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Institute of South Asian Studies
National University of Singapore
29 Heng Mui Keng Terrace
#08-06 (Block B)
Singapore 119620
Tel: (65) 6516 4239 Fax: (65) 6776 7505
www.isas.nus.edu.sg
<http://southasiandiaspora.org>



Economic Drivers of India's External Engagement Strategy

Amitendu Palit¹

India's Prime Minister Narendra Modi's recent visit to France, Germany and Canada marked the continuation of a pattern of external engagement that is now becoming increasingly identifiable by its economic drivers.

In less than a year since assuming office, Mr Modi has travelled to more than a dozen countries. Most of these travels have been state visits, occasionally interspersed with multilateral missions (e.g. Brazil and Australia in July and November 2014).² In what has been a vigorous and robust engagement spanning across continents and regions, Mr Modi's travels have generated considerable enthusiasm among the host-country administrations, local media and the resident Indian communities.

Unlike the more sedate and relatively low-profile foreign tours by India's former Prime Minister Manmohan Singh, Mr Modi's foreign visits have been well-orchestrated and meticulously-planned for extracting maximum strategic mileage and political capital. Some of the public addresses delivered by Mr Modi, particularly

¹ Dr Amitendu Palit is Senior Research Fellow and Research Lead (Trade and Economics) at the Institute of South Asian Studies (ISAS), an autonomous research institute at the National University of Singapore. He can be contacted at isasap@nus.edu.sg. Opinions expressed in this paper, based on research by the author, do not necessarily reflect the views of ISAS.

² Brazil was the venue for the last BRICS (Brazil, Russia, India, China and South Africa) Summit, while Australia hosted the G20 (Group of Twenty) Summit.

those at New York and Sydney, were packaged and presented in styles more characteristic of top-notch global entertainers rather than heads of states and political leaders. The purpose of these high-powered ‘performances’, targeting the powerful Indian diaspora, has been to hard-sell India to foreign audiences for securing long-term strategic dividends, particularly economic.

The Core Agenda

By now it is becoming clear that Mr Modi’s external engagement strategy, seen through the prism of the countries visited and agendas articulated by him, is based on a few key drivers. These drivers are largely economic and capable of endowing India with significant strategic influence if pursued successfully over a period of time. They include accessing critical resources for defence, domestic infrastructure and industry, securing investment and technology for the ‘Make in India’ initiative, engaging the Indian diaspora for exploiting its strategic utility, improving India’s ‘doing business’ image and building partnerships for gaining greater access to global and regional forums.

France, Germany and Canada – the three destinations during Mr Modi’s latest visit – fitted nicely with these objectives. While the focus in France was on sealing agreements over Rafael fighter jets, Germany was important for showcasing ‘Make in India’ at the Hannover trade fair. Both Germany and France are among India’s top ten sources of Foreign Direct Investment, and account for roughly 5% of the country’s inward FDI stock.³ Further investments from both countries are expected to contribute significantly to some focus-sectors of ‘Make in India’ such as automobiles, defence manufacturing, electronics, pharmaceuticals, railways and renewable energy.

New investments, however, are contingent upon investor perceptions becoming more favourable. A credit-rating upgrade by the Moody’s just before the visit, backed by the International Monetary Fund’s assertion that India is poised to achieve 7.5% growth in its Gross Domestic Product, had helped in packing more punch into Prime Minister Modi’s assertion that foreign investors would find a more ‘open and stable’

³ ‘Fact Sheet on Foreign Direct Investment’, Department of Industrial Promotion and Policy (DIPP), Ministry of Commerce and Industry, Government of India; http://dipp.nic.in/English/Publication/s/FDI_Statistics/2015/india_FDI_January2015.pdf

environment in India for doing business. Only time will tell whether the persuasion has led to the release of foreign purse-strings.

Both Germany and France were also important in reviving the momentum for the India-European Union trade and investment partnership negotiations. The talks on the agreement have been tantalisingly close to conclusion. However, despite repeated rounds of intensive discussions, consensus remains elusive on contentious issues. India refuses to budge towards lowering duties for European automobiles, and refrains from more liberal commitments in areas like government procurement, intellectual property and investment protection. On the other hand, EU remains reluctant to consider India a ‘data secure’ country, and unwilling to allow Indian professionals greater short-term mobility. Despite Mr Modi’s hopes of concluding the agreement soon, progress will not be easy given the resistance of domestic constituencies like the Society of Indian Automobile Manufacturers.

Bilateral trade and investment agreements were also important aspects of Mr Modi’s discussions with Canada’s Prime Minister Stephen Harper. Here too, political eagerness to conclude the deal as quickly as possible might be stymied by wide differences in the negotiating positions of both countries. However, Canada turned out to be a greater source of strategic satisfaction for Mr Modi, given the assurance by Canada to provide uranium for civil nuclear plants in India for the next five years.

Securing nuclear energy resources has been an important objective of Mr Modi’s external engagement policies. Both Canada and France have been important for him in this regard, as have been Australia, Japan and the United States. Canada’s commitment to India’s nuclear energy programme is significant, given the strong reservations it has had in this regard in the past. Commercial nuclear energy contracts are expected to be important aspects of the bilateral economic relationships that India plans to develop with Australia, Canada and France.

The Diaspora Link

Canada was also significant for Mr Modi, given the large presence of the Indian diaspora. Indeed, the overseas Indian community has been critical in shaping Mr

Modi's itinerary. The diaspora has been his focus of attention not only in the US, Australia and Canada, but also in Fiji, Seychelles and Mauritius.

The Indian diaspora in Canada has become distinctly prominent in domestic politics and relevant to decision-making processes, through its growing presence in the federal and provincial legislatures. It is also an important constituency for the Canadian Prime Minister, whose specific request led Mr Modi to travel to Vancouver – one of the largest settlements of the Indian diaspora in North America. Wooing the diaspora was a win-win option for both the Indian and Canadian leaders, and this resulted in the significant reciprocal decision to allow visa-on-arrival to Indians and Canadians in Canada and India respectively.

The last but not the least significant objective – of bonding close with countries for gaining greater acceptability in global and regional forums – was important for all the countries covered during this visit. France, Germany and Canada are members of the G7 (Group of Seven rich industrialised countries) and also figure in the G20 (Group of Twenty major and emerging economies). Canada, in addition, is an important member of the Asia-Pacific Economic Cooperation (APEC) forum, a grouping that India, under Mr Modi, is particularly keen on securing membership of.

A year in office will find Mr Modi rounding off his foreign tours with a state visit to China next month. Given the countries that he has visited, and the nature of partnerships he has begun emphasising, there is little doubt about the core vision of his external engagement policy: to work towards creating an economically robust India with well-established comparative advantages in key sectors; to ensure uninterrupted access to critical resources; and to utilise the diaspora's economic and political capital to maximum effect. All these should lead to a proactive India in major global forums, yielding geostrategic influence imparted by economic might. His latest visit as well as the future ones would continue be guided by these motivations.

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