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Between Hope and Reality: India's Foreign Economic Policy in the neighborhood

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Introduction

India has always enjoyed a certain paradoxical position in its neighborhood. Being at the core of South Asia and enjoying preponderant advantages in terms of geography, size and economic resources, expectations are natural that India would play a leading role in taking South Asia along in its own quest for growth and stability. Therefore, 'emerging India is often seen as the rightful pull to which the smaller countries in the neighborhood can be attracted and taken along for South Asia to find its rightful place in the unfolding global political economy. However an examination of the manner in which post reforms India has been able to economically engage with its smaller neighbors reflects more a story of missed opportunities where perhaps political expediencies were allowed to get the better of economic opportunities that could have been generated. The present paper tries to understand this dichotomy by looking at the politics and the economics of her policy in the neighborhood in the recent years. It argues that while India certainly could have been more pro active in pursuing a keener regional economic policy agenda, its neighbors have equally not been able to decide on the terms and extent of their economic engagement with their 'larger' neighbor. It finally lays down a blueprint for a new economic vision for shared partnership in the region.

Historical Background

South Asia as a region has enjoyed some unique historical continuities and connectivities in terms of its unified geography, history, economy and identity shaped by a prolonged period of colonial rule. While the region was exposed to forces of modernization and industrialization during the British rule, there was at the same time consolidation of political identities in parts and aggregate across South Asia. Thus from a political economy perspective, the region experienced often overlapping impulses of economic integration and political consolidation. Thus for example, thriving commercial and industrial centres like Bombay, Kanpur, Dhaka and Karachi would remain interconnected through flow of raw material, labour finance and finished products whose movement would be facilitated by the extensive networks of the rail and roads that were built as part of the colonial enterprise. It has been aptly pointed out:

'Fragmented politics did not of themselves hamper the development of a thriving inland trade in grain, cloth and cattle. Corporate merchant institutions transcended political boundaries in overseeing the transportation of goods and provision of credit and insurance services' (Bose and Jalal, 54).

It would therefore be not incorrect to say that South Asia was a more unified economy during the colonial rule, even though the larger contours of such economy were shaped by colonial interests. As the colonial enterprise came to an end the unfolding political and economic transition was marked by a

sudden fragmentation of this historical unity and connectivity that the region possessed. Thus Partition of the subcontinent in 1947 did not only create political boundaries between the newly formed states, it also created sudden disjunctions between the economic links that the region had been able to forge during the preceding centuries. There was a sudden disruption of road and rail links across the newly created borders which was logically followed by barriers to movement of labour and capital as all such exchanges would now have to be recreated through formal apparatuses of respective states which in turn would often be determined by the political calculus between them.

India which now accounted for nearly three fourth of the population, size and resources of modern 'South Asia' therefore became the core around which post colonial economic links had to be recreated. Such recreation was done more on a country specific and a case by case basis. For example, while India did sign in 1950 a unique Treaty of Peace and Friendship with Nepal, it only created a Joint Commission Mechanism with Pakistan, unsure of the future trajectory of such an engagement. Besides, there were too many 'political' issues to contend with, for India to take any meaningful step towards laying a blue print for economic partnership in the region. The contentious Kashmir Issue with Pakistan, the issue of Tamil settlers in Sri Lanka and the unresolved border questions with then East Pakistan had enough potential within them to eclipse any meaningful thrust towards economic cooperation. Whatever steps that were taken at regional economic interaction were purely bilateral, episodic and often dependent upon the political regime and climate in the neighbouring country. India therefore professed cooperation with neighbours as an end in itself, without there being evidence of a keener big push towards the same.

The context slightly changed in the 1980s with the realization among smaller nations in South Asia about the need for a rethink on the form and substance of regional interaction in South Asia. The idea of a South Asian Association for Regional Cooperation (SAARC) initially conceived by Bangladesh marked a significant shift if not a radical departure from the conventional approaches to bilateral and regional cooperation that had been spoken of.

India and the 'SAARC' factor

As the idea of SAARC took a concrete shape by mid 1980s, a new dimension was added to India's economic engagement with the region. Even though India by and large apprehensive of the idea due to the possibility of a set of smaller group of nations including Pakistan using it to confront India, it at the same time did not come in the way of extending support on crucial matters. The SAARC made a gradual yet steady start with a lot of focus and attention on creating the institutional basis for cooperation in its initial decade with India hosting two significant Summits in 1986 at Bangalore and 1995 at New Delhi. During this period India was seen more as a reluctant partner in SAARC where rather than setting the terms of the engagement, it was more content with responding to the initiatives suggested by other smaller neighbours. In fact on more than two occasions, India was seen as being involved directly or indirectly in postponements of SAARC Summits such as the 1989 Colombo Summit due to the IPKF Issue and then in 1992 Dhaka due to Babri Demolition, even though SAARC Charter mandated keeping bilateral and contentious issues out of SAARC deliberations.

The New Delhi Summit of SAARC in 1995 finally led to concretization of the idea of adopting trade liberalization in South Asia through SAPTA, which even though reflected baby steps towards trade expansion, showed an important start. Indian economy, which had started opening up to the rest of the world, did not perceive opening up to the region as a major threat anyway and supported future trade integration in the region. By late 1990s as the size and spread of India's external economy started expanding, it became restive with the very slow pace of SAPTA and the near impossibility of it being converted to a South Asian Free Trade Area (SAFTA). The SAARC Eminent Persons Group Report 1998 precisely reflected this sense of frustration:

SAARC is still very far from maturing as a regional economic grouping. The progress made through SAPTA has been very limited...On the whole the grouping has made a very little headway in realizing its primary objective "to promote welfare of the peoples of South Asia and to improve their quality of Life."(SAARC, 1999:16).

This sense of frustration further deepened as the SAARC process became stuck, due to Indo-Pak stalemate arising out of Nuclear Tests, by the two countries, Kargil War and the tensions built up due to brazen terrorist activities by groups India accused of being encouraged by the Military ruled Pakistan. The smaller countries became more bystanders in the SAARC process as the movement in SAARC became dependent on whether the two larger members would ever see merit in coming together. In fact SAARC Summits made news more because of what the Indian and Pakistani leaders exchanged rather than the regional agenda that was there on table. India's frustration with the grouping peaked when it became apparent to it that there was a collective inertia on part of SAARC members to inject greater meaning and dynamism in the initiative and the attraction of bodies beyond South Asia were more compelling. In a very telling remark on the smaller members of SAARC on their inability to look at India as a partner by India's former Foreign Secretary:

"This (display of narrow nationalism) inhibits the development of normal relations, including economic cooperation, and prevents our region from emerging as a region of both political stability and economic dynamism ,..... India is an opportunity, not a threat, that far from being besieged by India, they have a vast, productive hinterland that would give their economies far greater opportunities for growth than if they were to rely on their domestic markets alone..."Our approach to SAARC was the only one logically sustainable - we set aside our differing political and security perceptions for the time being, and focus attention on economic cooperation. Our expectation was that the very dynamic of establishing cross-border economic linkages, drawing upon the complementarities that existed among different parts of our region, would eventually help us overcome the mutual distrust and suspicion which prevents us from evolving a shared security perception,".(Saran: 2005)

It would therefore require a major thrust from top if SAARC was to be made more meaningful in India's larger geopolitical and geo economic calculations and such a boost came from Prime Minister of India himself. The New Delhi Summit of SAARC in 2007 injected a new sense of purpose and direction in so far as India's position was concerned. Using 'Connectivity' as the theme, India sought to devise a bold new approach towards regional cooperation by redefining borders-till now seen as points of contention to zones of collective aspiration and prosperity. The emphasis on connectivity saw India propose a number of significant initiatives such as building up of multi-modal transit facilities across the transit points in borders to overcome the existing bottlenecks in transport connectivities, with a view to promote cross border land trade. This was seen as a continuation of India's earlier emphasis on people to people connectivity which was seen as crucial in cross flow of Ideas, human capital and cultural exchange. It was often seen as an idea, which had the potential to transform SAARC from 'below'-meaning transforming

SAARC from a government led mechanism to a one which is more people centric. (Tripathi , 2006). Another major Indian contribution during this period was the proposal and acceptance to host the first ever South Asian University at New Delhi, which could provide a base for imparting quality higher education in tune with global standards to SAARC candidates with a view to harnessing regional and global expertise on specialized areas. The initiative has since taken off albeit with some initial hiccups and one expects the initial hurdles shall be overcome.

The Bilateral factor in regional economic interaction

While India's efforts at regional economic interaction within the SAARC framework have been episodic and gradual, the bilateral economic interaction has had some more meaningful starts, though the full potential still remains untapped. One sees the following major trends in bilateral economic interactions with neighbors:

1. **Fast track-Integrationist-** At times frustrated by the slow pace of SAARC led deliberations where delayed and often remained stuck, India found greater merit in adopting the bilateral approach with those neighbours which were willing to be on board. One such successful examples has been the signing and relatively satisfactory functioning of India Sri Lanka Free Trade Agreement signed in **2000 and having** recorded nearly four- fold jump in bilateral trade since the treaty became operational (Kelegama and Mukherjee:2007) and . The fact that the Agreement sustained despite some initial reservations by the domestic lobbies which were bound to get affected by opening up showed that political will enabled better economic judgment at the top leadership level. Encouraged by the ISLFTA, there are now attempts at a Comprehensive Economic Partnership Agreement (CEPA) underway. There is a possibility of considering similar proposal vis a vis Bangladesh.
2. **Sub regional-Cooperation across border** - Given its peculiar geographical location within South Asia where it shares borders with almost all its neighbours and none of them seemingly share their border with the other, India has had special trade and transit arrangements with countries like Nepal and Bhutan, where open borders are a necessity for overcoming the landlocked constraints of smaller neighbours. At the same time there has been a propensity to develop joint infrastructural projects across borders such as the Mahakali/Tanakpur Hydel project with Nepal and Chukha Hydel Project with Bhutan. Such projects have generally had a cost benefit sharing formula where things have not always been amicable, often leading to political discontent. At the same time there have been extremely contentious issues relating to water sharing across interstate rivers, such as the Farakka Barrage Issue between India and Bangladesh over sharing of Ganges river water, which was eventually resolved after decades of bad blood in the nineties and the arrangement has worked satisfactorily ever since.
3. **Private Sector Trade and Investment Cooperation-** While states have been major drivers of cooperation in South Asia, the private sector cooperation also has to be adequately taken note of. Indian Companies have often found in the neighbouring countries a ready market for their manufactured products as well as investment plans. India's investments in the South Asian countries range from automobiles, engineering, pharmaceuticals, food processing and software and there is a yearning among smaller countries to tap further potential (Phadnis, 2011). This is

not to say that, the Indian investments have not met with pockets of opposition with companies like Tatas and Dabur often being forced to rethink their investment plans in Bangladesh and Nepal as seemingly economic issues acquire political connotations. The situation often gets compounded by the huge balance of trade in favour of India which runs into nearly 7 billion dollars (8.5 billion dollars exports : 1.5 billion dollars imports for April-Dec 2010-2011 (Ministry of Commerce, 2011) and as a percentage of its global trade it remains below 4 percent. The only way to reduce if not eliminate this deficit is by encouraging greater investments across borders with simultaneous buyback arrangements and the private chambers of commerce and Industry across the countries can play a major role by bridging the trust deficit.

4. **Recovering the 'Intractable' Indo-Pak economic relations-** The Indo-Pak economic relationship shall remain at the core of India's interaction in South Asia not just because of the substance of it, but of the wider impetus it may give to the regional cooperation architecture in general. The unofficial trade between India and Pakistan remains nearly ten times the official trade and that itself speaks of the possibilities that exist. Yet the economic relations remain hostage to the political atmospherics between the two countries. While there does appear to be a groundswell for more business interaction between the two countries, potential partners remain uncertain about the vulnerabilities of their ventures if the political calculus goes wrong between them. The deteriorating security situation in India's Northwest, and Pakistan's suspicion of India's active economic involvement in reconstruction of Afghanistan remains a stumbling block. It remains to be seen whether the recent voices coming from Pakistan about conceding the Most Favored Nation (MFN) Status to India will lead to a meaningful breakthrough.

A Blue print for India's economic engagement in the neighbourhood

Given the backdrop of India's regional and bilateral economic engagement in South Asia, it therefore becomes imperative to lay down a blue print for future. Such a blue print has to factor in the present contradictions and the future imperatives for it to have a more meaningful impact. The major components of the same may include:

Rediscovering the neighbor-hood: Irrespective of the pulls and pressures in our neighbourhood, India has to recognize that the paradox of its location and position in South Asia is not going to change, therefore the best option is to contend with this position and make it part and parcel of India's own efforts to reach out to the world at large. Though it may sound clichéd, India needs a stable or prosperous South Asia as much as the rest of South Asia needs it and both have to grow together. India's emergence at the global level will be taken more credibly only if the rest of its neighbors remain on board.

A New 'Ind-Man' doctrine for South Asia : Among the two very powerful and meaningful voices on India's good neighbourly relations have been that of former Prime Minister Inder Kumar Gujral, who during his stint as foreign minister enunciated the oft repeated Gujral doctrine urging 'non reciprocity' and current Prime Minister Manmohan Singh, who gave a call for 'shared prosperity' between and India and her neighbours at a time when India was seeking to look for a role beyond South Asia. Perhaps a combination of the two visions where India could look forward to extending greater concessions to the

neighbours towards the long term objective of creating positive linkages and therefore co-prosperity sphere would be a more desirable option. This would not necessarily require a break from the past as India already is having such a framework of cooperation with smaller neighbours, what may be required is a greater political acumen and will among them to accommodate this larger vision.

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