

The Association of Indian Diplomats

ECONOMIC DIPLOMACY

Ten-point Plan for making it more effective

October 2005

Introduction

The need for placing greater emphasis on economic diplomacy is now universally recognized. Politics no longer drive economics. Economics must drive politics. Economic considerations must remain in the forefront of efforts to achieve foreign policy goals. Countries have been slower in recognizing this than others have been disadvantaged. India sadly seems to belong to the former category in comparison with some of the other major actors on the global scene today.

Economic diplomacy is the art of serving economic security and strategic interests of the country by the use of economic instrument in conduct of State to State relations. There is nothing new or unethical about it. The Indian classic on diplomacy namely, Kautilya's "Artha Shastra" has recognized the relevance of "*Saam, Daam, Dand and Bhed*" in conduct of diplomacy. Economic diplomacy is designed to influence policy and regulatory decisions of foreign governments as well as those of international organizations. It goes beyond trade and investment to the resolution of multiple causes of international conflict. Economic diplomacy is necessarily performed by the official representatives of the State but with the changing scenario today the private sector has an important role to play and function to perform in its successful implementation.

Some of the basic objectives of economic diplomacy in brief are – promotion of trade and investment, achieve objectives through multilateral trade negotiations, energy security and realization of political objectives through economic action. Some selected tasks for the practitioners of economic diplomacy could be:

- Influence economic and commercial policies of the host-country to make them most conducive for the country's national interests which include those of business and other stakeholders.
- Work with rule-making international bodies for shaping their decisions in the interest of the diplomat's own country.
- Forestall potential conflicts with foreign governments, economic actors and NGOs so that risks of doing business are minimized.
- Use multiple fora and media to enhance and safeguard the image, capability, reputation and credibility of their own country and enterprises.

The phenomenon of economic diplomacy is not new. It can be traced back to the commercial diplomacy of the European states in the 19th century or the 'dollar diplomacy' or 'cheque book diplomacy' of the US in the early years of the last century. US-China relations offer a more recent and powerful illustration of how business considerations influence political relations in spite of deep ideological differences. Japan has extensively used the economic instrument to win friends and remove the blemish of its wartime occupation and atrocities. The post-Mao China, cleverly used the economic instrument by offering attractive terms of trade and investments to its known adversaries like the US, Japan, South Korea by raising their stake in the stability and continuity of the communist regime in China, the Tiananmen Square episode notwithstanding.

In the early years after independence Indian Heads of Mission concentrated mostly on political work, leaving whatever little economic work was there to specially appointed "commercial representatives", many of whom were drawn from the Commerce Ministry and some from Finance Ministry. As the importance of economic diplomacy grew it was thought necessary to appoint a "Super Ambassador" to oversee economic work in the whole of Western Europe in the late fifties. In recent years, however, more and more Heads of Mission have been getting directly involved in economic work and are devoting the major part of their time to such work. It is necessary not only to encourage this trend but also to make our best talent available for it.

The most important task to be an Head of Mission today lies in identifying the 'big interest' for India and generating specific and concrete proposals of a 'big item' nature. For instance, it should be possible to identify a scheme involving a country, which has iron ore and requires a steel plant, to be put in touch with both a Government entity and a private Indian entity, working in unison, to extract a major deal in the energy sector either there or through a third country/party. Similarly, it should be possible to identify a private sector Indian entity to make a major overseas investment in the IT sector in return for precious minerals and metals. Some of this is already being done, but on a small scale. The need for such inter-linked action and its realization that this is the prime requirement, needs to be promoted through a change in the foreign service mindset.

The processes of globalisation have almost completely obliterated the distinction between political and economic work. Other than hardcore bilateral political negotiations, and even these are not free from attendant economic consequences, there is very little in what we presently do where there is no strong economic undertone. Just to cite two examples issues in the health sector the first public health treaty, the Framework Convention on Tobacco Control (FCTC). Although primarily motivated by public health concerns, the FCTC has a significant impact on the growth and production of tobacco and tobacco products. Provisions relating to commercial advertising, both domestic and cross-border severely impact consumption and have a direct bearing on hard core economic interests; or issues relating to the pandemic HIV/AIDS which involve generic drug production etc; all of these are hardcore economic issues. The point being emphasized is that all work today in a Mission abroad, almost without exception has an economic content, whether it be Consular (which leads to tourism, health tourism etc.), military cooperation etc. etc.

India's achievements in economic diplomacy particularly since the first oil shock of 1973 have been considerable. However still has a long way to go in the process of fully integrating its economic goals with its political and strategic objectives. To achieve this we need a sea change in our mindset. Changes are required not only in the functioning of our missions abroad but also at headquarters. In this regard we still seem to be in a sort of a vicious circle. There is a tendency to regard international economic relations as a highly specialized job that is best left to specialists. While lip service is paid to MEA's co-ordinating role, in effect even this role is increasingly being assigned to other agencies. We must get out of this vicious circle and MEA must become the leading actor for economic diplomacy to become an effective tool of Foreign Policy. This is particularly important with the growing trend towards globalization and India's rapid integration into the world economy.

For the success of economic diplomacy India has to ensure steady growth of trade, technology and investment flows. The main source is going to be the United States. Our emphasis of increasing economic relations with the US must continue. European Union, though a close ally of US, is not a surrogate of the US and should be treated as such. This region is an important source of supply of advanced technology and investments to supplement Japan and the US.

Next, India should improve its communications link, both physical and cultural, with the ASEAN region, by consciously involving itself in building roads, highways, airlines, promoting travel and tourism and offer itself as a big hinterland as an alternative to China without showing signs of antagonism towards growing Chinese influence in the region. In fact, in certain areas of South West China, which are relatively remote from the thriving commercial centers of East-North-East China, such as Shanghai, Tienjing, Beijing, India has advantage to penetrate economically and forge useful trade and economic links and integrate them with ASEAN and BIMSTEC region. These are the five South-West China provinces, viz., on the spectrum of Government of India for special attention and treatment.

Our traditional economic relations with the Russian Federation need to be revived.

Nearer home, i.e., in the SAARC, Government of India needs to adopt a bold strategy of integrating it with India by offering unilateral concessions for free flow of trade, tourism, capital and people so that the political boundaries become irrelevant. The idea is to make it fully integrated and unified economic community. There will be objections and obstacles from the small neighbours. But the vision should be clear to make the sub-continent a sphere of co-prosperity. It will help us if the purchasing power in the immediate neighbourhood increased. China should not be allowed to out-triumph India economically and diplomatically in South Asia.

In East Asia, Japan and South Korea have already become important stake holders in India. This trend should be further encouraged. Mutually beneficial trade and economic exchanges with China should be allowed to grow.

West Asia and gulf should remain areas of Indian interest confined mainly to maintain uninterrupted supply of oil and safeguard the well-being of Indians in the gulf.

Central Asia, though geographically closer, will remain somewhat distant due to the turmoil and lack of communications with India. It should therefore, receive due attention.

Africa and Latin America have remained continents of fringe economic interest to India. The challenge is to reverse this trend.

Economic diplomacy requires all the finesse and knowledge of traditional diplomacy. In addition, it requires an in-depth knowledge of economic analysis, commercial relations, both national and global trading rules, functioning of international governmental organizations, politics of trade & investment, and policy issues ranging from health/environment to the prudent supervision of insurance. It also requires an in-depth knowledge of corporate structures and functioning of major corporations in the host-country.

Suggested Ten Point Plan of Action

1. Training

A beginning has to be made right at the training stage. The purpose is not adequately served by routine "attachment" of trainees with economic ministries and trade and industry organizations – which often view them as undesirable intrusions in their work.

It is necessary to revamp the training schedule so as to ensure that right from the start IFS officers are adequately equipped to handle economic work.

Focused emphasis on practical economics during early training as all officers have not studied the subject.

- ♦ Admittedly the Foundation Course at the FSTI can only deal with generalities. Specialized courses, therefore, need to be devised for mid-career training – particularly for officers going abroad for economic assignments as First Secretary/Counsellor.
- ♦ It is important to strengthen the diplomats' connectivity with states of India. A road map must be devised so that our diplomats are better equipped with state-level information including investment opportunities and tourism related details.
- ♦ Emphasis right from the beginning should be on the importance of networking with the public and private sector, academic institutions etc. Training with the corporate sector should be given more importance.
- ♦ The Heads of Missions also need to undergo special training to enable them not only to supervise the economic work of their missions but also to take a direct interest themselves in such work.
- ♦ The FSTI is organizing an Internet based mid-career training programme. It is important that in all such training, the focus is kept not just on knowledge accretion but also on skills enhancement.
- ♦ A point that needs to be driven home at every stage is that contrary to a common misconception economic work is not much a part of the mainstream of diplomacy. IFS officers need to be reassured that specialization in economic diplomacy would in no way hamper their prospects for career enhancement but will exhilarate career advancements.
- ♦ To meet the challenge of globalization, the Training Programmes of FSTI must ensure adequate coverage of latest developments on the multilateral economic scene, with particular emphasis on institutions such as WTO, UNCTAD etc. This aspect has to be borne in mind not only in devising the initial programmes for new entrants but also in preparing specialized courses for officers proceeding on economic assignments.
- ♦ WTO runs an annual training programme, which is regularly attended by officers from the Commerce Ministry. The possibility of regularly deputing IFS officers for such training should be explored.

2. Changes in MEA

It is almost impossible to manage the Foreign Policy challenges of globalization on a sanctioned cadre strength 699 (and on 550 in place). The current cadre strength is not only insufficient to man India's 163 Missions and Posts abroad but leaves us with a completely distorted Headquarters-Missions ratio. Our situation is pathetic because we just do not have the manpower available at Headquarters to deal with the evolving scenario. If we do well, it is because of the outstanding quality of individual officers. We cannot, however, always bank on this. But then, this is true not only of economic diplomacy but also of every aspect of our bilateral political functioning. A depleted strength at Headquarters makes it virtually impossible for the Headquarters to absorb the political and economic reporting from Missions abroad and impossible for them to provide any serious guidance. Here again, we are setting our sights a bit low. The issue is not whether there can be collated research inputs available at Headquarters. What we require is the ability to take a comprehensive and holistic view of a wide variety of variables which impact on our economic diplomacy. This relates to the fundamental issue of MEA's interaction with other economic Ministries. MEA has not been able to provide any significant inputs either to the ongoing WTO negotiations or for that matter in any of the other areas which are crucial to our existence, i.e. issues covered by the Ministry of Finance, Department of Economic Affairs, Ministry of Health, Department of Telecommunications etc. With an absent manpower capacity, MEA's role becomes limited.

- ♦ We need to take a serious look at the organizational setup in MEA to see whether it is adequately equipped to bring economic diplomacy to the center stage for the conduct of foreign policy. The establishment of Divisions and the allocation of work among them must be primarily aimed at making economic diplomacy more effective and not, as seems to have been the case in the past, on ad-hoc considerations such as the knowledge and expertise of individuals available at a particular time. We need to build up and strengthen institutions to ensure continuity and create opportunities for more officers to acquire the necessary expertise.
- ♦ Our quest for strengthening bilateral economic relations must have a global sweep, encompassing not only the highly industrialized countries but also the developing nations. The main responsibility for handling bilateral economic relations must rest with the territorial divisions, each of which must have on its staff officers who have specialized in economic work.
- ♦ The root cause of many problems facing MEA is the shortage of personnel at Headquarters in relation to our missions abroad. Efficient foreign ministries function with a personnel ratio of 1 to 1 or less (e.g. Australia, China, Brazil, Singapore, UK) or at minimum of 1 to 1.5 or 1.8 (France, Germany, Italy, US). Unfortunately we are at a much lower figure of 1 to 4. Some suggestions had been made to resolve this problem in the report on the

reorganizing of MEA in 2001. This of course is a wider issue but strengthening the headquarters would also enable better management of economic work.

- ♦ Economic diplomacy should be supported with research that is stellar to empirical studies and focuses on a practical base. MEA needs a small research institute that could be linked to the FSTI as in Malaysia and Thailand. As a part of its functions relating to international economic relations, MEA finances an autonomous research institution – The Research and Information System for Non-aligned and Other Developing Countries (RIS). It should be ensured that its activities are directly related to MEA's own efforts to strengthen economic diplomacy. It may be worthwhile to have a pool of institutions of excellence in research whose services are always readily available.
- ♦ There is need for greater coordination among the various Divisions and Sections of the MEA whose work has a bearing on economic diplomacy. This is true, for example of the offers of scholarships, fellowships, technical assistance etc. Such work needs to be integrated so as to maximize its impact in serving our foreign policy goals.
- ♦ Greater attention has to be paid to MEA's liaison with economic ministries. Here again there has been a great deal of "ad-hocism" in the past. The effectiveness of such work has tended to depend on the aptitude and interest of individual officers and there does not appear to have been a conscious effort to institutionalize it. The policy and practice of posting IFS officers in such ministries also needs to be put on a regular footing. We have to break the vicious circle of lack of expertise combined with the denial of opportunities for its acquisition. An adequate talent pool has to be developed and nurtured for which we should not hesitate to take professional help from outside MEA whether from the government or non-government sectors.
- ♦ Wherever on account of inter-Ministerial problems MEA cannot coordinate, it should be easier to have inter-Ministerial coordination done through PMO.
- ♦ Handing Over Note: It is essential that every officer leaves a Handing over Note to enable the successor to carry forward the work. This is particularly essential for a Head of Mission. Every HoM should not believe that the wheel has to be rediscovered from the day of his/her assuming charge. There should be a scrutiny of the HoM's Handing Over Note at the Headquarter.
- ♦ Plan of Action: The MEA must give clear guidelines to the mission and prepare a programme of work or action plan in consultation with them and the industry which must be reviewed periodically. Wherever possible clear goals and targets must be established. The areas of emphasis will naturally vary from country to country. The strengthening of economic relations has to be a coordinated effort, taking into account the broad foreign policy goals and has to extend to numerous sectors, including trade promotion, technical and industrial cooperation, two-way capital flows to and from India, collaboration in the fields of science and technology etc. The possibilities in various sectors need to be identified and integrated into comprehensive action plans. At the end of the year there is a new need to impartially evaluate the action plan. Mid year monitoring is also essential.

3. Missions Abroad

Traditionally, commercial officers had to answer trade enquiries, keep updated lists of buyers and sellers and then provide facilitation to ensure that commerce takes place. Those were the days when a Mission could feel proud that, within a given reference period, the quantum of trade had gone up by 10% or 15%. This is no longer the case. All information relating to buyers and sellers is readily available at the click of a button. Delivery schedules, problems relating to freight and insurance, legal contracts are all quite easily resolved without the intervention of the traditional Commercial Representatives (CRs). The intervention of the CR is really required only in the case of nasty disputes when the case goes in for litigation. Our trade with China is increasing at the rate of US \$ 2 billion per year. Dealing with barriers to goods, tariff or non-tariff, as they cross the border is, is no longer an adequate or sufficient basis to explain what is happening in the market place or the work of the CR. A good CR has to go beyond to identify and surmount the 'entry barriers' which are often invisible. This also requires more sustained and intense interaction with the private sector both in India and the country of accreditation. Today, all officers in the Missions end up doing primarily economic work.

There has been steady improvement in the handling of economic work by our missions abroad in recent years. Nevertheless there is considerable scope for further improvement.

- ♦ MEA must itself play a central role in streamlining the economic work in our missions. Their tasks must be clearly defined and guidelines given for their accomplishment. Wherever possible clear goals and targets must be established.
- ♦ The strengthening of economic relations has to be a coordinated effort, taking into account the broad foreign policy goals and has to extend to numerous sectors, including trade promotion, technical and industrial cooperation, two-way capital flows to and from India, collaboration in the fields of science and technology etc. The areas of

emphasis will naturally vary from country to country. The possibilities in various sectors need to be identified and integrated into comprehensive action plans that should be evaluated at the end of the year.

- ◆ Extensive use should be made of latest technology, for example by establishing hyperlinks with websites of States, trade and industry bodies etc. both for creating awareness as well as for promotional work.
- ◆ Some missions publish economic newsletters. There is need to review these from the aspect of quality of content/printing, frequency, reach, etc. There should be a periodic “audit” of their utility and impact with a view to further improvements and ensuring the best way of putting across our message in the target country.
- ◆ MEA should periodically review the financial outlay for economic work particularly in respect of the missions in the major target countries with a view to optimizing the returns.
- ◆ There should be greater reliance on local talent, particularly at junior levels, in the commercial wings of the missions. It would be far more effective to have a well-paid local commercial officer rather than an India based assistant who costs approximately \$4000 per month in developed countries and around \$3000 in developing countries. For this amount it is possible to get fairly good local officers. An added advantage would be their knowledge of the language and of the local conditions.
- ◆ It would be useful for our missions to analyze the economic and technical cooperation programmes at present moving on lines independently managed by different ministries and departments. The objective should be to ensure a coordinated effort so that our strengths are leveraged to the maximum extent to our advantage and our weaknesses are not exploited. In this respect particular attention needs to be paid to countries from which large purchases are made including Defence purchases.
- ◆ Like most other aspects of our professional performance, it is little things, many of them routine, that we are called upon to do that become the building blocks of a strong and stable edifice of economic diplomacy. There is considerable scope for improving the image in the public mind, particularly in the business community, about the way our missions function. Many of them say that they contact the missions only when they are in trouble!
- ◆ Traditional problems like trade complaints, machinery for punishment of offenders, establishment of a trade investment dispute mediation system, linking of economic data bases should be given high priority and increasing reliance placed on computerization so that requests for information and assistance can be handled with the utmost urgency.
- ◆ It will be useful for selected missions to bring out booklets on success stories as was done by the embassy in Germany where 13 successful German entrepreneurs wrote about their experiences of investment in India. Such accounts help in attracting more investments.
- ◆ Concept of Trade Fairs need to be re-examined as well as the role of ITPO.
- ◆ Missions, especially in developed countries, must make a keen study of clever non-tariff barriers.
- ◆ FIIs are responsible for \$70 billion portfolio investment in India. It was an FII –Goldman Sachs – who produced the BRIC report. Our Missions in financial capitals should cultivate them.
- ◆ Importance of Project exports, especially to developing countries receiving ODA, bilateral and multilateral, worth billions of dollars on an untied basis. Our construction and equipment companies like for instance L&T and BHEL can be very competitive. Our Embassies have to be on alert to report home such project tenders.
- ◆ Everyone of our Missions should have a guidance sheet for important Indian visitors, listing DOs and DON'Ts, based on local knowledge and important telephone numbers both of the Mission, Indian organizations and those of the host country.

4. Categorization/Prioritization of countries

- ◆ The business community finds it hard to comprehend the logic underlying the present system of categorizing missions abroad into A, B & C (which is, of course, largely based on considerations such as living conditions etc.). While this may serve a limited (internal) purpose it also seems necessary to have a separate classification of countries taking into account their importance from the point of view of our economic interests. This exercise should be carried out in consultation with the Trade and Industry organizations as well as the economic ministries with a view to identifying the major targets of economic diplomacy.
- ◆ After categorization of priority country has been done the list can be further divided for phased targeting. The indicative parameters could be political importance i.e. neighbouring countries, strong bilateral relations etc., economic development of the country, quantum of aid received from India if any, India's

political/trade/economic objectives which include purchases of oil and defence, identification of sectoral analysis of the country, and inputs of the various industry associations.

- ◆ Identify areas/sectors where India has technology/cost/skill advantage and how these could be marketed/leveraged. This would be achieved through a high level evaluation of various sectors/industries and short-listing of focus sectors.
- ◆ After this exercise, consideration should be given to the strengthening of the commercial/economic wings of the missions in the major target countries, including, for example the G-8 and G-20.
- ◆ In some of the major target countries, “branding of India” is important with promotions like ‘Incredible India’ with which the Ministries concerned should be closely associated.
- ◆ It is equally important to identify selected key countries that should be the focus of attention for promoting FDI flows.

5. Linkages with the Apex Trade and Industry Organizations

- ◆ Greater linkages with industrial organizations like CII, FICCI, ASSOCHAM can only be beneficial. Cross fertilization of ideas so generated will strengthen economic diplomacy. It is important that representatives of these organizations are made a part of select Indian Missions abroad. After discussions with organizations like CII, FICCI, ASSOCHAM, FIEO, NASSCOM etc. local officers with commercial experience at the level of marketing or research officers should be posted at their cost to work under the supervision of the head of the commercial wing in some of our selected Missions abroad. He would be under the effective administrative control of the Head of Mission. Their reports should be sent directly to the organization in consultation with the head of the commercial wing. The person appointed will promote general interests and not only of his own chamber. To begin with this could be made applicable in our High Commissions in London and Singapore, Embassies in Tokyo, Brussels, Moscow and Paris and Consulate Generals in New York, Frankfurt and Dubai. In addition neighbouring countries can be included in the list.
- ◆ At present MEA’s interaction with such organizations is sporadic with the initiative in general coming from the latter. It is important to institutionalize such interaction so that there is a better appreciation of the views of the private sector, which must be fully reflected in the conduct of economic diplomacy.
- ◆ We also need to encourage these organizations to revamp their institutional framework for interaction between the business communities of India and other countries. In particular the functioning of JBCs (Joint Business Councils) requires considerable improvement. MEA needs to closely monitor such activities and ensure that they augment its own efforts.
- ◆ In addition to the apex trade and industry organizations, MEA could also benefit from linkages with IIMs and IITs whose knowledge and expertise could provide useful inputs for the evolution of our economic diplomacy.
- ◆ Assistance of these organizations should be sought in analysis, advocacy and dispute settlement.
- ◆ Internships to business executives of other countries should also be offered by industry/trade organizations.
- ◆ There should be involvement of these organizations in preparation of joint studies/feasibility reports/study groups.

6. Involvement of the Private Sector/Banks

- ◆ Direct involvement of business and industry in promotional activities.
- ◆ A greater role should be sought in the outside world for the large number of consultancy organizations functioning in India with a view to promoting service exports. Apart from direct revenue, their feasibility reports could favour Indian suppliers.
- ◆ It is necessary to spread greater awareness abroad about what India has to offer in the areas of science and technology.
- ◆ Special emphasis needs to be placed on Information Technology in which India’s leadership is now widely recognized and other knowledge based technologies including nuclear energy, space technology and other value-added activities e.g. films, entertainment, education, training, tourism, medical treatment.

- ◆ Direct connections between Indian CEOs and their counterparts abroad as has been done recently in respect of the USA
- ◆ Banks these days play an important role. Indian banks both in public, private sector and those engaged in other activities in India should be made an integral part of our activities.

7. Energy Security / Oil Diplomacy

In the early 70's after the first oil shock a senior officer of the MEA was posted in the Petroleum Ministry and again today with the Minister for Petroleum is a former foreign service officer and the posting of a senior IFS officer in the ministry, and the constitution of an advisory committee on oil diplomacy for energy security an attempt is being made to harness diplomatic skills. However, in the long term the Ministry of External Affairs must play an important role in monitoring this important subject on a regular basis. This would be a crucial part of economic diplomacy.

Energy security is crucial and oil diplomacy deserves special consideration. It should become a part of India's foreign and trade policy. The dependence on oil imports by India has been on the increase. The Hydro Carbon Vision 2025 estimates that the demand for oil and gas shall increase from the present level of 113 MMTPA (million metric tonnes per annum) of oil to 365 MMTPA in 2025. Similarly, the demand for gas will increase from the existing level of 150 mm cu m per day to 400 mm cu m in the same period. Consequently, it is important to

- ◆ Acquire oil acreages abroad to enhance energy security
- ◆ Promote direct investment in the upstream exploration and production segment of India's domestic oil and natural gas economy
- ◆ Make an assessment of focus countries which currently could be Iraq, Iran, Russia, Libya, Venezuela, Sudan, Kazakhstan and Vietnam. This assessment could be changed from time to time
- ◆ Identification of opportunities including a comprehensive mix of commercial/political/diplomatic ploy that could be used to leverage opportunities in the focus countries in oil and gas sector through collaboration with the participating firms from India
- ◆ Attracting FDI in Indian oil and gas sector
- ◆ Need to look at alternatives to oil like city and industrial waste, biomass energy, solar energy, wind energy etc.

Diplomatic experience and expertise can help in the achievement of the above objectives as was proved in 2001 when India made its largest investment abroad of \$1.7 billion at that time in the Sakalin-I project where diplomatic skills helped India clinching the deal

8. Development cooperation

- ◆ There is need for better coordination of India's development cooperation policies and programmes so that they not only become more efficient but also are fully integrated with our overall goals of economic diplomacy.
- ◆ Banks such as the EXIM Bank should have an important role in the drawing up and implementation of programmes of development cooperation.
- ◆ Advantage should be taken of our substantial foreign exchange reserves to promote development cooperation, for example by extending soft loans to countries in need, which could be tied to procurements from India. Banks can play a useful role in this process also.
- ◆ Consideration may be given to the establishment of a Bank on the lines of the Japan Bank for development cooperation.
- ◆ We need to revise the institutional framework for extending lines of credits and grants on concessional terms and the financial mechanism for promotions of projects in other developing countries.

9. The Role of NRIs

- ◆ Some efforts have been made in the recent past to provide a greater role for NRIs in realizing the goals of our economic diplomacy, for example, through periodic get-togethers between them and our policy makers, both in India as well as countries where they have a sizeable presence. There is obvious need for further intensifying such efforts.
- ◆ The valuable contribution of NRIs to the advancement of the countries of their residence, particularly in areas such as medical sciences and information technology, is widely recognized. Many of them are keen to place at our disposal the valuable experience they have gained, for example by assisting in the establishment of institutions such as Hospitals and Technical Institutes in India. These efforts have often been frustrated by bureaucratic delays and other procedural hurdles. Both MEA and our missions abroad can play an important role in facilitating such involvement of NRIs to our advantage. Following are specific areas where economic diplomacy should aim at getting the maximum involvement of NRIs particularly in countries like USA and UK.
- ◆ Diaspora and direct trade – Diaspora creates demand by specialized consumption and help creating the brand equity example : basmati rice, tea, spices, fruits & vegetables, ayurvedic medicines etc.
- ◆ Entertainment Industry – Diaspora plays crucial role in promoting bollywood, films and music. Organised effort can see this grow by leaps and bounce. Effective use should be made by the film industry for India's economic diplomacy.
- ◆ Fashion, garment & textile industry – Diaspora can play a useful role in promoting these products.
- ◆ Gems & Jewellery – Diaspora emerged as a major player in the field and with greater effort they can also popularize Indian designs.
- ◆ India Art – Diaspora can be a major vehicle in promoting the Indian art.
- ◆ Diaspora, and indirect trade – Diaspora is an excellent asset for facilitating entry into new market. They can help in making penetration strategies, creating opportunity for consultation and project exports.
- ◆ Diaspora can play very useful role in technology transfer.
- ◆ They can play invaluable role in providing access to the decision makers.
- ◆ Tourism – Diaspora can play a useful role in promoting tourism, particularly, medical tourism. They can also promote higher education in India.
- ◆ Diaspora investments would be beneficial and should be encouraged in social infrastructure, business expansion into India, new venture funds to spark innovation, and deposits in diversified financial instruments.

10. Globalisation / Multilateral economic diplomacy

- ◆ The process of globalisation and technological revolution has transformed *inter alia* the fundamentals of international relations. On the one hand, the nation-states are engaged in fierce competition for economic gains and at the same time seek cooperation with other like-minded states to mould regulatory institutions in their favour. Countries also compete with each other to attract foreign direct investment, push other countries to gain market access for their national companies and attempt to protect their domestic markets by covert or overt trade barriers. Countries are also deepening their cooperation at standard and rule-setting inter-governmental institutions such as the World Trade Organisation (WTO).
- ◆ The total value of global trade today, i.e. the total value of goods and services exchanges, is close to US \$ 9 trillion. 50% of these exchanges take place through the multilaterally negotiated set of rules, i.e. the WTO. The rest of this trade takes place through regional, sub-regional and bilateral agreements between nation states.
- ◆ Trade policy is a major component of foreign policy and we cannot afford to compartmentalize the two. We need a dedicated set of people in the Ministry not only to deal with WTO issues but also to deal with issues arising out of Free Trade Agreements and regional and sub-regional agreements. The personnel to man these posts need to be carefully selected. The general view that anti-dumping matters are a purely technical issues, relating to goods being sold below their cost price in foreign markets, has to be forsaken and the political undertones of such actions need to be understood.
- ◆ Multilateral economic issues like those related to WTO, anti-dumping, regional trade arrangements need to be given more importance.

- ◆ On the other hand, as part of the driving force behind the processes of globalisation, firms have been engaged in rapid expansion through mergers and acquisitions (M&A) and several forms of joint venture, while at the same time intensifying efforts to influence domestic and international policies in their favour. Increasingly, trans-national companies (TNCs) form cross-territorial alliances to coordinate their policy positions and strengthen their lobbying effort vis-à-vis international regulatory and governance bodies.
- ◆ The result has been growing complexity and number of actors impacting international economic relations. So, traditional state-to-state diplomacy alone is now inadequate to manage the new international order. It requires sophisticated economic diplomacy to meet the challenges and exploit the opportunities of such an increasingly interconnected and interdependent states and markets.
- ◆ Take the maximum advantage of globalisation. The objective should be to see India at the high economic table e.g. in an expanded G-8 and other important economic foras.
- ◆ The increasing trend towards globalisation and, as a consequence, India's rapid integration into the world economy to which attention has been drawn earlier, have opened up fresh avenues for multilateral economic diplomacy for which both MEA and the Missions abroad (notably those in New York, Geneva, Bangkok and Brussels) need to be fully equipped to respond to the new challenges.
- ◆ MEA must be better prepared to take an active part in multilateral economic negotiations. Consideration may be given, for example, to the creation of a special cell in the Division concerned that becomes a storehouse of information on issues coming up in such negotiations and which ensures MEA's active participation both in the preparation of briefs as well as in the actual conduct of the negotiations.
- ◆ The proposed Research Institute to be attached to FSTI could play an important role in servicing MEA's requirements in the area of multilateral economic diplomacy. In the meantime increased interaction between the Ministry and institutions such as RIS and ICRIER (Indian Council for Research in International Economic Relations) must be ensured through active association with their activities.
- ◆ IFS officers actively involved in negotiations on economic relations – bilateral and multilateral should be encouraged to prepare critical case of histories of these negotiations. The case histories should be discussed in specific meetings.
- ◆ IFS officers must be provided with opportunities to acquire the necessary expertise through assignments in the economic ministries concerned as well as in Missions with a high concentration of economic work. In particular, there is need to ensure that IFS officers are at all times posted in the Indian Missions to WTO and the European Union. At the same time MEA should not hesitate to use the services of professionally qualified persons from outside the Ministry.

Foreign relations can no longer be divided between political and economic competencies. Unless we have an integrated foreign service which is responsible for the entire gamut of our economic relations, including in relation to trade, energy and health issues, we are unlikely to make any specific breakthrough. This may be a tall order and is unlikely to be realized in the immediately foreseeable future. Therefore, the next best we can do is significantly increase the cadre strength of the foreign service, drastically overhaul the training programme, introduce mid-career training courses and make promotion to senior level on merit basis. Unless we do this, we are unlikely to achieve anything more than mere tinkering with the problem with limited improvement. Some bold decisions have been taken by the Government which will have far-reaching implications. One must find ways and means of reorienting the bureaucratic mindset. Insofar as MEA is concerned, there should be no difficulty. What we require is a more intensive interaction between our senior Heads of Mission and those in the Government who are producing the blueprint for the new India. There is a wide disconnect between what we are seeking and instruments available with us. The action plan is aimed for the quantum jump.

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