EDC2020

SEVENTH FRAMEWORK PROGRAMME

Project funded under the Socio-economic Sciences and Humanities theme

[POLICY BRIEF]

Indian Development Cooperation: Key Traits and Prospects

By John Humphrey, Institute of Development Studies, UK

Introduction

For more than half a century India has played an important role in global development – as a founding member of the non-aligned movement in 1961 and as an active member of the G77 group of developing countries in the United Nations. Over this period, India focused its development cooperation programmes predominantly towards countries within the South Asian region, although its technical cooperation programme, ITEC (Indian Technical and Economic Collaboration), established in 1964, has provided technical expertise to a broad range of countries.

The scale of this aid programme was small and remains so. Establishing the size of such programmes for non-DAC donors is not easy. Development cooperation programmes are frequently fragmented across multiple agencies and these may include items that both fall within the DAC definition of what constitutes aid and fall outside it. India is no exception. However, observers agree that India's development cooperation budget is modest. Estimates for 2005 range from $100–200 million (Kragelund 2008: 68) to $574 million (Chanana 2010: 2). Bilateral aid is increasing, but not dramatically. Although India has increased its focus on Africa, the most important recipients of grants from the Indian government are still in the South Asian region. In 2008–9 the largest recipients of grants from India were Afghanistan, Bhutan and Nepal.

From the 1950s onwards, India has worked with other developing countries to create and promote a distinctive Southern voice within international development. For a long time, it supported development cooperation programmes oriented predominantly towards countries within South Asia and developed more broadly-based technical cooperation programmes. In the past decade, however, India's development cooperation has undergone a change – in country orientation, in goals and in development cooperation instruments.

Development cooperation for an emerging power

The profile of Indian development cooperation is changing in response to economic and strategic circumstances. India's economic growth has accelerated from the 4–5 % range seen at the turn of the century to 7 % and higher between 2003 and 2007. Even the global economic crisis failed to reduce growth below the 7 % range (Asian Development Bank 2005; 2006; 2010). At the same time, the increasing global recognition of the emerging powers, and in particular the BRIC countries, has provided India with a new perspective on its regional and global roles. This transformation was accelerated by the

No. 16 . March 2011

BOX 1: INDIA EXIM BANK LINES OF CREDIT FOR AFRICA

The Government of India has introduced various lines of credit to facilitate the purchase of Indian products by African countries. In 2000, India established a $200 million line of credit administered through NEPAD, and in 2004 it extended a $500 million line of credit to the 8 countries in West Africa that were included in the Techno-Economic Approach for Africa and India Movement (TEAM-9) initiative. At the April 2008 Africa-India Summit in New Delhi, India announced $5.4 billion in concessional lines of credit for African countries over a five-year period, as well as $500 million in development grants to Africa over a 5–6 year period.

The EXIM bank's guidelines for these lines of credit identify clearly that their purpose is to promote exports by Indian companies:

»Government of India (GOI) offers Lines of Credit (LOCs) to India's trading partners in the developing countries to import Indian equipment, technology, projects, goods and services, on deferred credit terms. These LOCs are routed by GOI through Exim Bank, and carry concessional interest rates and repayment periods.«

The extent of the concessional element of these loans is adjusted according to the level of income and the indebtedness of the debtor country.

Source; India EXIM Bank (n.d.; 1).

global financial crisis and the role acquired by the G-20 group of countries in response to it.

Taken together, these factors have changed India's perceptions of its economic and political interests and the nature of its development cooperation in pursuing them. This has led to changes in goals, development co-operation instruments and country orientation.

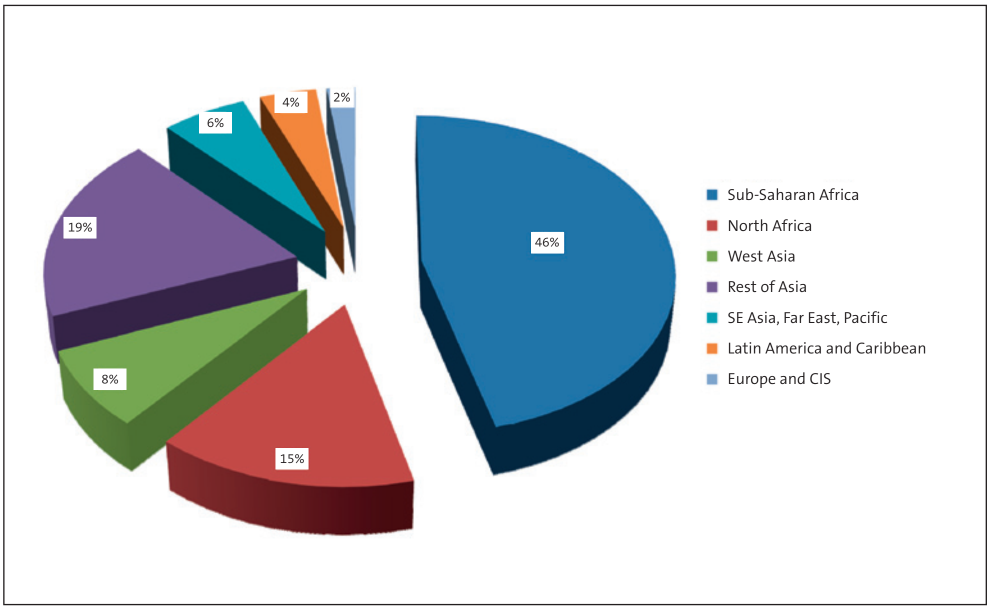
First, development cooperation is focusing more on sustaining India's high rates of growth. It supports the country's attempts to secure access to resources, particularly energy, and to develop new markets. India's foreign policy has looked eastwards, developing closer ties with Asian economies and seeking a place in Asian economic integration. It has also looked westwards, towards Africa. India is dependent on imported energy, particularly oil. Much of its imported oil comes from the Middle East, but the country is seeking to diversify its sources, and Indian companies have invested in oil production in numerous African states, including Nigeria and Sudan. Gold and diamonds imported from Africa are important for India's large jewellery industry and India has looked to Angola, South Africa and Zimbabwe for these products.

India also looks to Africa for export and investment opportunities. Companies such as Mittal, Tata and Mahindra & Mahindra are investing in the continent and trade has expanded rapidly. In order to support this trade, the Government of India has introduced a number of programmes designed to promote trade linkages and encourage the export of Indian goods to Africa. In 2002, it introduced the »Focus: Africa« programme for seven countries in sub-Saharan Africa, extending this in the following year to 24 African countries. This programme provides resources for trade fairs and exchange visits by trade delegations between African countries and India

More substantially, credit lines have been provided to support Indian exports to Africa, as shown in Box 1. Sub-Saharan Africa and North Africa accounted for 61% of all operative lines of credit managed by the Indian EXIM bank in 2009, as shown in Figure 1. As well as an increasing focus of activities on sub-Saharan Africa, within this region there has been a shift. Historically, the strongest ties were with South Africa and East Africa, and with English-speaking countries. The Focus: Africa initiative targeted East Africa, Ghana and Nigeria – India's long-established partners in Africa. In contrast, a distinctive feature of the TEAM-9 initiative was not just the focus on West Africa, but also the fact that apart from Ghana and Guinea Bissau, the other six are Francophone states (Burkina Faso, Chad, Cote d'Ivoire, Equatorial Guinea, Mali and Senegal).

Alongside its trade promotion, India has also strengthened diplomatic linkages with Africa, with visits by the Indian Prime Minister to countries in Sub-Saharan Africa and the first meeting of the India-Africa Forum Summit in New Delhi in 2008. These diplomatic linkages not only reinforce economic ties, but also create political ties that might contribute towards the achievement of India's broader political and strategic goals. Finally, India has committed itself to increasing development grants to Africa. However, the level of these grants – $500 million over 5–6 years – is small, not only in relation to the leading DAC donors and to China, but also in relation to India's continuing commitments to South Asia.

Figure 1: Operative lines of credit available through the Indian EXIM bank, 31 March 2009



Source: Chanana (2010: 3).

In some respects, the shift in the characteristics of Indian development cooperation, and in particular the increasing focus on Africa, bears resemblances to the position of China. Both countries see development cooperation as one part of a broader strategy of developing economic and political linkages. There is an explicit recognition of the ›self-interested‹ pursuit of resources and markets, but a clear emphasis on the benefits to both sides of expanding economic and political relationships. Nevertheless, India does not have the economic resources or global footprint to match China. In 2009, the Chinese economy was almost four times as large as India's economy, and although China's economy has become less outward oriented, exports of goods and services as a percentage of GDP were still 50 % higher in 2009 than was the case for India (27 % compared to 19 %, World Bank 2011). The Indian economy and the Indian government do not have the resources to match the efforts of China.

India's distinctive role

The position India takes with respect to development cooperation has some common features with that of China and other non-DAC ›donors‹. It does not talk in terms of ›donor' and it characterises its relationship as a »partnership for mutual interest« (Jerve and Selbervik 2009: 28).

An emerging global power, and a country that needs to sustain rapid economic growth, India has to pursue economic, political and strategic interests. India has been active in the Doha trade round negotiations, participating in numerous meetings between the leading protagonists in 2006–8, and it has been equally active on climate change negotiations. It seeks to enhance its own position within global institutions, most notably in the UN, and its expanding trade and dependence on imported energy means that it has clear security goals in the Arabian Gulf Indian Ocean areas.

Nevertheless, India maintains a commitment to playing an active role in enhancing the voice of developing countries in global institutions and to promoting and participating in the self-organisation of developing countries. In the 1950s and 1960s, India played an active role in the development of the Bandung principles (1955), the formation of the non-aligned movement (1961) are and the foundation of the G77 grouping at the UN (1964). All of these initiatives were designed to promote South-South cooperation and provide a forum within which non-western countries could develop and articulate their economic and political interests, and in so doing create countervailing forces to the dominant global powers. In the current climate, India continues to promote the expression of developing country voices. This is seen in its role in, first, promoting the Development Cooperation Forum (DCF) within ECOSOC. This brings together recipient as well as donor voices to discussions on international aid architecture issues. Second, the EXIM bank of India was a co-founder of the Global Network of EXIM Banks and Development Finance Institutions, G-NEXID. With 24 member banks and finance organisations from developing countries in Asia, Latin America and Africa, it provides a forum developing Southern perspectives and positions on global finance issues.

Implications for Europe

India has made a radical transition over the course of the past two decades. Its economy is growing rapidly and it has become more outward-oriented and increasingly confident as a global power. The EU recognised this transition when it signed a Strategic Partnership Agreement with India in 2004. This put India on a par with Canada, China, Japan, Russia and the United States. India is an important trading partner. It is the major regional power in South Asia, and it will become a more important development actor in Africa. It has an important role to play in multiple areas of global governance. The Joint Action Plan of the India-EU Strategic Partnership, signed in September 2005, highlights the importance of India for achieving the EU's goal of effective multilateralism.

Turning a written commitment into the reality of partnership is not easy. On the one hand, there are important differences between the EU and India on issues such as human rights, nuclear non-proliferation, Burma and climate change. On the other hand, the EU itself has not found it easy to unite around foreign policy, and India appears to prefer to negotiate with major European powers directly, rather than through the European Union. In spite of these difficulties, relationships between the EU and India do need to be deepened – at multiple levels and through multiple channels. The challenge for the EU is twofold. First, it has to develop across the broad range of policy areas over which it engages with India. Second, it has to find a means of pursuing its core interests and promoting its core values while at the same time accepting the reality of a rebalancing of global economic and political power.

References

Asian Development Bank (2005), *Asian Development Outlook 2005,* Manila: Asian Development Bank.

Asian Development Bank (2006), *Asian Development Outlook 2006,* Manila: Asian Development Bank.

Asian Development Bank (2010), *Asian Development Outlook 2010,* Manila: Asian Development Bank.

Chanana, D. (2010), *India's Transition to Global Donor: Limitations and Prospects,* Análisis del Real Instituto 123/2010, Madrid: Real Instituto Elcano.

Export-Import Bank of India (n.d.), *General Guidelines on Government of India-Approved Export Lines of Credit Routed Through Export-Import (EXIM) Bank of India (Under TEAM-9 and NEPAD Initiatives),* http://www.eximbankindia.com/glo-nepad.pdf.

Jerve, A.M. and H. Selbervik (2009), *Self-Interest and Global Responsibility: Aid Policies of South Korea and India in the Making,* CMI Report 2009:9, Bergen: Chr. Michelsen Institute.

Kragelund, P. (2008), ›The Return of Non-DAC Donors to Africa: New Prospects for African Development?‹, *Development Policy Review* 26 (5), 555–584.

World Bank (2011), World Development Indicators, http://data.worldbank.org/indicator

EADI
Kaiser-Friedrich-Strasse 11
D-53113 Bonn

Tel.: (+49) 228 . 2 61 81 01
Fax: (+49) 228 . 2 61 81 03
www.eadi.org

www.edc2020.eu

This series provides summarised research outcomes of the EDC2020 project on European Development Co-operation to 2020. This project carries out research on three major emerging issues: new actors in international development, the linkage between energy security, democracy and development and the impact of climate change on development.

Consortium partners: European Association of Development Research and Training Institutes (EADI, Germany), Overseas Development Institute (ODI, United Kingdom), Institute of Development Studies (IDS, United Kingdom), German Development Institute (DIE, Germany), Fundación para las Relaciones Internacionales y el Diálogo Exterior (FRIDE, Spain), Society for International Development (SID, Netherlands).

SEVENTH FRAMEWORK PROGRAMME