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## THE EVOLUTION OF INDIA'S ECONOMIC DIPLOMACY IN THE LAST THREE DECADES

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### **ABSTRACT**

*Diplomacy has long been recognised as a means to safeguard national interests and forge relationships between nations while adhering to legal frameworks. In the 21st century, diplomacy has evolved considerably, encompassing various domains that continue to be explored. Economic diplomacy, one such branch, involves the pursuit of a state's economic interests in the international arena. This article provides an overview of economic diplomacy, its historical context, and its significance in the modern world.*

*Keywords: Economic diplomacy,, foreign policy, 21<sup>st</sup> Century, economic reforms*

### **INTRODUCTION**

Economic diplomacy entails decision-making, policy formulation, and advocacy aimed at advancing a nation's business interests. It requires technical expertise to analyse the impact of a country's economic situation on its political climate and economic interests. The agenda of economic diplomacy encompasses tools pertaining to foreign trade, import-export relations, promoting national economic interests abroad, attracting foreign investment, negotiating economic and trade agreements, and fostering cooperation in diverse sectors. Diplomacy is how you protect your interest without violating any law and how you open different definition of self-interest. Diplomacy is of managing International Relations and maintaining good relations between nations. In 21<sup>st</sup> century diplomacy has become much vast and is evolving day by day with various domains of the diplomacy are being continuously explored. One of its branches is economic diplomacy which includes all the activities that a state takes to protect and promote its own economic interest in the international environment.

### **Economic Diplomacy: Concept**

The term economic diplomacy is not new it has been since existence of various political entities like kingdom, states, empires etc. In the modern context economic diplomacy focuses on socio-economic upliftment of own economic interest and negotiating the terms of trade in international regime. It can be defined as the decision making, policy making and advocating of a state business interest which requires the application of technical expertise which analyses the effect of a nation economic situation on its political climate and on economic interest

Economic diplomacy agenda consists of comprehensive tools that are pertaining to foreign trade and import-export relations, promoting of national economic interests in other nations, informing and updating potential foreign investors on investment

opportunities, negotiating economic and trade agreements on economic and trade co-operation, as well as co-operating with a view to eliminating problematic divergences and harmonising standards in various sectors like economic, social, environmental etc.

The concept of economic diplomacy is evolving constantly with changes in the global economy and inter-state political relations. Professors Bayne and Woolcock define economic diplomacy as “the way in which states conduct their economic relations, how decisions are made at the national level and negotiated in the international arena and how these two processes interact”. The authors have mentioned the importance of state and non-state actors and the national & international level synergy required for implementation. The economic diplomacy is a method by which states conduct their external economic relations.

### **Economic Diplomacy & Foreign Policy**

Economic diplomacy is the most important factor of foreign policy, foreign policy means a conceptual framework that where the nation is today and where it would be in future. While making foreign policy of a state we should consider three parameters i.e., time, history and geopolitics. Firstly, time plays a great role in a state’s foreign policy like when we are making our foreign policy what is happening in rest of the world. Thereof foreign policy is made in accordance to the current scenario that is going in the world. Secondly, history eventually means past, past determine value, behaviour and future. This plays a key role in determining the foreign policy of a state. It determines from what scenario the state has gone in the past, that it is today like this. For instance, USA past was for the struggle of democracy, so it is likely there present and future will also determine on democracy. It is a nation in the world which want every nation to follow democracy and it tries to impose it even if it is done by force example in case of Iraq. Thirdly, geopolitics by this meant the resources present in a state which influence its foreign policy. If a state has various natural resources, mineral present in its geographical boundary, then that state makes its policies in par with that only. Thus, these factors play a crucial role while framing a state foreign policy and determines its economic diplomacy.

When India emerged as new nation in 1947 after a long past of colonial rule it was time when the World War II ended; the world was bipolarized (USA & Soviet Union) and has split into the era of cold war. India at that time had three options either to join USA or USSR or to remain alone. But seeing our past experience of British imperialism the then PM Nehru thought if we go with any of the two nations, a time will come when these nations will start interfering in our internal & external affairs; by this our independence for which we fought so hard would be jeopardize and as a result our sovereignty may also get compromised. We decided to remain non-align and we adopted non-alignment i.e., friends with both USA and USSR but alliance with none. By non- alignment we meant not to fight with anyone nor be any one’s allies and to

have a full right to self-determine the economy, military and foreign policy as a sovereign nation. This step of India was supported by many nations like Yugoslavia, Egypt and some African nations and this led to a moment called non-alignment moment in 1951. This can be termed as first economic diplomacy of independent India.

The time from the independence to the liberalization saw the import-substitution and license-raj as the basis of India's economic strategy, with a focus to secure development assistance. During Indira Gandhi's tenure, there was no change of the framework pertaining to this overall economic policy. In 1970, the foreign aid coming from the western world decreased along with rupee's devaluation that led to a more stringent industrial licensing policy. The concentration of economic power within India evolved rising sentiments against it that led to more restrictive measures against the big business by the government of India.

The last decade of 20<sup>th</sup> century witnessed the end of cold war after the disintegration of Soviet Union. In starting 1990s India was a closed economy; facing economic crises and after Soviet Union's disintegration India was left with only one option to be either enemy or friend with United States of America. So, considering the present need India decided to move from closed economy to an open economy and found United States of America (USA) being a capitalist ideology; a suitable option which would help India in booming its economy and keeping this mindset India joined hands with USA. After joining hands with USA its allies like Japan, South Korea, Israel etc who were US allies since cold war also came with India. This improved India's diplomatic and economic relations with them.

Thus, we can analyse that the termination of cold war in 1990s and a simultaneous balance of payment crisis in India triggered a new economic strategy for India which made it move towards a trade-based model and increasing further the significance of economic diplomacy in India's growth story. Though the economic diplomacy has been central to the foreign policy of India, it was only after the liberalization of Indian economy in 1990s it received the greatest emphasis.

In the 21<sup>st</sup> century economic diplomacy is a new tool for promoting development. If the goal of traditional diplomacy is peace, then the goal of economic diplomacy should be prosperity, in which the business enterprises will play a critical role to advance interest of India in global regime. It is due to the interest of the Indian private sector that India gets engaged in economic diplomacy in acquiring new markets, boosting international trade & investments, and helping Indian companies pursuing business venture abroad. Economic diplomacy functions at three levels bilateral, regional and multilateral.

If in diplomatic parlance the 19<sup>th</sup> century belonged to United Kingdom, 20<sup>th</sup> century belonged to USA, then this 21<sup>st</sup> century belongs to a multiplex world where so many regional powers are playing together for instance USA's Pivot to Asia (Atlantic Ocean

to Indo Pacific zone); China's One Belt One Road initiative (Pacific to India Ocean); Japan's Arc of Freedom and prosperity also known as Broader Asia Policy; India's Look South and Neighbour First Policy.

In late 20<sup>th</sup> and early 21<sup>st</sup> century there existed a popular socio-economic and political division of earth which was called 'Global North-South Divide' which consisted of first world nations in Global North and second & third world nations in Global South that came to end in 2008. Till 2008 Global North dominated the Global South in terms of money, power etc but after the emergence of BRICS, New Development Bank, Contingencies Fund, Bank of China etc the Global North dominance came to an end. The new emerging economies in Global South are posing challenges to the old institutions like World Bank and International Monetary Funds. All these economic developments are proving to be best for India, now it's on our diplomatic abilities how we utilize the benefits of shifting of the world from unipolar to bipolar to unipolar now to Multipolar (i.e., USA, Russia, China and India)

The Non-alignment has helped India during the mid of 20<sup>th</sup> century when India was going through difficult times but now India is seemed to have move from 'Non-alignment' to 'Multi-alignment'. Where its economic diplomacy has been proven to be a great tool which is evident from the following incidents. Firstly, the deepening of ties with USA by signing the Civil Nuclear Agreement which was game changer for India as it projected India as a positive influencer both globally & regionally; strengthening of the partnership on high technology under the Defence Technology & Trade Initiative (DTTI); making other agreements like Communication & Information Security Memorandum (CISMOA) and Logistic support Agreement (LSA) etc. Secondly, reaffirming ties with Russia by signing key agreement on nuclear, space, energy and defence; procuring Moisture Separator Reheaters and High-Pressure Heaters from Russia's Rosatom State Atomic Energy Corporation Kudankulam Nuclear Power Plant in India; India acquired 10% stake in Russian oil company Rosneft and the recent contract of IOCL and Rosneft for oil import and enhancing energy cooperation with future possibilities of India exploring a roadmap for Indian investments in the Vostok (Eastern Cluster) project of Russia. There are also opportunities for involvement of Indian companies in infrastructure development projects in the Siberian and Arctic regions. Thirdly, ties with Japan to take financial and technical aid for high-speed rail link between Mumbai & Ahmedabad; Indo-Japan Agreement in regard to freedom of navigation in South China Sea; India-Japan signing a memorandum of understanding for Civil Nuclear Cooperation (despite India being a non-signatory to the Nuclear Proliferation Treaty).

### **Regional Economic Diplomacy**

'Look south & Neighbour First Policy' is a regional economic diplomacy initiative of India to enhance its regional cooperation and have evolved since independence. This

policy focuses on South Asia; Pandit Nehru the architect of the India Foreign Policy believed that “without support of South Asia India is not on a stage of economic development” which is evident that the majority of Nepal and Bhutan budget are funded by India. But this policy saw a setback during Indra Gandhi era when after 1971 war she adopted a harsh attitude towards South Asia i.e., Big Brother Policy in order to overshadow all the neighbouring states and started interfering in the foreign affairs of other nations. The Gujral Doctrine of non-reciprocity evolved this policy again as this doctrine focused to recognise all the neighbour state as shield for India as India is an epicentre of terrorism and affirmed not to interfere in their internal and foreign affairs. This doctrine stated that India to provide assistance in the economic development in the neighbouring region without expecting anything in return; it will provide external and internal support to India. During Atal era this policy saw a paradigm shift as he believed in ideology that you can change friends but not neighbours. He was the one who coined the word ‘Look South Policy’ and this era saw an increase in multiple bilateral and diplomatic visit between India and other nations. More focus was given on trade, transportation, people to people tie for instance he started Delhi Lahore bus service etc. During Manmohan Singh era this policy continued but emphasized majorly on three nations Bangladesh, Sri Lanka & Maldives. He signed Gale Declaration between India, Sri Lanka and Maldives for proper coordination in India Ocean. Now came the current Modi era, he arrived in 2014 and announced ‘Neighbour First Policy’, invited all the South Asian Association for Regional Cooperation (SAARC) leaders for his oath taking ceremony which was significant diplomatic move. Since 2014 various steps have being taken for regional cooperation and trade promotion like-

- a) ‘One Currency One Market’ in order to promote trade in Indian Ocean.
- b) As a strategic diplomatic move an amendment in framework on currency swap arrangement for SAARC member nations like Sri Lanka and China whose economies have faced crises by borrowing heavily from china, a stand-by facility of 400 million USD is been made to assist nations.
- c) More emphasis is given on science and technology innovation for instance launch of first-ever South Asia Satellite (SAS) build by Indian Space Research Organisation (ISRO) to boost communication and improve disaster links among its six neighbours has opened up new horizons of engagement in the entire region and have helped India to carve a unique place for itself in space diplomacy. This satellite will help efficiently in natural resource mapping and will boost the regional economy.
- d) Enhancing transport and connectivity with Indian bordered SAARC nations, India signed Motor Vehicles Agreement (MVA) with Bangladesh, Bhutan, India and Nepal (BBIN) for the regulation of passenger, personnel and cargo vehicular traffic among the four South Asian neighbours which is a significant diplomatic step towards regional connectivity. This will pave the way for a seamless movement of

people and goods across their borders for the benefit and integration of the region and its economic development. These economic corridors could increase intraregional trade within South Asia by almost 60% and with the rest of the world by over 30%.

The current government Look South Policy also talks about non-interference in sovereignty, autonomy in decision making, solving political dispute mutually and maintaining democracy in the region.

The Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation' (BIMSTEC) is a regional group consisting of India, Nepal, Bangladesh, Bhutan, Sri Lanka, Myanmar and Thailand constitutes a bridge between South and South East Asia. Its objective is to build an alliance to harness shared and accelerated growth through mutual cooperation in different areas of common interests. It is sector driven economic cooperative organization focuses on sectors like trade, technology, energy, transport, tourism, fisheries, agriculture, public health, poverty alleviation, counter-terrorism, environment, culture, people to people contact and climate change. BIMSTEC is result of evolving economic diplomacy and has established a successful platform for intra-regional cooperation between SAARC and ASEAN members, this strategic region is home of 1.5 billion people which constitute around 22% of the global population with a combined gross domestic product (GDP) of 2.7 trillion economy. In last five years its member have been able to sustain an average 6.5% economic growth despite of global financial meltdown.

The role of a diplomat has been changing throughout the history, and these changes are huge today because of technological advances and transport. The present need demands multilateral diplomacy and the time have gone when diplomatic agendas where exclusive bilateral now it has become more comprehensive effecting global interest, thereof economic diplomacy as a tool an agent of the foreign policy must get ready to adjust to big changes.

Now the activities of state to protect and promote its own interests in the international environment can be split into economic diplomacy and commercial diplomacy. Economic diplomacy is concerned with the issues of economic policy, such as the negotiation on standards of international trade. It acts as a bridge between the state actors and international organisation. An economic diplomat monitors reports on the economic policies in foreign nations and advises his government how best to respond on it. Commercial diplomacy represents all the activities of a government in supporting and promoting its economic operators through network of diplomatic and consular missions, the chamber of commerce network, agencies, state owned export banks etc. Such activities include the promotion of foreign investment, trade relations, collecting information about export opportunities and favourable condition for investment. To

achieve both these components a nation as per its experience, knowledge and tradition builds its own model of economic diplomacy that will protect its economic growth.

Ongoing need is of 'Country Branding' which is emerging as a promotional mission of diplomacy. As marketing brands bring extra profit to owner, today the state is trying to become a brand. Typically, civilization, social and productive achievements aim to identify certain nations and their national communities like French cheese and wine, German cars, exotic tourism of Bali, Swiss Bank etc. Even India branding yoga as an invaluable gift of India's ancient tradition and celebrating 21<sup>st</sup> June as international yoga day across the globe is a step towards branding India's Vedic Culture. But synergy of cultural diplomacy, economic diplomacy with the branding will add a cherry on the top. As Pollins and Rose has said 'Trade follows the flag' now it's time to make the flag desirable among nations that would be possible by people to people tie for instance during late 1970s America realized that embassy won't satisfy all needs, it is required to engage people to people tie through cultural centers as it will create public opinion which will enhance trade and commerce and America succeed in it which is evident from the fact that everyone has a desire of the American lifestyle. Lately, but even China has also realized that in order to subdue American domination it can't be a tough state it needs to have people to people tie, which is evident from China cultural centre in Delhi free Chinese with free lunch.

It is required that all the components of economic diplomacy should act in synergy to place the state on top in the international environment and contribute to its economic growth and prosperity. Diplomacy, like politics, is the art of the possible motivated by economic interest. If we remove economic component from today's diplomacy, it would not be able to solve any of the pressing global issues and conflicts. That is the reason behind the constant rise of economic factors in the foreign policies of the nation.

After subprime crises in USA during 2008, it lacks to be a super power in the world. Indian economic diplomacy should aspire to be an economic super power in the region and globe for this it requires India to dominate in three areas i.e., economy, defence and diplomacy. India needs to act as a restraining power and should adopt policies like carrot and stick of Bismarck which states use a carrot not stick; first pursue talk without using any force power i.e., carrot to be used as a temptation to attract a person but also a stick in other hand to show deterrence if carrot doesn't work; it is just like offering a donkey a carrot to move but if he doesn't like the colour of carrot, hit him with a stick. But this needs to be applied in a balanced form. Diplomats don't make foreign policy it happens by political class i.e., legislature which is evident from firstly, when Woodrow Wilson gave idea to America for making League of Nations, thought he agreed but didn't get the senate support i.e., why America was not part of league of nations. Secondly, C.B. Muthama never supported for non-alignment of Nehru neither intellectually nor practically but she served non-alignment as diplomat this shows that

diplomat does not make foreign policy. By bringing bureaucratic coherence in making of foreign policy would help India in dramatically enhancing its stand in the region.

Indian economic diplomacy has led to a massive trade surplus in India's favour. India from being a mere buyer of petroleum products to a major investor in equity oil around the world. There is a paradigm shift in India's image from holding a begging bowl to now offering large credit lines across the world and helping others to make progress. Lastly, it is concluded that economic diplomacy plays a key role in any nation's foreign policy agenda. But the pressing need is to address how government and business can work together in advancing Indian economic diplomacy needs, which ministry should be the nodal ministry for coordinating economic diplomacy, and what responsibilities the government should keep and what private businesses should undertake. There is a need for India, to take better edge on its economic policies in realizing larger strategic and political goals.

### **CONCLUSION**

In conclusion, economic diplomacy has become a vital tool for promoting development and prosperity in the 21st century. As traditional diplomacy seeks peace, economic diplomacy aims to foster prosperity, with business enterprises playing a crucial role in advancing national interests. The article underscores the significance of economic diplomacy at bilateral, regional, and multilateral levels, emphasising the need for adaptation to a rapidly changing world. It also highlights the growing importance of country branding as a promotional mission of diplomacy.

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