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New Powers for Global Change?

**Challenges for the International
Development Cooperation**

The Case of India

MATTHIAS JOBELIUS

Summary

As up and coming countries from the global South such as China, India, Brazil and Saudi Arabia become more active in development politics, the nascent debate around so-called *emerging donors* revolves around the opportunities and risks of a growing donor community and the increasing institutionalisation of South-South cooperation. Following on from this discussion, this paper analyses India's role as an actor in the field of development.

Four main points are argued:

- That Indian development assistance is used as a foreign and economic policy tool by the Indian government. The goals of India's development work derive directly from Delhi's foreign policy agenda and form part of an overall strategy of Indian South-South cooperation intended to accelerate India's economic and political boom;
- That so far the Indian government has not committed itself to the normative guidelines and operative processes of the OECD donor community and does not look likely to do so in the near future. If India should make any attempts to coordinate its development work with other donors, it will do so primarily using newly created fora of South-South cooperation.
- Seen in terms of isolated and absolute figures, Indian development assistance, contrary to China's, will not endanger the DAC-countries dominance in the international development regime, and in the mid-term will remain only a marginal statistic within the *total volume* of bi- and multilateral aid.
- It is only when considering its function as a *component of the wider package of economic and political cooperation* which India is offering its southern partners, that Indian development assistance appears so controversial and significant. India appears as a donor in another country only when it is also an investor, trade partner or political ally, or can become one. The future *emerging donor* debate will therefore have to focus on the question of what effects these investment activities, trade flows, technology and knowledge transfers, which have been facilitated by Indian development assistance, will have on developing countries.

1 Introduction: from 'poorhouse' to donor nation? India and the emerging donor debate

On the 28th of February 2003 the Indian government sent a tremor through the Western donor community. Jaswant Singh, the finance minister at the time, announced unexpectedly and with great media impact that India would suspend the bilateral development aid from 22 donor countries who up until that point had been operating in the country. Only the US, the UK, Japan, Germany, Russia and the EU are entitled to continue to give ODA¹ to the Indian state, while all other countries were to limit their activity to assisting Indian NGOs.² At the same time India also declared that it would intensify its developmental collaboration with countries from the global South within the context of the newly founded *Indian Development Initiative*, and base its support to these countries on its own experience of rapid economic development. One year later, when India was devastated by the catastrophic Tsunami, it declined any form of interna-

tional support and itself delivered extensive aid to the affected neighbouring states.

In the light of such symbolic measures, it is hardly surprising that India plays a leading part in the nascent debate about *emerging donors*. Against a backdrop of increasing engagement in development cooperation by non-DAC countries³ such as China, India, Brazil or Saudi Arabia, this debate revolves around the opportunities and risks of a growing donor community and the increasing institutionalisation of South-South cooperation. (See for example Harmer/Cotterrell 2005, Hofmann 2006, Manning 2006, Price 2005, and Schläger 2007). Most commentators unanimously emphasise the need to incorporate new donor countries within the international development regime and to commit non-OECD countries to the ground rules of the Western donor community as laid down in the Paris Declaration on Aid Effectiveness and in the various 'DAC-guidelines' on development. There appears to be a widespread fear that if this does not happen we face a zero sum game: the more that emerging donors create an alternative to Western ODA – and through this a financial *exit*

¹ *Overseas Development Assistance* (ODA) covers all public transactions which are made in order to promote economic and social development in developing countries. It must be given with favourable conditions and in the case of loans must contain a grant element of at least 25%.

² This decree was modified by the subsequent administration in 2004, so that all states with an annual ODA volume of at least \$25 million are now accepted as bilateral donors.

³ The OECD Development Assistance Committee (DAC), includes the financially strongest donor countries from Europe, alongside North America, Japan, Australia and New Zealand. The Guidelines developed here (DAC Guidelines) constitute the central reference point for the development debate and are also the basis of the Western donor community's activities.

option for developing countries- the greater the danger that the Western regime of conditionality, along with the focus on democracy, good governance and human rights anchored within the the DAC community, will be undermined.

Against the backdrop of this emerging donor debate, the following paper analyses India's role as an actor in the field of development. It first explains why bilateral South-South cooperation is gaining importance in Indian foreign and economic policy (chapter 2). From this follows an exploration of the goals and significance of Indian development work within the whole portfolio of Indian South-South cooperation (chapter 3). Beyond this, the paper pursues the question of how Indian development activity compares to the normative guidelines and administrative processes of the DAC community and whether one can expect India to be integrated into the Western development structure (chapter 4). In conclusion, the paper casts a closer look at the institutions and instruments of Indian development work (chapter 5) and its implementation, using South East Asia as an example (chapter 6).

2 The growing significance of South-South cooperation for the Indian government

Why does a country which until a few years ago was considered one of world's poorhouses, in which 200 million people live on 12 Rupees (26 US cents) per day and which ranks 126th on the Human Development Index (HDI), give bilateral development aid to other nations?

India has given development assistance since its independence, but its development work has only gained momentum recently. To understand its political logic, it must be seen in the context of the constant process of change undergone by the country since the beginning of the 1990s. Two related developments constitute the political *raison d' être* of Indian development assistance, both of which ensure that aid to other developing countries is currently of great strategic value within Indian foreign politics. These are as follows:

1. the country's dynamic economic development, as manifested in steadily rising figures for growth, in the course of which new economic motives have influenced Indian South-South cooperation;
2. India's growing political importance at international level, and its resulting greater claim to status as a South Asian hegemonic

power and global spokesperson for the group of developing countries.

To 1): Since the start of liberalisation policies in the early nineties the Indian economy has grown by an average of 7% per year. Despite the fact that to date this growth has neither had a wide-spread impact nor been cross-sector, the country will continue to be one of the most dynamic growing markets in the world (see e.g. Schaffer/Mitra 2006, Wilson/Purushothaman 2003). With a growth of 23% in exports, of 29% in foreign trade and an increase in Indian foreign direct investment from \$4.2 billion to \$7.2 billion, 2006 was another record year for the Indian economy. However, contrary to what India's characterisation as *Asian Driver*, *Rising Giant* or *Hindu Miracle* might suggest, the continued success of this growth hangs very much on future political landmark decisions in the government. Besides a need for substantial internal reform, the economic growth process presents significant challenges for India's economic foreign policy towards the developing world. Access to new markets to keep up growth rates and to improve deficits in the trade balance is one example, another is securing imports of raw materials for industrial production and securing energy sources to overcome chronic shortages in energy repeatedly leading to high economic losses. These challenges constitute political spheres of action which must be addressed, particularly in the context of expanded South-South cooperation, and over recent years have directed the focus of the Indian government's attention towards India's economic relationships to other developing countries.

To 2): in recent years India has experienced a political as well as an economic revaluation. Because of its dominant position in a region whose geo-strategic importance has increased significantly, partly as a result of the 'war on terror', but also because of the 1998 nuclear weapons testing, India's political weight in the international decision-making arena has increased. India's current or future role as a speaker for the developing world, as the engine of South-South cooperation and as a key actor for regional stability in South Asia, seems increasingly to be recognised by the West. This recognition is manifest in India's *strategic partnerships* with the US, the EU and Germany. Yet just as its economic rise is beset by many unknowns, India's political role is also very dependent on Delhi's future foreign policy strategy. In this area, shaping relationships with developing and newly industrialising countries in Asia, Africa and Latin America has be-

come a central motive for the Indian government. In the last few years the ASEAN countries as well as certain Central Asian, African and Latin-American countries (e.g. Kazakhstan, Iran, Nigeria, Sudan, Venezuela, Brazil, South Africa) have also shifted into focus as India attempts to diversify its foreign policy alliances beyond South Asia. At the same time, on the international level Delhi is seeking a stronger connection to multi-lateral organisations and sees itself as a shaping force in international regimes, as well as a candidate for a permanent seat on the UN Security Council – a claim that is increasingly substantiated by the degree that Delhi can act as the legitimate speaker for other developing countries.

As indicated above, India's relationship to other developing countries has attained a new strategic value as a result of India's economic boom and increased political importance. And this is the clue to India's more intense focus on bilateral development aid, which has been apparent for some time now. India is intensifying its development assistance work in order to have an *additional* instrument for foreign and security policy as well as for promoting external trade at hand, with which to address the challenges induced by the political and economic boom.

Before moving onto the different institutions and tools of Indian development assistance using South Asia as an example, in the next two chapters this paper will discuss two central political issues arising from India's increased development activity:

- which goals drive the Indian government in its bilateral aid work and how can one assess the significance of Indian development work?
- How does Indian development cooperation relate to the normative guidelines and operative procedures of the DAC donor community?

3 Much ado about nothing? The significance of Indian development cooperation as a strategic component of South-South cooperation

It is not surprising, given the points made above, that Indian development cooperation is instrumental to India's foreign and economic policy. Contrary to western countries, which appear always at pains to deny any suspicion that their development cooperation might be a geo-strategic bargaining tool, the Indian government explicitly emphasises that the goal of its devel-

opment work is to further Indian interests abroad and to promote its *own* economic situation (Sing 2003, Price 2004:10). The "Indian Development Assistance Scheme" (IDEAS), a successor-programme to the 2003 "Indian Development Initiative", covers the large part of India's donor activities, and is explicitly designed to increase Indian exports, to promote economic relations to other developing countries and to support India's strategic interests abroad. Development assistance, as a complementary foreign policy tool, is intended here especially to

- open up new markets for Indian companies,
- guarantee energy security,
- strengthen India's negotiating position in international fora,
- further diversify the country's alliance and partner structure, and
- strengthen regional security, suppress separationist movements and terrorist activities in South Asia and thereby also guarantee the security of the nation itself.

This intertwining of developmental, economic and foreign policy motivators is also manifest in Indian reportage of development. Selective distinctions between development policy and foreign policy – for example through differentiating statistically between concessionary project-specific aid, budget support, interest free loans, credit on favourable terms or in line with market requirements, investment aid, technical cooperation and other forms of development assistance – are rare and if made, do not appear to be deliberate.⁴

As written sources are consequently approximate and sometimes contradictory, it is possible to make only a qualified calculation of the volume of Indian ODA. However the estimate preferred by the EU of US\$100 million per year (Altenburg/Weikert 2006:24) seems to be too cautious. If calculated based on individual budget

⁴ As far as the Indian government is concerned, development assistance is a component of a South-South cooperation in which countries interact with each other as partners at an equal level. To distance themselves from the West and to avoid internal discussion about the legitimacy of Indian development assistance, terms such as 'donor', 'development assistance' or 'ODA' are avoided where possible in Indian government jargon. The government's 'Non Paper' on the partnership with Africa states that 'The relationship is not one of donor-recipient but of partnership for mutual benefit'. (GOI 2006)

items in the 2006 Indian budget, it appears to amount to about US\$300 million. According to the trend in recent years this figure will continue to rise in the future. However, a *significant* increase in Indian development assistance, for example into the realm of China's volume (about US\$ 5 billion) is not to be expected in the next few years given India's liquidity bottleneck and the country's own huge need for investment.

In this relation, the most recent question to arise in the *emerging donors* debate, of whether Indian development assistance really is an *exit option* for developing countries and as such threatens Western hegemony in the international development regime, is easy to answer. In terms of isolated and absolute figures, Indian development assistance, contrary to China's, will not endanger the DAC-countries' dominance in the international development regime, and in the mid-term will remain only a marginal statistic within the *total volume* of bi- and multilateral aid.

The problem with this perspective, however, is that it derives from a narrow understanding of development which is not really applicable to the Indian context. The debate around the effects of *emerging donors* in general and Indian development assistance in particular is limited by its restriction to a consideration only of ODA flows and tools for development assistance. It is only when its function is considered as a *component of the wider package of economic and political cooperation* India offers its southern partners, that Indian development assistance appears so controversial and significant. Through this intertwining of foreign, economic and development policy, India never appears exclusively or primarily as a donor in any country. India is only a donor when it is also an investor, trade partner or political ally, or can become one. Indian development assistance generally comes with direct investment, trade agreements and new market access rules, technology transfers and the prospect of improved negotiating power in international fora within the context of intensified South-South cooperation.

It is true that, just as in the West, development assistance, trade flows and commercial relationships can never be seen as entirely linear, let alone in close causal relationship to one another. However, many individual examples do suggest that Indian ODA plays at least a small and not unimportant role in accelerating export trade and foreign investment. For example, Sudan, the recipient of one of the largest volumes of Indian ODA outside South Asia, is also the most signifi-

cant target country for Indian foreign direct investment in Africa, at US \$162 million. In 2005 the Indian government pledged US\$10 million in subsidies and US\$100 million in loans, at the same time as the Indian state-controlled oil company ONGC Videsh entered firmly into the Sudanese market. In Bhutan, Indian ODA financed various hydro-power stations which have since become a core component of Bhutanese energy supplies to India. In Senegal, the Indian automobil company Tata enjoys the greatest benefit from the restructuring of public transport facilities, while India is both the largest consumer of Senegalese exports and one of its largest non-Western donors. India maintains one of the largest bilateral aid programmes outside South Asia with Tanzania, over the course of which both the volume of Indian ODA and mutual trade and investment activities have been increasing steadily for years.

Again it seems clear that there is very little added value in examining Indian ODA flows in isolation. The future emerging donor debate will have to focus much more on the question of what effects these investment activities, trade flows, technology and knowledge transfers, which have been facilitated by Indian development assistance, will have on developing countries.

At the moment this question is cause for much speculation. Some commentators express the suspicion that China's and India's need for raw materials will result in such rapacious demand that Latin American economies will be transformed simply into suppliers for the Asian rising powers (Goldstein et al. 2006, Humphrey/ Messner 2006). The World Bank diagnoses clear potential in African countries for the increased export of semi finished and investment goods to Asia, which could enable countries who until now have been limited to the export of agricultural products to win new comparative advantages and thus a changed role within the international division of labour (Broadman 2007). However, other more critical voices, aware that the Indo-African trade flows also go the other way, point to the potential danger that Indian goods and services on the African market could swamp local providers and stand in the way of the establishment of local production chains. This could lead to already marginalised countries becoming even more isolated from the world market.

None of these considerations can currently be empirically supported. Neither the extent nor the configuration of Indian trade with other devel-

oping countries is such that it would threaten the principles of the international division of labour in any way. Although Indian imports from Sub-Saharan Africa in fact increased by 53% to US\$1.73 billion between 2005 and 2006, these figures are still marginal compared to China's imports from Africa (about US\$14 billion), and moreover are largely restricted to certain countries (South Africa alone accounts for 68% of Sub-Saharan exports to India) and also to traditionally 'African' products such as precious metals and agricultural products (MOCI 2006, Broadman 2007). Having said this, it is interesting to note that already many developing countries are benefiting from the higher prices for raw materials and agricultural products influenced by increased demand from India and China (Goldstein et al 2006). It is also interesting that Indian exports to Sub-Sahara Africa rose by 42% to US\$ 1.9 billion in the last fiscal year alone; that the Indian government is providing increased assistance for direct investment into Africa; that ever more trade agreements are coming into being between India and individual African countries and that in the last three years the Indian government has established lines of credit for Sub-Sahara Africa of a total of over \$700 million.

Even if these trends as such do not provide sufficient basis for definite conclusions about the economic consequences of India's rise for other developing countries, they do at least constitute a basis for research and discussion which, due to a one-sided focus on threats to the West's economic position, receives too little attention in the current debate about the global consequences of Asian economic development.

4 Competitor or Partner? Indian development assistance in relationship to DAC development assistance

Given India's growing engagement in development work, the DAC community is increasingly preoccupied with the issue of whether India will integrate into the Western donor community. Commentators seem to take comfort from the fact that India is perceived as a 'multilateral' actor both by itself and by the rest of the world. Based on the value foundations of Nehruvian foreign policy still influential today⁵, India commits itself to international treaties and contracts,

and advocates for a strengthened United Nations, for international law and for a multi-polar world order.

At a second glance however, India's multilateralism seems characterised by features at odds with the norms and procedures of Western development aid:

Firstly, there are many examples from the past which demonstrate that India is prepared to pursue its own strategic interests, even if this means to stay out or even undergo international legal frameworks.⁶ This principle is also brought to bear on Indian development work. Against the background of intertwined development policies and geo-strategic interests, it appears only consistent that the Indian government should not so far have committed itself to the normative guidelines and operative processes of the DAC donor community in the distribution of its development aid. The best example of this is the fact that India continues with *tied aid*, a practice now prohibited in the West, that is to say binding ODA to the consumption of Indian goods and services.

Secondly, the norm of unconditional non-interference and of respect for sovereignty with regard to other states, a tenet of Indian foreign policy since independence, clashes with the ideas pursued within the DAC of external promotion of democracy and conditionality of aid to encourage internal political reform. Thus India has so far abstained from placing any conditionality on its financial support and loans, and the OECD focus on democracy, human rights and good governance as a guideline for development assistance plays no role in the orientation of Indian aid flows.

Thirdly, India's multilateralism is by no means oriented towards maintaining the status quo, but explicitly towards changing the existing international regime. Only a multi-polar world order that overcame the North-South divide would guarantee enough room for manoeuvre for India to freely fulfil its potential as regional hegemony and global economic power. Thus India strives for a changed global trade structure which gives developing and newly industrialising countries

⁵ This primarily includes the principles of non-alignment, non-interference sovereignty and non-aggression.

⁶ Examples of this are: siding with the USA against the Kyoto-Protocol within the Bush Regime's 'climate initiative' in 2005; not ratifying the Rome Statutes of the International Criminal Court (ICC); not abiding by UNSC Resolution 1172 on the 1998 Indian nuclear testing; self-mandating in military conflicts in the past, or the refusal to accede to the nuclear test ban treaty as a nuclear free state.

extensive access to northern markets. It pushes for a fundamental redistribution of voting rights in the Bretton Woods organisations and for the creation of new institutions for South-South co-operation which can certainly be understood as competition to the DAC and OECD. The first signs of this are the debates around the establishment of a 'Southern DAC' or even an 'OECD of the South' as an answer to Western dominance in the international development regime. (SLRT 2006a:5ff; SLRT 2006b).

Against this strategic multilateralism, one must take care to note that India would not currently enjoy any identifiable advantages from committing to the DAC donor community principles. Quite the opposite: using the principle of conditionality could undermine India's legitimacy as a spokesperson for developing and non-aligned countries. An orientation towards democracy, good governance and human rights as maxims of development assistance would clash with India's priority economic interests (foreign markets, energy security, etc). Even the practice of tied aid will continue to appear legitimate to India for as long as the country has the impression that the West would seal its markets off from Indian products.

Thus while India's relationship to Western donors will in the future be characterised by a readiness for dialogue and punctual involvement, an actual integration of India into the Western donor community will not happen in the mid term. Only the prospect of fundamental reform in the architecture of international development structures, or a strengthening of its own negotiating position, could change this. If India makes any attempts to coordinate its development work with other donors, it will do so primarily using newly created South-South cooperation arenas in which other upcoming powers from the South such as Brazil or South Africa are represented. Special mention should be made here of the trilateral dialogue forum 'IBSA' in which since 2003 India, Brazil and South Africa have coordinated trade, development and security policy issues. At the last IBSA summit in June 2006 a working group on social development was created and development aid fund to support the international fight against poverty was set up in cooperation with UNDP.

5 The Tools and Institutions of Indian development assistance

Having sketched out the political and economic logic of Indian development assistance, this paper will take a closer look in the next chapter at

the tools and institutions of India's bilateral development work.

Indian development assistance work has a broad institutional base, although the Foreign Office (MEA) can be regarded as having a coordinating role. It has direct responsibility for work with Bhutan, Nepal and Afghanistan, and beyond this advises other ministries on fulfilling their development mandates. This applies first and foremost to the Department of Economic Affairs (DEA) in the Ministry of Finance, which coordinates bilateral cooperation with all other developing countries, and also the Ministry of Trade which, due to the interweaving of trade and ODA flows described above, takes on an important complementary function in the framework of Indian development institutions. The Indian Export-Import Bank (EXIM) also takes on an increasingly central role in financing budget support and loans. The payment and settlement of ODA resources is generally administered by Indian embassies and consuls on the ground.

The repertoire of Indian development tools can be structured along the common distinction between financial and technical aid (FA/ TA) and also emergency aid, as follows.

In the area of *financial aid*, the 2006/7 budget allocates about US\$346 million to budget support, financial contributions and loans to other governments. The major part of these resources are tied to specific projects funding infrastructure (particularly roads, schools, hospitals). In the framework of the *Team9 Initiative* created by the Indian government, a credit line of US\$500 million was established to improve India's relations with resource-rich West African countries. In addition, US\$200 million was pledged to support the NEPAD process. India has joined the HIPC II initiative, writing off debts of US\$24 million in total to Mozambique, Tanzania, Uganda, Ghana and Zambia.

India's *technical aid* to developing countries is largely carried out through the Indian Technical-Economic Cooperation-Programme (I-TEC) established in 1964. Technical aid constitutes the main focus of Indian development assistance and centres above all on the provision of expertise, advisory services and secondment of staff. Since the 1960s, US\$2.5 billion has gone to 150 different countries through the I-TEC programme. Much of Indian FA and TA is delivered as bilateral state aid, which contrasts strongly with India's preference as a recipient to access multilateral ODA where possible, in order to minimise administration and transaction costs.

Recent years have seen a substantial increase in the area of Indian emergency aid, with the post-Tsunami reconstruction effort as well as international food aid forming the main spheres of activity. Yet at US\$25 million, India's humanitarian aid in 2005 was still at a very moderate level in international terms. Indeed, with this amount India remains behind even countries such as Kazakhstan and Qatar, and it is not even half of what China provided in this area (GHA 2006:69). The large part of this emergency aid is delivered by the Army in the context of short-term missions and peace missions, as well as through the World Food Programme (WFP). The WFP, in which India has moved from a recipient to the 15th largest donor in a short space, reports Indian food aid contributions to Iraq and Afghanistan of US\$ 52 million over the last three years. In 2006 India was the third largest contributor of troops to the UN and can boast involvement in over 40 peace missions, which the Indian government sees very much as a part of its partnership with developing countries.

The application of these tools will be explored in the next chapter using the region of South Asia as an example.

6 Indian development work in the South Asian region

Following the logic of the interlocking of foreign, economic and development policy described above, India concentrates its use of these development tools on countries which have significant strategic importance for India. In central Asia and Africa, countries rich in oil and raw materials such as Nigeria, Sudan or Kazakhstan, or countries with significant Indian diaspora communities such as Tanzania, Kenya or Mauritius, are prioritised.⁷ Yet although Indian attention to Africa has increased in the last three years, the focus of its development aid still lies with countries within the South Asian region, such as Bhutan, Sri Lanka, Nepal, Afghanistan, the Maldives, Myanmar and Bangladesh.

The Indian government is fully aware that recognition of its claim for a greater role at international level will depend greatly on how well it manages to realise its role as regional leader in South Asia. "The key to India projecting itself beyond the region is to have and ensure stability in the region" (Baya 2007:6). Because of this, Indian development assistance must contribute to the realisation of its central foreign policy goals within the region. These include above all fighting international terrorism, constructing a regional security structure, securing India's maritime supremacy, expanding trade relations with neighbouring states and improving the integration of SAARC countries.

Bhutan, Nepal and Afghanistan, as central recipient countries, will be used as an illustration in the next section.

India is Bhutan's most important donor and Bhutan is the only country which can be described as dependent on Indian ODA contributions. With Bhutan's role as a 'buffer state' between the two Asian superpowers, with traditionally close ties to its southern neighbours, India has a strategic interest in a stable and prosperous Bhutanese kingdom. Certainly since the Chinese occupation of Tibet and the deployment of Chinese troops to the Bhutanese border, Bhutan has sought a close relationship with India as a security measure and to guarantee its territorial integrity. The Indo-Bhutanese development partnership which began already in the early 1960s, concentrates on building up infrastructure and developing the education and health sectors. Special mention should also be made of three hydro-power stations funded with Indian concessionary aid (60%) and loans (40%). Since their completion, Bhutan has exported energy to India on a massive scale, thereby not only meeting over 40% of its own budget income but also providing a moderate but dependable contribution to cover India's steadily rising energy needs. The Indian government has provided about US\$262 million in tied aid to support the current Bhutanese five-year plan for economic development (2002-2007), in which mutually beneficial energy projects again take a significant place.

Given the unstable peace process in Nepal and the Nepalese Maoists' support for Indian guerillas, India has a key interest in lasting peace in the country as well as in a militarily and economically successful central government. Besides military and economic aid, India also provides Nepal with around US\$15 million in development resources annually. The large part of this

⁷ India sees its extensive diaspora-community of 20 million people as a strategic resource, both for the distribution and marketing of Indian products and a source of money transfers back to the homeland, and as lobbyists for Indian political interests. In the past 5 years, India has massively extended its diaspora activities, as can be seen for example in the foundation of the 'Ministry for Overseas Indian Affairs' and the establishment of annual meetings for expatriate Indians in Delhi or Mumbai. With five PIOs (People of Indian Origin) as heads of state in other countries, the Indian diaspora community can be seen as extremely successful in terms of Delhi's foreign policy interests (see Gottschlich 2006, Bialles/Knauer 2006:3ff).

goes to developing physical infrastructure and to training in the area of technical cooperation. In 2003 a Memorandum of Understanding (MOU) was signed and a fast-track mechanism established with a view to improving the efficiency of the implementation of development projects financed by India. Besides this Nepal enjoys largely duty and quota free access to Indian markets and exports US\$425 million worth of goods to India per year. Since a new trade agreement was signed in 1996 Nepal's exports to India have increased five-fold. With an annual FDI volume of US\$300 million, 35% of the total FDI volume in Nepal, India is also its largest investor. In Nepal, too, hydro electric power stations are planned, which will export most of the energy produced to India. In order to free its relationship to Bhutan and Nepal from laws left over from colonial days which compromise both countries' sovereignty, and in order to lay the foundation for relations based on partnership, India has recently undertaken to substantially revise its friendship treaties with both countries (Bidwai 2007).

India has also become an important donor in the reconstruction process in Afghanistan and has provided US\$650 million to date for the country's reconstruction. India's primary interest in Afghanistan is to prevent a renaissance of radical Islamic powers and to suppress Pakistan's influence in the region. Indian development aid to Afghanistan, from Delhi's point of view, directly contributes to maintaining internal and external security for India. Afghanistan for its part sees the close cooperation with India as an opportunity to anchor itself more firmly in the region and to extract itself from the strangling grips of Western countries. During President Karzai's last state visit in April 2006, various agreements on intensifying cooperation in the areas of education and agricultural development were adopted. In addition, India is investing heavily in building up Afghani infrastructure, with the building contracts as a rule going to Indian companies.

7 Conclusion

This discussion has shown that Indian development assistance is instrumental to the Indian government's foreign and economic policy. Contrary to many European countries, in which development work may be interlinked but can still

be a semi-autonomous field of policy with its own clear normative dynamics, in India development work does not carry its own independent discourse, nor a logic of its own in isolation from Indian foreign policy. But Indian development assistance only achieves its significance in this blending of development political and foreign political agendas. Indian ODA flows may be marginal if regarded in absolute figures, yet they are highly effective within the wider portfolio of economic and political cooperation that India offers its partner countries in the South and with the help of which India's boom can be flanked. As India does not act solely as a donor in any country, but always also as an investor, trade partner and political ally, future debate will have to address the question of what effects investment activities, trade flows and technology and knowledge transfers facilitated by Indian development aid will have in developing countries.

It is important however also to note that India's foreign and security policies are currently undergoing a dynamic process, so the contours of Indian development work will only be clearly visible in the coming years. The examples of interplay between investment activity and development assistance described in this paper show just an early, cautious trend. In the case of China this trend has now developed a systematic pattern (Cotterrell/Harmer 2005, Fandrych 2006, Hofmann 2006). From a wider perspective it does appear that the development cooperation of rising powers from the South is a small but growing part of a process which has the potential to restructure the traditional patterns of the international division of labour, systems of wealth production and trade flows. Yet in the media, the debate about the consequences of India's and China's economic rise is conducted almost exclusively from the perspective of its threat to Western industrialised countries' positions, while its effects on developing countries in Africa, Asia and Latin America often remain ignored. Changing this focus remains an important challenge for the *emerging donor* debate.

About the author:

Mathias Jobelius is a staff member of the New Delhi office of the Friedrich-Ebert-Stiftung.

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Abbreviations

HIPC	Heavily indebted Poor Countries
HDI	Human Development Index
IBSA	India-Brazil-South Africa Dialogue Forum
IDEAS	Indian Development Assistance Scheme
ITEC	Indian Technical-Economic Cooperation-Program
DAC	Department of Economic Affairs (DEA)
FDI	Foreign Direct Investments
FA	Financial Aid
MEA	Ministry of External Affairs
MOU	Memorandum of Understanding
NEPAD	The New Partnership for Africa's Development
NGO	Non Governmental Organisation
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
SAARC	South Asian Association for Regional Cooperation
TEAM	Technical-Economic Approach for Africa-Indian Movement
TA	Technical Aid
WFP	World Food Program

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