Chapter 1
India and the World

Go Yamada
Principal Economist, Japan Center for Economic Research
Shujiro Urata
Professor, Waseda University, Graduate School of Asia-Pacific Studies
Research Fellow, Japan Center for Economic Research
Makoto Kojima
Professor, Takushoku University, Faculty of International Studies

General Overview

1. Omnidirectional diplomacy emphasizing the economy and practical benefit

After independence in 1947, India has upheld national unity, the promotion of development, and the like while adopting an extremely inward-facing industrial policy including raised tariffs and various import bans as a result of a backlash against the many years of colonial domination and a political agenda of protecting domestic industry. In foreign policy, Jawaharlal Nehru, India's first Prime Minister, met with Chinese Premier Zhou Enlai in 1954, and announced the historic "Five Principles of Peaceful Co-Existence." The following year, the Asian–African (AA) Conference of 29 emerging countries was held in Bandung, Indonesia, and India began exerting a large presence as a part of the Third World during the Cold War. However, in 1962, armed conflict broke out with China. Against the closer relations between the US, China, and Pakistan within the Cold War entering the 1970s, India grew closer to the Soviet Union. The Indo–Soviet Treaty of Friendship and Cooperation was concluded in August 1971, and the close relationship with the Soviet Union would continue for a long period thereafter. In October 1990, with suspicions over Pakistani nuclear development, the George H. W. Bush administration in the US halted aid to Pakistan. This triggered India's approach towards the US and the West, a trend that became decisive the following year as a result of the disruption and collapse of the Soviet Union, which had been friendly to India.

Meanwhile, as a result of opening the manufacturing industry to foreign capital through the economic reforms that started in 1991, manufacturers from Japan, the US, and Europe ramped up business in India, such as with the re-entrance into India after a hiatus of about 40 years of America's General Motors in 1994 and Ford in 1997. Thereafter, relations with the West deteriorated once again due to India pushing forward with nuclear tests in 1998, and economic sanctions such as limitations on trade and investment as well as the cessation of aid were imposed by the West and Japan. However, after 9/11, by cooperating on all fronts with the War on Terror led by the US in locations such as Afghanistan, India was able to have the economic sanctions lifted after only three years.

Afterwards, under the Bharatiya Janata Party (BJP) administration, Prime Minister Atal Bihari Vajpayee visited China and also achieved the restarting of comprehensive talks as part of the India–Pakistan peace process, taking a big step towards improving relations with China and Pakistan, which could be referred to as former bitter enemies of India. Furthermore, India contributed to the rebuilding of the South Asian Association for Regional Cooperation (SAARC), which had been dysfunctional, and strove to found a regional development fund and to realize the concept of a South Asian University.

The major characteristics of Indian diplomacy from the year 2000 were a departure from the hostility and opposition of ideology and border disputes, and the revealing of a realistic course pursuing the practical benefits necessary for economic development. Relations with the US—which had once taken the lead in imposing economic sanctions on India—improved and developed at a surprising pace, and India even realized the historic US–India Civil Nuclear Agreement despite being an outlaw from the Nuclear Non-Proliferation Treaty system.

Table 1.1: The state of India's omnidirectional diplomacy

Japan	Economic relations are finally becoming full-fledged through the launch of an EPA. There are great hopes for contributions in infrastructure and the like.
USA	The largest partner in nuclear power, the military, science and technology, and the like. The Indian government is also giving relations to the US the most importance, there are hopes for high-tech cooperation in supercomputers and the like, and US banks are aiming at India's financial market.
Africa	A frontier for Indian corporations that holds promise as a supplier of oil and mineral resources. Relations are being strengthened in competition with China.
Europe	There has been about a 100-year relationship with firms from the UK, France, Germany, and the like. EPA negotiations are running into difficulties at the end stage.
Russia	Traditional friend. In recent years, cooperation is accelerating in the field of energy, such as nuclear power and oil.
Gulf Arab States	Remittances by 4 million migrant Indian workers are valuable foreign currency. Also, the single largest supplier of oil and gas. Recently, investment by Indian corporations is expanding. There is also the Indian community from the era of the British Empire.
South Asian Countries (Pakistan, Sri Lanka, Bangladesh, etc.)	The activities of intra-regional cooperation organization SAARC are finally being implemented. Signs of thawing relations with Pakistan.
ASEAN (Thailand, Indonesia, Singapore, Malaysia, etc.)	The core of India's Look East policy. An India–ASEAN FTA was launched in January 2010.
China	Resolving the border dispute was deferred, and practical diplomacy was deployed centered on the economy. Bilateral trade exceeds $60 billion. Recently, investment is also gaining momentum.
South Korea	Has a large presence in household electronics, automobiles, and the like. Launched an India–Korea EPA in January 2010 ahead of that with Japan.

Japan Center for Economic Research "Asia Research" Report

In particular, having been overcome by the People's Liberation Army during the armed conflict in 1962, a national trauma to the Indian people, the Indian government first agreed on a framework for resolving border problems with respect to relations with China, and chose to defer conflict resolution in favor of the practical benefits resulting from trade and investment. Also, the opaque and exclusionary treatment of proposals to invest in India by Chinese corporations, which had been a diplomatic issue, has been largely resolved over the past few years. The value of Indian–Chinese trade passed 60 billion dollars in fiscal year 2010, and the movement of Chinese corporations towards foraying into/expanding their base in India, being commissioned for projects, and the like is expanding, as if to attempt to catch up with investment in China by Indian corporations, which had a head start.

This kind of diplomatic strategy emphasizing the economy has also appeared in India's Free Trade Agreement (FTA) and Economic Partnership Agreement (EPA) strategy. In 2010, EPAs with South Korea and the Association of Southeast Asian Nations (ASEAN) came into effect, and an EPA with Japan came into effect in August 2011. Currently, FTA negotiations are progressing with the European Union (EU) as well as the Gulf Cooperation Council (GCC), which comprises six Arab oil-producing countries, and signing an FTA with Australia is also being considered.

In a speech in October, US Secretary of State Clinton spoke of India's economically-focused practical diplomacy, stating that "India and Brazil put economics at the center of their foreign policies," and that the US should learn from this. It can be understood that India has been transcending the barriers of ideology and differences of opinion, choosing/implementing the best foreign policy for economic growth and developing the results into an "omnidirectional" diplomacy. This itself can be considered a new thinking in foreign policy that India has finally reached.

2. The major countries pay attention to India

With a population of over 1.2 billion, and with the high likelihood of developing a middle class of over 400 million people by 2020, India has been garnering global attention. This is not only due to being an enormous promising market, but also for being an export base towards Africa, the Middle East, and Europe, taking advantage of the manufacturing foundation, in addition to being a research and development base that takes advantage of the excellent scientific human resources. Along with China, India quickly emerged from the global economic downturn caused by the Lehman Shock, and has once again recovered to a trajectory of high growth.

Against this backdrop, the leaders of the major countries have been visiting India one after another since 2010. In July 2010, British Prime Minister Cameron visited India along with executives from over 50 UK companies, and succeeded in receiving a large order for military aircraft and the like. The following November, US President Obama visited India along with about 200 top personnel from powerful corporations such as General Electric and PepsiCo. They stayed in India for four days, and agreed on business deals totaling 10 billion dollars. It was highly unusual for a US president to visit India during the first half of his term in office. Next, in December, French President Sarkozy, Russian President Medvedev, and Chinese Prime Minister Wen Jiabao visited India, followed by Indonesian President Yudhoyono in January 2011. This once again made an impression of popularity and strong influence.

Indian Prime Minister Singh, who is nearly 80 years old, has tirelessly travelled abroad, visiting the US and Brazil in April 2010, speaking with the leaders of the BRICs at the latter. He visited Europe in December, and attended the BRICs summit held on Hainan Island in China in April 2011. The details will be discussed in Chapter 4, but Prime Minister Singh attended the Second India–Africa Forum Summit in May in Ethiopia, and clarified a stance of placing importance on Africa, such as by unveiling an aid package to the tune of six billion dollars.

3. The importance of India

The Indian government is engaging in easing restrictions on foreign investment and supporting exports and production, and has begun to be serious about introducing more foreign capital from the European governments than before. Looking at the private sector, active movements continue to be seen not only in manufacturing, but also the service industry, in which new services are being commercialized one after another, and the energy/infrastructure sector, such as building power plants and maintaining roads and harbors. There is no debate that in order to survive, Japan and Japanese businesses must incorporate India’s growth potential through trade, investment, and technical cooperation. What is important here is that India’s diplomatic strategy is currently placing more importance on economic growth than on international political power games or ideologies, and India’s policies for diplomacy with Japan are also determined based on a comprehensive judgment of the relationship with the US, Europe, and the Asian countries such as China from the point of view of the national interest. On this point, multifacetedly analyzing/verifying India’s current and future diplomatic strategy will become all the more important for the creation of an Indo-centric overseas strategy by Japanese businesses, as well as for policymaking in support of this.

4. India’s full-fledged entrance on the international economic stage

Since WWII, India has long been a participant in international agreements and bodies such as the General Agreement on Tariffs and Trade (GATT), the World Trade Organization (WTO), the International Monetary Fund (IMF), and the World Bank, but has mostly been uninvolved in the creation and operation of these organizations and institutions. Also, since the 1970s, many summit meetings have been organized, such as the G7 summit meeting of industrialized nations, and India has come to participate in meetings such as the G8+5, the East Asia Summit, and the BRICS Summit. Among these summits, India's participation in the G20 summit, which began in 2008, has been garnering the most attention. In the backdrop to India participating and drawing attention in these international frameworks of course lies India's steady economic growth of recent years. India has been increasing its presence in the global economy by maintaining a high level of growth, and has begun to take the position of generally representing the emerging countries.

5. India representing the developing countries in the WTO

5.1 India's assertions in the WTO

India's basic standpoint in the WTO is to obtain special and differential treatment (S&D) for the developing countries. S&D refers to granting the right for developing countries to implement measures that favor developing countries, and granting the right for developing countries to receive such treatment from the advanced countries. Also, opposition with the US over agricultural problems is being watched. The 5th WTO Ministerial Conference was held in Cancun, Mexico in September 2003 with the aim of furthering the Doha Development Agenda (DDA)[1], a multilateral trade negotiation under the WTO that began in 2001. There, India formed the Group of 20 developing nations (G-20)[2] along with Brazil, and from the US and Europe, requested the liberalization of the agricultural markets and the abolishment of agricultural support policies of the advanced countries. This request was not fulfilled and the DDA stalled. Also, at the WTO Ministerial Conference held in Geneva in July 2008 with the aim of restarting the stalled WTO negotiations, India and the US were opposed on the conditions for triggering the Special Safeguard Mechanism that can be used only by developing nations when imports of agricultural products surge, and so DDA negotiations were not able to be restarted.

5.2 The role desired of India and an expansion of its voice

A number of factors can be considered to lie in the background to the expansion of India's voice in the WTO. One factor that can be cited is that India itself came to be actively involved in WTO negotiations. Initially, India did not actively participate in negotiations, but it learned that avoiding WTO involvement was disadvantageous. Also, there were cases where exports from India were refused due to strict sanitation/environmental standards and anti-dumping measures. Due to this experience, India realized that active participation in WTO negotiations and discussions was

---

1 Also called the Doha Round negotiations.

2 The G-20 in the WTO differs from the previously mentioned G20, and constitutes the following 21 countries: Egypt, Nigeria, South Africa, Tanzania, Zimbabwe, China, India, Indonesia, Pakistan, the Philippines, Thailand, Argentina, Bolivia, Brazil, Chile, Cuba, Guatemala, Mexico, Paraguay, Uruguay, and Venezuela.

necessary in order to protect its policy freedom.[3] Other factors that can be cited include that developing countries began to actively state their opinions regarding development issues and that the number of developing countries among the WTO participants has increased.

The presence of the Indian economy—as it has been sustaining a high level of growth in recent years—in the global economy has been rapidly expanding. Goldman Sachs (2007) predicted that in 2050, India will be the third largest economy in the world after China and the US. It is hoped that India, which will become an economic power, will promote market liberalization and create/administer rules in the WTO, and in terms of international finance, that it will contribute to the building, maintenance, and operation of an international economic environment in which the global economy can continue to grow steadily, such as by supplying funds and creating/administering rules. There are also hopes for India's strict compliance with the administration of institutions and its intellectual contribution towards the rebuilding of institutions in forums for debate such as the G20 Summit, the East Asia Summit, and the BRICS Summit.

6. Trade policy

6.1 Trade policy

The open door for trade and foreign investment caused the Indian economy to directly face the currents of globalization, and has played an important role in orienting it towards being more of a market economy. After independence, India was consistent for a long time in its protectionism that shielded domestic industry from competition from imported goods, but trade liberalization has steadily progressed, triggered by the 18-19% devaluation of the currency exchange rate in July 1991 and the large decrease in export subsidies. The import tariff rate (weighted average) was 77.2% in fiscal year 1991, but had been cut back to 26.8% by 1997. Although the tariff rate temporarily rose again thereafter, it has declined to 7.0% by fiscal year 2010. However, India's tariff rates remain at a high level compared with the ASEAN countries.

Also, due to the abolishment of quotas, imports have surged. A result was an increase in implementation of antidumping measures by India.[4] Incidentally, there were 613 cases where India applied antidumping measures from 1995-2010, exceeding the 442 cases by the US to stand as the country that has invoked antidumping measures the most often in the world. The dual exchange rate system was abolished in March 1993, achieving convertibility of the rupee on trade account, and India became compliant with IMF Article 8.

Along with the introduction of trade liberalization, there were hopes in India for an expansion of exports, but it was only after entering the 21st century that this effect materialized. After

[3] See Cox (2010).
[4] Krueger (2008).

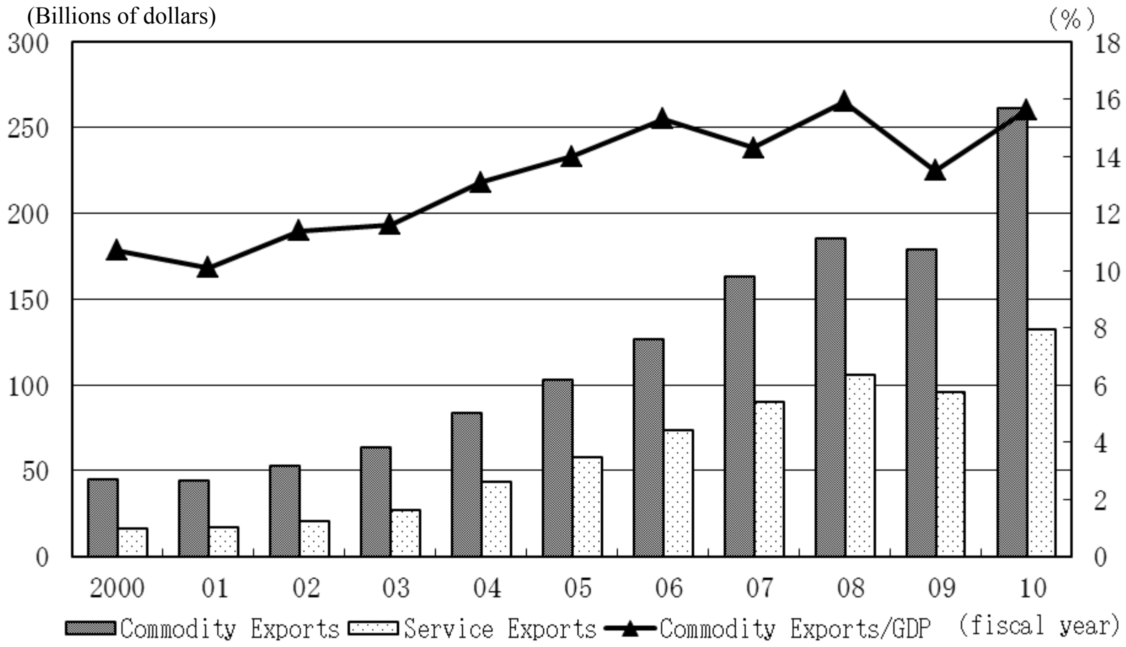
independence, India adopted a closed foreign policy under a mixed economic system, and furthermore, as it was thorough in protecting domestic industry, prioritizing the securing of employment, its international competitiveness fell precipitously, resulting in effects that lingered even after the economic reforms.

6.2 Trade achievements and outlook

Since 1991, amidst India's deployment of outwardly oriented policies, its exports have come to exhibit relatively satisfactory growth. India's exports have exhibited a yearly average growth rate of 10.6% during the period from fiscal year 1991 to 2000, and furthermore have exhibited a rate of 22.0% during the period from fiscal year 2001 to 2010. Exports in fiscal year 2010 grew 22.5% year-over-year, reaching $245 billion, exceeding the target of $200 billion. On the other hand, imports reached $380 billion, leading to a trade deficit of $135 billion. Incidentally, the trade deficit with China, India's largest source of imports, reached a level exceeding $200 billion. This trade deficit is offset by "invisible trade." "Invisible trade" consists of service trade, inward remittances, and investment income, and marked a $86.2 billion surplus in fiscal year 2010.

As the Indian economy has become more externally oriented, its export dependence (commodity exports/GDP) has also followed a consistently rising path. Export dependence rose from 6.4% in fiscal year 1990 to 10.7% in 2001, and 15.6% in 2010 (see figure 1.1). Also, India's share of global exports rose from a mere 0.5% in 1990 to 0.7% in 2000 and 1.3% in 2009.

Figure 1.1: India's Export Trend



Source: Ministry of Finance, Economic Survey (various issues)

India is a country characterized by diversity in all manner of fields, and this diversity can also be seen in the makeup of exported goods and the makeup of trade partners. Looking at India's main export goods, there is a trend towards various industrial goods such as steel/steel products, automobiles, and automobile parts rising as commodity exports, reflecting the progress of industrialization (see table 1.2). However, the only items having a share exceeding 10% of overall exports are oil and petroleum products as well as precious stones and jewelry, so overall there is a diversity of exports. Although there are 12 items such as precious stones and jewelry, silk, carpets, cotton, artificial fibers, coffee/tea/spices, and slag for which India has at least a 5% share of global exports, the value of exports for each category excepting precious stones and jewelry is small, and these items are products for which there are not particularly great expectations for future growth.[5] In fact, it is hard to say that the diversification of export goods from India has strongly reflected the trajectory of global demand.

The diversification of trade has also been reflected in the makeup of India's trade partners. Conventionally, India's largest trade partner was the US, but in recent years, the United Arab Emirates (UAE) and China have rapidly grown in importance, and the current top three trade partners are the UAE, China, and the US. The top 10 trade partners are not biased to a particular region, instead being scattered across East Asia, North America, ASEAN, East Asia, and Europe (see table 1.3).

Table 1.2: India's Main Export Items (FY 2010)

Top 10 Items	Value (millions of dollars)	Component Ratio (%)	Growth Rate (%)
Oil and Petroleum Products	42,491	16.9	46.3
Precious Stones and Jewelry	40,058	16.0	37.2
Steel and Steel Products	17,112	6.8	200.2
Apparel-related articles	14,247	5.7	16.9
Automobiles and Automobile parts	11,301	4.5	83.2
Electronic Equipment	10,839	4.3	49.9
Machinery and Equipment	8,966	3.6	24.7
Organic Chemistry Products	9,139	3.6	22.6
Copper and Copper Products	8,111	3.2	350.0
Pharmaceuticals	6,543	2.6	26.1
Total (including other items)	251,136	100	40.5

Source: Ministry of Commerce and Industry, Export and Import Data Bnak

5 Ministry of Finance (2011).

India has posted a large deficit of around $100 billion every year in recent years in terms of commodity trade, but inward remittance and trade in services has been taking on the role of offsetting this. Service exports marked a 38% increase year-over-year to $132 billion in fiscal year 2010, even reaching a scale corresponding to fully half of commodity exports. Service exports consist of tourism, transportation, IT services (software services), business services, and financial services. Among these, IT services makes up over half of overall service exports, constituting the nucleus of service-led growth since the 1990s. In the expansion of IT service exports, the Software Technology Parks (STPs) established across India have played a large role.

7. FTA／EPA strategy

7.1 Look East policy

The Indian government has been setting a goal of expanding commodity exports to $600 billion in fiscal year 2014, aiming to be an important player in the global economy. There are a host of tasks, such as dealing with the undeveloped infrastructure, including railways, roads, and ports, the revision of rigid labor regulations, and the reform of the bureaucracy. Nonetheless, the competitiveness of Indian industry has been gradually strengthening under economic liberalization, and there is a trend of further promoting economic globalization. Amidst these circumstances, India has been strategically emphasizing the strengthening of relations with East Asia. Since introducing economic reforms in 1991, the Look East policy has come to be advocated in India, and this has been reflected in reality in the form of the FTA/EPA strategy. Under its omnidirectional diplomacy, India is widely involved in FTA/EPA negotiations with many countries and regions, but the ones which have thus far been concluded and implemented are with countries/regions including Sri Lanka, Singapore, ASEAN, SAARC, South Korea, Japan, and Malaysia.

India’s first FTA can into force in the year 2000 with Sri Lanka. The reduction in tariffs for the target products is already complete, and negotiations are currently underway regarding a Comprehensive Economic Cooperation Agreement (CECA), which includes services and investment. The South Asian Free Trade Area (SAFTA), which comprises the seven SAARC countries, started in 2004, and the intra-regional tariff rate will be decreased to no greater than 5% by the end of 2012 for India and Pakistan, and by the end of 2013 for Sri Lanka.

Table 1.3: India's main trade partners and export/import ratio

	Share of Overall Trade			Export/Import Ratio		
	FY2008	FY2009	FY2010	FY2008	FY2009	FY2010
1． UAE	9.9	9.3	10.1	1.0	1.2	1.0
2． China	8.6	9.1	10.1	0.3	0.4	0.5
3． USA	8.1	7.8	7.3	1.1	1.2	1.3
4． Saudi Arabia	5.1	4.5	4.1	0.2	0.3	0.4
5． Switzerland	2.6	3.3	4.1	0.1	0.0	0.0
6． Hong Kong	2.7	2.7	3.2	1.0	1.7	1.1
7． Germany	3.8	3.4	3.0	0.5	0.5	0.6
8． Singapore	3,3	3.0	2.8	1.1	1.2	1.4
9． Indonesia	1.9	2.5	2.6	0.4	0.4	0.6
10. South Korea	2.6	2.6	2.4	0.5	0.4	0.4
Total	100.0	100.0		0.6	0.6	0.7

Source: Ministry of Finance, Economic Survey 2010-11; Ministry of Commerce and Industry, Export and Import Data Bank.

A CECA was established with Singapore in 2005, containing a bilateral investment agreement, a double taxation avoidance agreement, an air services agreement, the movement of people, and the mutual authentication and qualifications, far exceeding the scope of an ordinary FTA. A Framework Agreement on Comprehensive Economic Cooperation was signed with ASEAN in 2003, and an FTA came into force in January 2010 based on it. As a result, India's basic tariff rate for industrial products from ASEAN, including finished products and components, was lowered from 7.5% in January 2010 to 5% in January 2011. Also, it is expected that tariffs on items making up 80% of the value of two-way trade will be abolished. However, agricultural products, automobiles, sertain automobile parts, and the like are considered exceptions and are not included.

An EPA came into force in January 2010 with South Korea, with which the economic relationship is rapidly expanding. This includes products, services, and trade facilitation measures. As a result, India will reduce/abolish tariffs on items making up 85% of the value of imports from South Korea, and South Korea will reduce/abolish tariffs on items making up 93% of the value of imports from India.

Furthermore, a comprehensive EPA came into effect with Japan in August 2011. Over the next 10 years, Japan will eliminate tariffs on approximately 97% of the value of imports from India, and India will abolish tariffs on approximately 90% of the value of imports from Japan. The items of India's concessions include automobile parts, steel products, electric/electronic components, and general machinery. For steel products in particular, the elimination of tariffs will be within 5 years, and there are hopes for the effect that this will bring about. The Japan-India EPA covers many areas, such as trade in services and the movement of people, but the treatment of generic drugs is particularly noteworthy. Conventionally, the import of generic drugs from India was difficult in practice, but as the agreement provides national treatment to requests for registration/approval for generic drugs, there are hopes for the possibility of a future expansion in these being imported from India.

Also related to the Look East policy is the launch of a CECA with Malaysia in July 2011. Furthermore, an FTA framework agreement with Thailand targeting 82 items as an early harvest scheme was implemented starting in 2004, and negotiations aiming for a comprehensive FTA are currently underway. Discussions towards signing an FTA with Indonesia have also already begun.

7.2 A new direction

Outside of Asia, India is in the midst of FTA negotiations with the EU, the Gulf Cooperation Council (GCC), and the Southern African Customs Union (SACU). Also, FTA negotiations have newly begun with Australia. Already, a Preferential Trade Agreement (PTA), which aims to reduce/eliminate tariffs on a subset of goods, has come into effect with Mercosur (Common Southern Market) and Chile. Although the Look East policy has its own momentum, on the other hand, the simultaneous deployment of the omnidirectional diplomacy on a global scale is part of the depth of India’s foreign policy. Additionally, FTA negotiations with the EU began in 2007, and discussions are continuing regarding a broad range of fields including commodity trade, service trade, the movement of people, intellectual property, and defense. As of February 2012, there is a difference of opinion regarding intellectual property rights for agricultural products and generic drugs, import tariffs on completed vehicles, immigration of professionals, global warming countermeasures, child labor, and the like; the debate is encountering difficulties, but India is optimistic of a settlement within 2012.

Another notable point is the movement towards better relations with neighboring countries such as Pakistan and Bangladesh. South Asia’s share of India’s overall trade has been extremely small to begin with, at 5% of overall exports and a mere 0.6% of overall imports. For example, bilateral trade with the major neighboring country of Pakistan in fiscal year 2010 was $2.3 billion in exports to Pakistan and only $0.3 billion in exports from Pakistan to India. India had already granted Most Favored Nation status to Pakistan in 1996, and although Pakistan revealed the position that it would grant India Most Favored Nation status at the end of 2011, the implementation appears as though it will take some time due to domestic affairs. However, if SAFTA starts functioning in a healthy manner, it will likely have a positive effect on the entire South Asian economy.

8. Foreign capital policy

8.1 Inward investment policy

After independence, India held to a cautious stance towards inflows of foreign capital, but currently 100% foreign direct investment (FDI) through automatic approval rules is recognized in a majority of areas. FDI is prohibited in the retail business of "multiple brand" products, nuclear energy, the gambling industry, housing/real estate (excluding construction for urban development), plantations, and the like, and in a number of industries such as insurance and communications, there is an upper limit set for the foreign capital contribution ratio.

In India, unlike in China, foreign capital is not extended super-national treatment that gives preferential treatment above that of domestic corporations, but ultimately stops at granting national treatment. Since the Manmohan Singh administration launched in 2004, no large developments were seen in India's foreign capital policy, but recently, a number of notable movements have come to be seen that further promote liberalization of foreign capital. In March 2011, stock conversion of imported capital goods was recognized, and existing partnership agreement regulations (NOC =No Objection Certificate rules) were eased. As a result, contributions in kind of foreign capital were recognized, and prior authorization when altering capital/technology partners within the same industry became unnecessary.

In November 2011, the Indian government issued a cabinet resolution recognizing the introduction of up to 51% foreign capital in retail industries involved in multiple brands (so-called supermarkets and department stores). As of February 2012, this has been shelved due to intense hostility from the opposition parties, but the government has not changed its forward-facing stance towards liberalization.

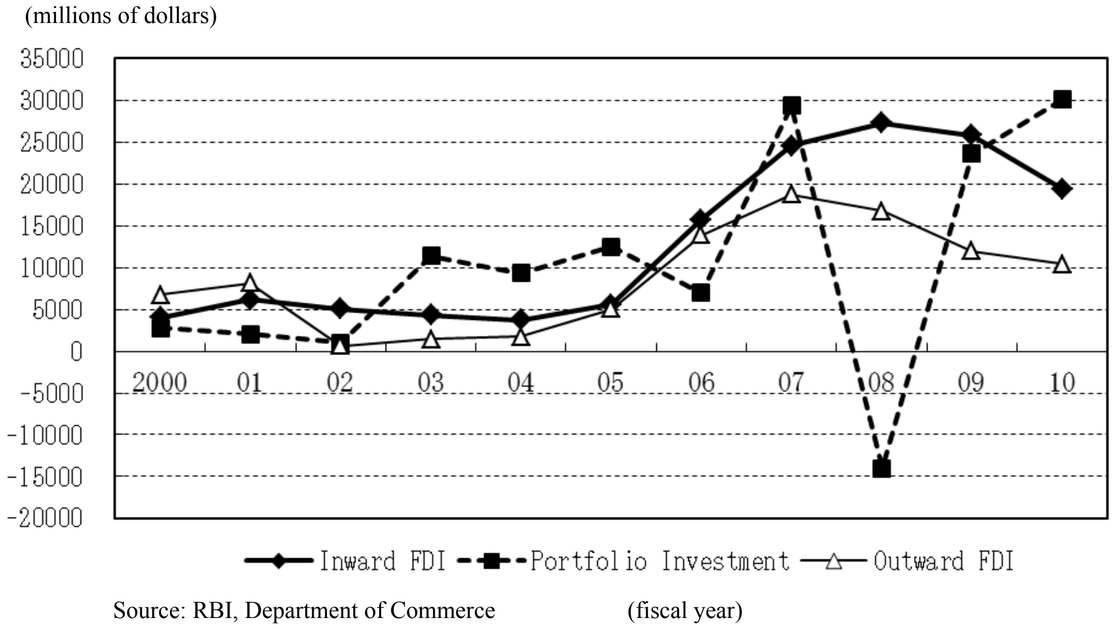
Through the 1990s, when India embarked on liberalization of foreign capital, the inflow of foreign capital was not particularly active, and India played second fiddle to the East Asian countries. This was because although India has an abundant labor force, it lacked the merit of being able to be used as an export base. Rigid labor regulations remained that caused difficulty in corporations withdrawing or adjusting employment, which was a factor causing corporations to hesitate to foray into India. Also, in the Special Economic Zones (SEZ), which support foreign companies, there were problems being faced of site acquisition and undeveloped infrastructure, and the situation was that they could not be thoroughly functional as export bases.

However, with India's sustained high level of growth and the expansion of each industrial sector, its importance as an enormous market and as a production base has suddenly come to draw attention. FDI, which had been trending at a scale of an annual average of $4.0 billion dollars in the first half of the 2000s, jumped to $15.7 billion in fiscal year 2006. Portfolio investments also reached $11.4 billion in fiscal year 2003, and with some fluctuation, have continued an expansion trend .

8.2 Outward investment

Since the dawn of the 21st century, outward FDI by Indian corporations also exhibited a marked expansion as if to keep pace with the expansion in inward FDI. The expansion of Indian outward FDI is closely linked to the regulatory easing of outward investment policy. Together with the economic reforms introduced in 1991, the liberalization of outward FDI was discussed, and overseas transfers based on automatic approval rules were recognized in 1992. In 2002, the upper limit for investment was raised to $100 million, and de facto liberalization measures were introduced in 2003. In other words, the upper limit for investment based on automatic approval rules was set at 100% of net assets, and this was further raised to 400% in 2008.

Figure 1.2: Indian inward/outward investment



Source: RBI, Department of Commerce

A further characteristic of Indian outward FDI is that the destination of investment is not limited to developing countries, but extends widely to the advanced countries, also including the result of mergers and acquisitions to a large extent. An exemplar can be seen in the active and resolute actions by the Tata Group, which has been leading Indian outward FDI. Starting with Tata Tea's acquisition of England's Tetley tea company in the year 2000, outward FDI has been developing with many mergers and acquisitions including Tata Steel's acquisition of Europe's number two steel company, Corus, in 2007, as well as Tata Motors' acquisition of global luxury auto brands Jaguar and Land Rover in 2008. FDI based on M&A can acquire a sales network, technology, and a brand—the wellspring of competitiveness—as a package. The fact that Indian corporations are acquiring companies in advanced countries signifies that the mindset that it is possible to successfully run acquired companies having different cultural backgrounds is spreading. It can be said that the experience and achievements during the period in the past of import substituting industrialization as well as the understanding and tolerance towards other cultures fostered in the diversity of Indian society have had a positive effect on the formation of this mindset.[6]

9. Initiatives regarding energy resources and climate change

9.1 Energy resource diplomacy

India is not able to meet its demand for oil, natural gas, or coal with domestic production, and seeks places from which to import energy resources around the globe. Oil imports are facing being 80% of domestic supply, and the Middle East makes up 2/3 of import sources. The government is encouraging the state-run oil companies to actively acquire drilling rights for oil and gas abroad, and to date, the outward investment by state-run oil companies has exceeded $13 billion. Among these companies, ONGC Videsh Limited (OVL), a subsidiary in charge of overseas affairs of the Oil and Natural Gas Corporation (ONGC), has been deploying the most energetic activities. OVL is already involved in 40 projects in 15 countries overseas, including Sudan, Vietnam, Venezuela, Russia, the Philippines, Colombia, and Brazil. The production from OVL's overseas assets has reached 8.87 MMTOE (million metric ton oil equivalent) in fiscal year 2010. Of the state-run oil companies aside from OVL, Indian Oil Corporation Limited (IOC) is involved in nine projects in six countries, Oil India Limited (OIL) is involved in 12 projects in eight countries, Bharat Petroleum Corporation Limited (BPCL) is involved in 12 projects in seven countries, and Hindustan Petroleum Corporation Limited (HPCL) is involved in two projects in two countries.

9.2 Initiatives for climate change

Conventionally, the position in India was to advocate for the rights of the weak in the world with respect to global policy problems. India's mantra has been that even though it ranks in the top five emitters of global warming gases, its per capita emissions rate is far below that of the advanced countries.

Although there will continue to be many unclear areas in the road ahead for climate change negotiations as well as India's role in them, the fact is that India is strengthening its engagement in climate change more than it traditionally has. It is widely agreed that there is the high likelihood that India will experience a tremendous effect as a result of climate change in the future. It is envisioned that the impact will extend to all manner of areas including coastal regions, water resources, forests, agriculture, and health. Furthermore, there is a significant effect on river flow by the amount of rain and the melting of glaciers, and the majority of rivers that flow in North India in particular rely on snowmelt and glacial melt from the Himalayas. As a result, there are concerns

[6] Kumar (2008).

that climate change will have a severe effect on agriculture and human survival through affecting the amount of river water.

India is putting importance on reducing the amount of carbon dioxide emissions per unit of GDP by increasing energy efficiency as a climate change initiative. The government is aiming to increase energy efficiency by 20% by 2016, and has set a goal of reducing the quantity of emissions per unit of GDP by 20-25% compared with the 2005 level by 2020. In pursuit of these objectives, India is furthering the diversification of energy sources, particularly the expansion of renewable energy such as solar generation, while also engaging in “cleaner” coal generation, which will continue to be the base.

10. The network of overseas Indians

10.1 Overseas Indians

Currently, there are 27 million overseas Indians in 110 countries around the world, forming the next largest such community behind the overseas Chinese.[7] The overseas Indians comprise non-resident Indians (NRI), who have Indian citizenship, and Persons of Indian Origin (PIO), who do not have Indian citizenship. These overseas Indians have a rising economic and social profile in each region of the world, and their production is estimated to be $400 billion, equivalent to a third of India’s GDP. Currently, the US has the greatest number of overseas Indians. In recent years, countries having at least a million overseas Indian residents include the US (2.25 million), Malaysia (2.05 million), Saudi Arabia (1.79 million), the UAE (1.70 million), Sri Lanka (1.60 million), the UK (1.50 million), and South Africa (1.22 million), and the overseas Indians are also active in countries including Mauritius (0.88 million), Kuwait (0.58 million), Oman (0.56 million), Qatar (0.50 million), and Bahrain (0.35 million).[8]

Regardless of being in an advanced country or an emerging country, the community of overseas Indians has a high academic level, is recognized as a successful group, contributes to the economic development of the countries of residence through activities in intellectual and innovative spheres, and plays the role of a bridge that is important in providing knowledge, skills, capital, and a market to the mother country, India. The overseas Indians are a presence that cannot be understood simply in terms of remittances to and investment in India. Behind the negotiations for the US–India Civil Nuclear Agreement lay the energetic lobbying activities by Indian-Americans. The network of overseas Indians that spreads across the globe is itself a presence that greatly contributes to the development of the Indian economy.

7 Ministry of Overseas Indian Affairs (2011).
8 Ministry of Overseas Indian Affairs (undated).

10.2 Overseas migrant workers and inward remittances

Among the overseas Indians scattered across the globe, there are roughly five million migrant workers, of whom over 90% are working in the gulf region (including West Asia and North Africa) and Southeast Asia as construction workers, shopkeepers, drivers, and the like. Meanwhile, in the gulf Arab countries, 20-30% of the people work as various professionals and white collar workers (doctors, engineers, architects, accountants, bankers, and the like). The overseas migrant workers are the source of considerable inward remittances, and India is the largest recipient of inward remittances in the world at a scale rivaling IT-BPO exports, which are roughly half of service exports. Roughly 40% of inward remittances come from the gulf countries and Malaysia. Since fiscal year 2009, despite fewer migrant workers leaving India, inward remittances have continued along the path of expansion. The value of inward remittances expanded from $25 billion in 2005 to $53.9 billion in 2009, rivaling IT-BPO exports, and is participating in the increase in national income, and by extension, the expansion of the Indian domestic market.

References

Bery, S. 2009. India No Spoiler in Trade Talks, *East Asia Forum*, http://www.eastasiaforum.org/2009/09/07/india-no-spoiler-in-trade-talks/

Bhattacharya, A.K. 2010. Indian Perspectives on IFI Reforms. In *India in the G20: Macroeconomic Policy Coordination, Regulation and Global Governance,* eds. Center for Economic Research and National Council of Applied Economic Research. London and New Delhi.

Brummer, J. 2005. India's Negotiation Positions at the WTO. *Dialogue on Globalization, Briefing Papers*, Friedrich Ebert Stiftung, Berlin, Germany.

Cox, Simon. 2010. India and the G20: Enjoy the Silence. In *India in the G20: Macroeconomic Policy Coordination, Regulation and Global Governance,* eds. Center for Economic Research and National Council of Applied Economic Research, London and New Delhi.

Goldman Sachs. 2007. The N-11: More Than an Acronym, *Global Economics Paper* No.153.

Kirton, J. 2010. Assessing G8 and G20 Performance, 1975—2009. Paper prepared for the international convention of the International Studies Association, New Orleans, February 16-21, 2010. Draft of February 19, 2010.

Krueger, Ann O. 2008. The Role of Trade and International Economic Policy in Indian Economic Performance. *Asian Economic Policy Review*, Volume 3, Issue 2.

Kumar, Nagesh. 2008. Internationalization of Indian Enterprises: Patterns, Strategies, Ownership Advantages, and Implications. *Asian Economic Policy Review*, Volume 3, Issue 2.

Ministry of Finance. 2011. *Economic Survey 2010—11*.

Ministry of Overseas Indian Affairs. 2011. *Annual Report 2011—2011.*

————. undated. Estimated Number of Oversea Indians.

The Government of India. 2001. *Report of the High Level Committee on Indian Diaspora.*

Vanamali, Anmol. 2001. Climate Strategy Is Critical for India's future. *Global Asia,* Vol.6, No.1.

World Bank. 1993. *The East Asian Miracle: Economic Growth and Public Policy*, Oxford University Press, New York.

————. 2011. World Development Indicators on line.