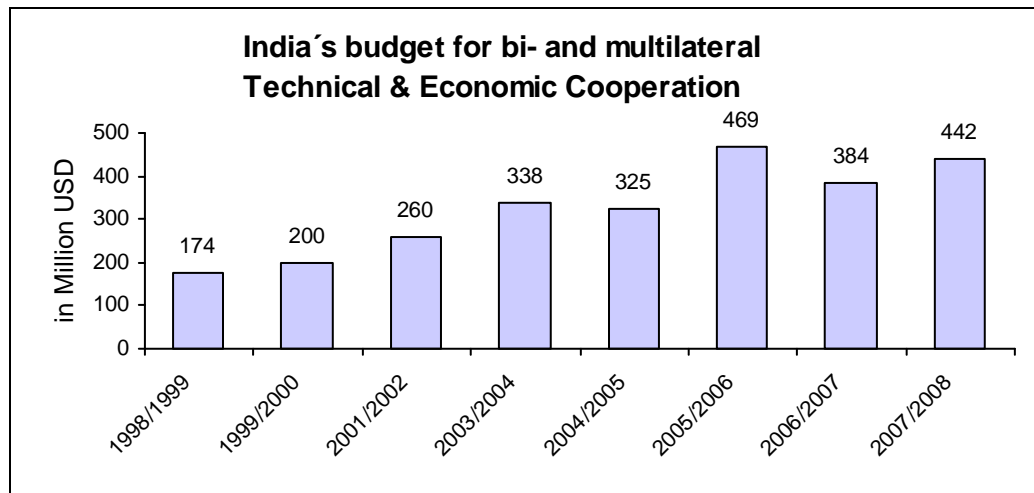
Now, politically FAP is seen as an instrument for assuring the support of other developing countries on the international level, especially in occasions when India's interests differ from those of the industrialized countries. Examples are India's will to become a permanent member of the United Nations Security Council or its position in the Cancun Round of the WTO in 2003. Furthermore there is an important security component as well: India combines FAP with its efforts of diminishing Islamic terrorism in the region, for instance, in the support of the Karsai Government in Afghanistan after the fall of Taliban.

3. India's bi- and multilateral FAP

FAP is not a new field of Indian foreign policy (Jerve 2006). It has to be seen as a continuum since 1947 with different accents throughout the different governments. FAP was usually part of the broader policy of south-south cooperation (SSC), which combines trade and development assistance among developing nations.

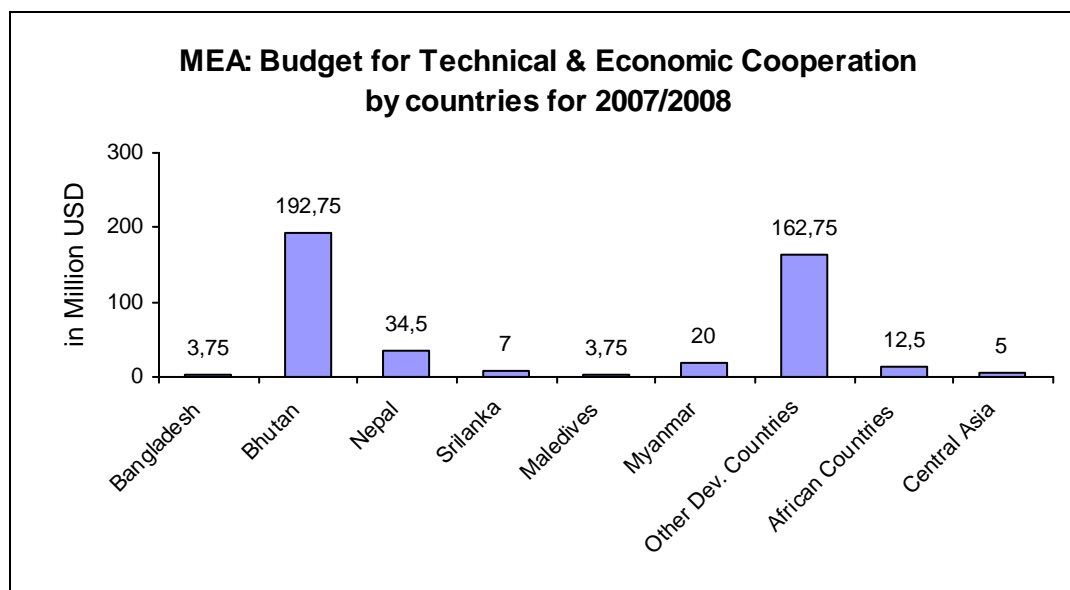
India's FAP is not centralized and can be divided in the three broad fields of (1) technical & economic cooperation, (2) financial cooperation and (3) natural disaster relief. Most of the FAP is being set on a bilateral basis, although multilateral FAP is getting more importance in the recent years. One major step has been the payment of debts to the International Monetary Fund (IMF), what turned India to a new creditor since 2001. Apart from the IMF, India's multilateral contributions are focussed on the UN and its specialized agencies (UNDP, UNEP, UNICEF, FAO and World Food Programme) (see Kage 2006) as well as other multilateral frameworks as the World Bank (Global Environmental Facility), the Colombo Plan within the Commonwealth, the Afghanistan Reconstruction Fund, the IBSA Poverty Alleviation Fund and the International Committee of Red Cross Society. Furthermore India is one of the biggest contributors to UN Peacekeeping missions, providing troops, personnel and material assistance (Price 2005, Government of India).

Ad 1) The technical & economic cooperation is mainly being administrated by the Ministry of External Affairs, being ITEC (Indian Technical and Co-operation Programme) the main coordinating instance. ITEC's main tasks are capacity building and project coordination of more than 150 projects in Asia, Africa, Eastern Europe and Latin America (Price 2005). As can be seen in the following graph, the budget for technical & economic cooperation has continuously grown in the last years (see next graph).



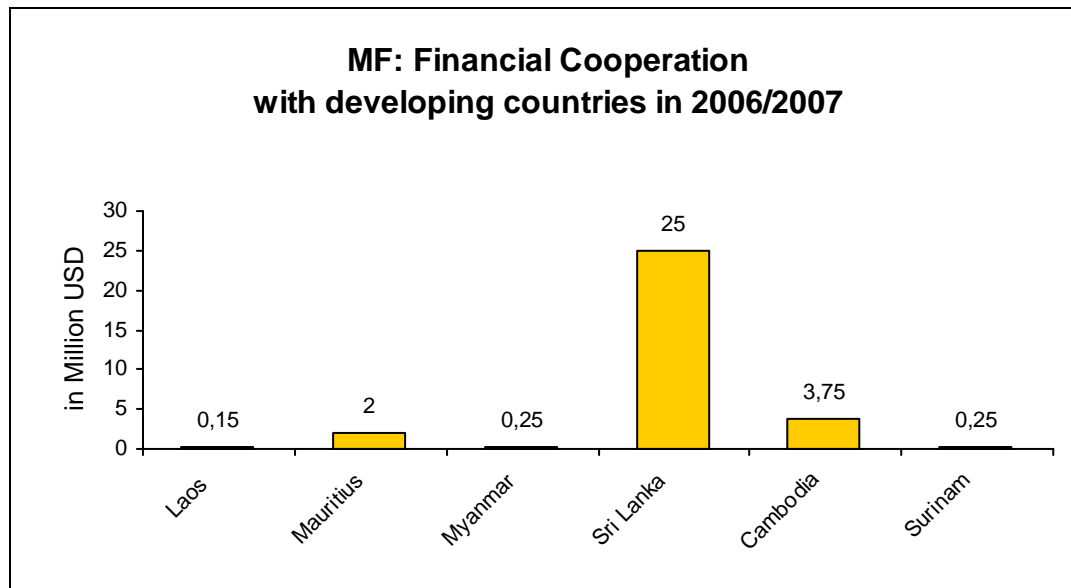
Source: Government of India

The biggest amount of bilateral FAP is granted to the neighbouring countries Bhutan, Myanmar, Nepal and Afghanistan, which are most important according to Indian interests of security, energy and economic cooperation (see next graph). The biggest amount of expenses on "other developing countries" seen in the graph is related to FAP to Afghanistan. But also African nations are getting more important for Indian FAP.



Source Government of India

Ad 2) The administration of financial cooperation is in the hands of Department of Economic Affairs in the Ministry of Finance. Following Jobelius (2006: 8) the budget for financial cooperation in the budget-year 2006/2007 was of 346 Million USD, being conceived in form of Budget-support, credits and grants to foreign governments (called "friendly developing countries"). An important role in terms of realizing the financial cooperation is being played by the Indian Export-Import Bank (EXIM) as well as Bank of Baroda, State Bank of India and Indian Overseas Bank. Usually these banks would give the credits with lower interest rates to foreign governments. The interest loss is then compensated by the Indian government (Ministry of Finance), a procedure known as „interest equalisation“ (Altenburg / Weikert 2006: 31).



Source: Government of India

As Jobelius (2006) says, most of these financial transactions are project-bound (mainly in the sector of infrastructure). One interesting example is the Team 9-Initiative, a credit line created by the Indian Government with 500 Million USD which should improve its economic exchange with countries in West-Africa that have plenty energetic and other natural resources. At the same time India launched a credit-programme with 200 Million USD to support the African NEPAD Process. A further concession was India's support of the HIPC II Initiative, releasing Mozambique, Tanzania, Uganda, Ghana and Zambia from their external debts.

Ad 3) Humanitarian Assistance (HA) is getting more important since the Post-Tsunami Assistance Programme and in the assistance to reconstruction and development in Afghanistan after the end of the Taliban Regime. Further countries receiving HA are Palestine and Iraq (Government of India). Main areas of action are related to the delivery of food (especially for the World Food Programme), being Afghanistan and Iraq main receivers. Also the provision of basic infrastructure after natural disasters like the Indian Ocean Tsunami in December 2004 are to mention, mostly being provided by the Indian National Army. In the year 2005 India spent 25 Million USD in humanitarian assistance (Jobelius 2006, Price 2005).

4. Regional FAP

As seen above, India's FAP is closely linked to the region and its own economic and political interests. That gets very clear if one takes a closer look at the bilateral efforts being done in the cases of Bhutan or Afghanistan, as the biggest receivers of Indian bilateral aid.

Bhutan, to take one example, has a special status compared to the other countries of the region, as being a protectorate from India. Since its independence in 1961 India was a major provider of financial and technical aid, still being its biggest donor until today. In the five year plan 1998-2002 India contributed with more than 200 Million USD, adding another 100 Million USD as development subsidy. Since the 1970s India has been investing in Bhutan's electric power sector, especially in hydroelectric power plants (the first being the Chuckha Hydroelectric Project). Since the 1980s

Bhutan could meet its own energetic needs and started exporting energy to India (Jobelius 2006).

Apart from the bilateral ties, there has been also a strengthening of multilateral mechanisms of FAP on the regional level in the recent years, mainly in the context of the South Asian Association for Regional Cooperation (SAARC). Founded in 1985 by Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan and Sri Lanka, SAARC aims to achieve accelerated economic growth, social progress and cultural development. With signing the Agreement of the South Asian Free Trade Area (SAFTA) in January 2006, SAARC's trade liberalization process is slowly advancing towards the goal of forming a South Asian Economic Union. But of course, having achieved an intraregional trade level of only 3-4% after more than 20 years, must still be seen as a moderate success for this regionalization process, if not even as a stagnation as Baral (2006) sees it.

Besides the aim of trade liberalization among the partner-countries there has also been a commitment in developing regional social policy mechanisms. This is not only important because of the fact that it is in the South Asian Region where still more than 39% (450 Million) of the world's poorest and 50% of the illiterate worldwide live. For the regional integration project it is essential to deal with the huge disparities between its members. That's why within the SAFTA Bhutan, Bangladesh, the Maldives and Nepal are rated as Least developed Countries (LDC), giving them a special and differential treatment in the liberalization process. India (which comes up with almost 75% of the SAARC population and economic power), Pakistan and Sri Lanka, are not LDC and have the responsibility in contributing to the economic growth and social development in the LDC-members (Chaturvedi 2004).

As part of the Integrated Programme of Action (IPA) regional cooperation programmes were initiated already in the 1980s, concerning the sectors of agricultural and rural development, education, health, population activities, science and technology, gender-specific development among others (Lama 1998).

Since the 12th SAARC Summit in Islamabad (2004) poverty has been identified as one of the most important boundaries to regional social and economic development. In this context a Plan of Action on Poverty Alleviation has been elaborated on the basis of the recommendations of the Independent South Asia Commission on Poverty Alleviation (ISACPA) and its report "Our Future, Our Responsibility". Furthermore the SAARC Decade of Poverty Alleviation (2006-2015) has been initiated, as well as a regional food bank and a Poverty Alleviation Fund created. One of the main tasks for this period is to promote pro-poor growth, meaning to find ways to reduce the unchanging socio-economic inequality related to the missing distribution of the gains coming from economic growth (SAARC 2007).

Following the words of the actual Minister for External Affairs Pranab Mukerjee at the 29th session of SAARC Ministerial Meetings in December 2007, the SAARC Poverty Alleviation Fund should be operationalized with a temporary cell being established in the SAARC Secretariat. The funds are to be used on social sector and physical connectivity projects. India supports these activities, as by contributing 100 Million USD to the total of 300 Million USD budget of the Fund (SAARC 2008)

5. The role of the EU: New challenges for development cooperation?

After having looked at India's bi- and multilateral FAP, I want to ask how the EU relates to this process. Since the 1970s India and the EU are cooperating in many policy fields, among the most relevant certainly are the development cooperation on the one hand and free trade and investment negotiations on the other (EU 2005). Latter were institutionalized as such in the context of the "strategic partnership" in trade and investment between the EU and India in June 2007, with the aim to be completed by 2009 (Rollo 2008). But, and this is important, up to now the EU is mainly focussing on India bilaterally, neglecting the letters efforts of regionalization.

This is so, although the EU claims in its "Regional Programming for Asia - Strategy Document 2007-2013" (European Commission 2007) to support the regionalisation process and social development in the SAARC region. Up to now the EU focuses its assistance to South Asian regionalisation to (a) the act of counselling in regard to the process of regional liberalization of the SAFTA, (b) civil aviation and (c) promoting a sectoral dialogue (on regional integration, energy, environment, disaster relief, emerging epidemics and transport). One may ask - especially after noticing the problems of integration in the SAARC mentioned above - if it is enough to focus on these issues. In my view the EU is missing to share its knowledge in one of the most important mechanisms and promoters of European integration, which is structural and social regulation and redistribution. Regional cohesion is not possible without trying to minimize regional disparities, as the cases of Spain, Portugal or Greece since the 1970s or the eastern European countries today well show.

That is why this paper suggests that the EU - in relation to SAARC - should start engaging more in the specific field of regional social policy. Regional social policy as a concept is understood by Deacon (2007: 3-4) as: "an extension of national social policies, and should be consistent with national social policy objectives. Regional social policies address issues that benefit from intergovernmental cross-border cooperation on areas such as:

- *Regional social redistribution mechanisms:* These can take several forms ranging from intra-regional transfers to overseas development aid (ODA) and can be used to target depressed areas or to redress inequalities.
- *Regional regulations:* These may include health and labour standards to combat an intra -regional 'race to the bottom', as well as the regulation of private social services and utilities (water, electricity). Regional formations in principle are in a stronger position than isolated governments to negotiate with private providers to ensure access, affordability and quality standards in commercial services and utilities.
- *Regional mechanisms that give citizens a voice to challenge rights abuse:* The European Union's European Court of Justice or the Council of Europe's Court of Human Rights could serve as useful models of mechanisms by which citizens can be empowered to challenge the perceived failures of national governments to fulfil their rights.
- *Regional cross-border investments:* These could address various common social policy priorities, for instance, the production of cheaper generic pharmaceuticals at regional level to benefit from economies of scale, or common programmes to avoid cross-border spread of diseases (e.g. malaria).

- *Regional technical co-operation in social policy:* This provides an opportunity to learn from good practices that have worked at local level and develop innovative local solutions. “

Summing up: It is a fact, that the EU has gained more experience than any other regionalization process in the specific area of regional social policy (Daly: 2008). Further more - as Fioramonti / Poletti (2008) notice for the Indian political Elite - the EU is seen as an important example of regional integration, based on common values and dialogue. In this sense the EU has to see, that serving as an example is a great opportunity to help other regions in the shaping of their own regionalization processes. So why not contribute to the deepening of SAARC regionalization in this direction?

How to do it? As an example the EU could extend its cooperation in three main fields on the regional level. One is the field of technical and financial support to regional mechanisms of social assistance or redistribution, as the SAARC Fund for Poverty Alleviation, mentioned above. The second possibility of cooperation is in the field of exchanging know how in the development of supranational social policy through conferences, workshops, exchange-programs etc. This cooperation could be seen as a chance for both – the EU and SAARC – to continue developing a social agenda on the supra-national level. The third cooperation field is linked to the concept of the so called triangular cooperation. In this case the EU could support India's FAP with technical expertise and financial funding.

The funding for all these suggestions should be available, knowing the fact that India is the main recipient of EU development aid and that at the same time the EU and its member states are the biggest bilateral contributors to India's social development policy, providing 80 million Euro annually (or 800 million Euro when Member States included)³.

By strengthening regional social mechanisms in the SAARC, the EU - as also being India's biggest trading partner - can show that it is really interested in a strategic *partnership*, in which one feels responsible for the well being of the other. This may be a big chance in deepening the relationship between the regions beyond the mere dimension of trade.

³ http://ec.europa.eu/external_relations/india/intro/dev.htm

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