

THE RUPEE'S REACH: THE LENDING CURVE OF INDIA'S DEVELOPMENT DIPLOMACY

FEBRUARY, 2017

Nimmi Kurian

Centre for Policy Research

POLICY BRIEF

ABSTRACT

India's transition from being a recipient of aid to a donor makes for a feel-good story. The policy brief questions this rose-tinted rhetoric and argues that there is an urgent need to map and systematise the diversity of India's engagement as an actor in this evolving space. What sort of normative choices and tensions are these likely to present for Indian diplomacy? At the end of the day, many of these issues will be fundamentally linked to how India perceives its role in the region and the world at large and how it chooses to engage with questions of benefit sharing, trade-offs and the allocation of risks and burdens. Outlining its development priorities and bringing greater clarity to conceptualising what foreign aid with Indian characteristics constitutes should be the first order of business that India needs to attend to, if it wants to stay ahead of the (lending) curve.

INDIA'S LENDING CURVE

India's emergence as an aid donor makes for a feel-good narrative with claims already made of it being a 'global rule-maker'. While India's development assistance programmes can be traced back to the late 1940s, the volume and scale of its aid spending has sharply grown in the past few decades.¹ Indicating this shift, India's then Foreign Minister, Jaswant Singh noted in his budget speech in 2003, 'A stage has come in our development where we should now, firstly, review our dependence on external donors. Second, extend support to the national efforts of other developing countries.' (Singh 2003) Since 2011, India has allocated nearly \$7 billion in development assistance with the largest share going to South Asia followed by Africa. (Indian Express 2016) India has also begun positioning itself as an enthusiastic promoter of South-South cooperation, playing an increasingly visible role in organisations such as IBSA, G20, and BRICS among others.² India has emerged as the second largest donor after China in volume and quality of aid given by countries of the Global South.

India also appears increasingly keen on effectively leveraging its development assistance as a driver of its economic diplomacy. For instance, it has earmarked restoration of several cross-border infrastructure projects on a priority basis. As part of this, restoration of critical rail links between India and Bangladesh that were operational till 1965 are on the anvil such as the Agartala-Akhaura; Chilahati-Haldibari; Kulaura-Mahishshan routes. (Kurian 2014) The Kaladan Multi-Modal Transit Transport Project aims to connect seaports on India's east to the seaport in Sittwe, Rakhine state's capital in western Myanmar. River and road links will also connect Sittwe to the Indian state of Mizoram through a 62-km highway from Kaletwa in Myanmar to the Mizoram border. As part of its plans to develop urban border areas, India recently announced its decision to finance the development of Sylhet city in northeastern Bangladesh, which has borders with the Indian states of Meghalaya, Assam and Tripura.

Further, India has also set up a Rs. 500 crore Project Development Fund (PDF) in 2016 to strengthen its economic presence in Cambodia, Laos, Myanmar and Vietnam. There also appears to be a continued emphasis on strengthening socio-economic infrastructure and capacity building in recipient countries.³ For instance, of India's total Lines of Credit outlays of \$11.46 billion, more than \$6.6 billion went to Africa, while nearly \$3.4 billion was allocated to South Asia and Indian Ocean regions.

STAYING AHEAD OF THE (LENDING) CURVE

It, however, remains to be seen to what extent India manages to get its lending priorities right. For instance, despite its rhetoric, as much as 70 per cent of India's foreign aid happens to be tied aid. The Exim Bank of India's lines of credit insist on 85 per cent Indian procurement. (Ndiaye 2016) This evidence tends to sit rather awkwardly with India's own righteous rejection of tied aid and conditionalities. Further, as the Indian state and private capital get increasingly involved in a variety of overseas resource extraction, energy and infrastructure projects, India could well be in for a 'baptism by fire'. India would do well to keep an ear to

the ground to contested domestic debates in recipient countries particularly in its subregion.⁴ There is, for instance widespread concern in Bangladesh regarding the environmental consequences of a coal-based power project India is building close to the Sundarbans mangrove forests. Concerns such as these could put India's credibility as a normative actor on the line, more so if its domestic and international standards are seen to be at considerable variance.⁵ It goes without saying that it will be in India's own self-interest that the exercise of its power is seen as legitimate and credible.

Going ahead, what sort of opportunity does India's role as an emerging donor offer to shape the evolving international aid architecture in general, and South-South cooperation in particular? To what extent is India likely to be an alternative

model of development assistance? Is India's evolving aid trajectory likely to align with or depart from the earlier defining characteristics of its policy? At the end of the day, many of these issues will be fundamentally linked to how India perceives its own role in the region and the world at large and how it chooses to engage with questions of benefit sharing, trade-offs and the allocation of risks and burdens. As India redefines its self-image from being an aid recipient to a donor in its own right, there is an urgent need to map and systematise the diversity of India's engagement as an actor in this emerging space. Outlining its development priorities and bringing greater clarity to conceptualising what foreign aid with Indian characteristics stands for, should be the first order of business that India needs to attend to, if it wants to stay ahead of the (lending) curve.

NOTES

1. For instance, the Indian Technical Economic Cooperation Programme (ITEC) has since its establishment in 1964 allocated \$825 million to 156 countries providing training and technical facilities. (The Quint 2016)
2. The Exim Bank of India co-founded the Global Network of Exim Banks and Development in 2006 to facilitate South-to-South trade flows.
3. India has underlined the need to operationalise the \$50 billion New Development Bank with a focus on investment in the green projects.
4. For instance, in Myanmar, the Arakan National Conference, a gathering of ethnic Arakanese representatives, demanded a 50 per cent share of oil and gas projects and for local involvement in resource management decisions. Similarly, the Chin National Conference also recently called of 'equitable sharing between the union and state government of the revenues obtained from the natural resources'.
5. A proposal to set up a similar coal-fired thermal power plant at Cajmara in Madhya Pradesh as well as projects in Tamil Nadu and Orissa were not granted environmental clearance.

REFERENCES:

- George, Abraham and John Samuel. 2016, 'A New Framework', *Indian Express*, 11 October.
- Ministry of Finance, Government of India 2003, Speech of Jaswant Singh, accessed at <http://indiabudget.nic.in/bspeech/bs200304.pdf>
- Kurian, Nimmi. 2014. *India China Borderlands: Conversations Beyond the Centre*, Sage.
- Murarka, Harshita 2016. 'India vows \$1billion aid to develop war-ravaged Afghanistan', *The Quint*, 15 September
- Ndiaye, Alioune 2016. 'India's investment in Africa: Feeding up an ambitious elephant', International Centre for Trade and Sustainable Development, 15 September.
- The Quint* 2016. 'From Aid-Taker to Donor, India is now Global Rule-Maker-Tharoor', 19 October 2016