

## 27 | Concluding Thoughts

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**W**hat is likely to be the shape of India's economic diplomacy in the future? How can it be improved? What does the experience of the recent past tell us? Before considering this in terms of several key parameters, such as inclusiveness, image management, performance consistency, and the training needs, let us look at the organisational context of the way economic diplomacy is handled in the Ministry of External Affairs (MEA).

### Organisational Structure

An Economic Division came into existence in MEA only after the recommendation of the 1966 Pillai Committee Report.<sup>1</sup> That set of recommendations perhaps drew ideas on

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<sup>1</sup> An economic division was created in MEA in 1947, but it withered away at some point. It was revived in 1961, but was combined with the Coordination Division (an important unit in MEA as it handles all Parliament related work, besides other tasks). The Economic Division entered into full stride only in the early 1970s, more or less in parallel with the 1973 'oil shock'. See Rana, *Inside Diplomacy* (2002), Chapters 4 and 5, pp. 96-143.

this subject from from UK's 1964 Plowden Committee Report, but the limited economic orientation of those days may be gauged in that the Pillai Committee did not even mention investment promotion as a priority activity for embassies abroad. It was, as noted earlier, after 1973 that the Indian diplomatic system rapidly climbed up the learning curve. The first iconic senior head of the economic division, Bimal Sanyal provided inspiration; the young envoys sent out to the oil-rich states, some heading brand new embassies, responded with alacrity.

Today, what is called MEA's 'economic division' is actually a cluster of five separate divisions; in any other ministry that would qualify for a sub-ministry title of 'department', but that is not the MEA way; MEA has no departments. The senior official heading the 'economic' cluster usually has the rank of 'secretary to the Government of India' and is called 'Secretary (Economic Relations)', but from time to time an additional secretary handles this job.

The other important aspect of management of economic affairs in MEA is that a hybrid model is followed in the way work at the bilateral, regional and global levels is handled. For embassies abroad, the main interface on bilateral economic work is with the territorial divisions. But at the same time, the economic divisions, such as ITEC (handling technical cooperation) and 'Economic Promotion' enter the frame and help with some tasks. In practice, this works well.<sup>2</sup>

## Looking Ahead

As with other diplomacy segments, the manner in which economic work will be handled in the years ahead will need to be *more inclusive* than ever before, in several different ways.

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2 Most other foreign ministries follow a similar practice, in that territorial departments handle bilateral economic work as well, but a few like Austria separate political and economic work

The MEA initiated steps towards the end of 2010 to bring in officials from sister services, starting with the Indian Audit and Accounts Service to help with project management, which is becoming an important activity in missions in African and other countries; hitherto such project monitoring was important only at locations such as Bhutan and Nepal. Officials are being inducted in the Ministry and some are also to be posted abroad. At one stroke it deals with several needs: opening up MEA for 'in' placements, plus helping meet the current shortage of officials.<sup>3</sup> Foreign Service officials should see this in a positive light, recognising the fact that such 'in' and 'out' placements are a normal aspect of a foreign ministry's relations with other home official agencies.<sup>4</sup>

Behind this is the larger issue of improved inter-ministry cooperation, not only on major issues, but also at working levels. In a system like the one that obtains in India, many ministries and government agencies play a role in economic affairs, most of which have external facets. MEA, like foreign ministries everywhere, needs to win credibility and support from all these agencies, and generate coordination through a complex process of outreach and domestic diplomacy. The goal is a fully harmonised 'whole of government' foreign policy. Given the fact that most countries face an identical challenge, a large potential exists for mutual learning should be explored.

Over time, India has become a major player in international arena in dealing with challenges being faced by 'global public goods' such as security, international trade, climate change,

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3 MEA's plans announced in 2007 to double the number of IFS officials from the then existing figure of 620 are far from realization. By 2010 the number has risen to about 770, and annual recruitment is being stepped up to 35 (from the average in the years 2000-2009 of around 16).

4 Traditionally, Foreign Service officials have been apprehensive of such induction, as a threat to their future career prospects. They will need to shed this mindset, given the fact that the strength of the IFS is to be doubled, as announced in 2007.

food. Not only that India is playing a major role in coalition building among like-minded countries in addressing these issues but also the world is looking forward to see what India can offer in reaching negotiated solutions to these challenges. This calls for more harmony between the MEA and line ministries dealing with specific subjects. In the past, MEA formed subject-specific committees (inter-ministerial bodies and also having representatives from non-state actors) to deal with such specific issues but they were not effective, largely due to turf-related issues. Not only that they should be revived but their mandate should come from the highest political leadership and should be made more result-oriented.

The three Indian apex business agencies work very closely with the government, MEA as well as other economic ministries, in promoting national external economic interests, part of a long and healthy tradition — far better than in most countries. The Associated Chambers of Commerce and Industry of India (ASSOCHAM), the smallest among the three, prides itself as a ‘knowledge architect’, and encompasses 300 business chambers and 200,000 member companies. CII, in some ways the most dynamic, has expanded its activities in the politico-economic segment, as we saw in two essays in this collection. It joined hands with the Commerce Ministry in the late 1990s in helping it to get off the ground its ₹500 cr. (US\$55mn) ‘brand equity’ fund, and now runs jointly with this Ministry the ‘India Brand Equity Fund’, which effectively functions as a commercial branding agency, in a public-private partnership.<sup>5</sup> FICCI, which traditionally viewed itself as the country’s premier defender of the privately owned business sector before the 1991 Economic Reforms, is equally successful as an overseas promoter of Indian business and economic interests, and has now reached out to public sector enterprises as well. In 2009, it broke new ground in joining

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5 See <http://www.ibef.org/> [accessed on October 24, 2010.]

hands with the Department of Industrial Policy and Promotion in establishing an investment promotion agency, as joint venture enterprise in which the government has a minority interest.<sup>6</sup> It is still too early to say how well that has worked out.

MEA and Indian embassies also work in partnership with all these three national agencies; this has been one of the key positive dimensions of the country's economic diplomacy. We know from observation that this is not always the case in other countries, when ambassadors hesitate to accompany business delegations. Generally, this involves not just visits to ministries in the receiving countries, but also business delegation visits to foreign business associations, and to business enterprises — we refer here to situations when a composite delegation from home visits a major foreign company, not to negotiations at a company-to-company level.

We should also note that a couple of elements have been missing in India's economic marketing. For one thing, while the three major apex bodies come together on an *ad hoc* basis (for example, organising joint business delegations to accompany high dignitaries on foreign visits, or jointly hosting meetings with visiting foreign leaders), they need a better mechanism for regular cooperation for external activities. Perhaps this could be facilitated if MEA establishes a permanent consultative group that reaches out to Indian business, such as an economic advisory committee.

MEA might also include in such a process major economic thinktank representatives, media commentators, representatives of non-governmental organisations working on international economic policy issues, and individual

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6 See <http://www.investindia.gov.in/> [accessed on October 24, 2010.] This has come after earlier abortive moves to deal with this key promotional activity directly through official agencies and nominated groups composed of important business leaders.

economic analysts. The end objective should be an inclusive and open process, where the country's economic diplomacy has multiple owners, who work to a set of national objectives, while acting with full autonomy in their own specialties and harmony. The results of this inclusive and open process should regularly be placed before the domestic stakeholders through the efforts of public diplomacy, so that there is better synergy between domestic and external objectives.

Another area for coordinated action is *image management*. Consider the different agencies that engage in this task: Indian tourism, with its fine slogan 'Incredible India', has found a successful formula; foreign tourist inflow was over 5 million in 2009, and the global recession that hurt some destinations, did not produce a sizable dip in India. Inward FDI promotion, is now the responsibility of the new joint venture between FICCI and the Department of Industrial Policy and Promotion, as noted above; CII's India Brand Equity Fund does a solid job in its focus areas, which is economic marketing. Other major contributors to image are: the Indian Council for Cultural Relations (ICCR), dating back to 1952, that handles cultural promotion; Indian universities now attract over 22,000 foreign students, though this sector lacks a promotion agency;<sup>7</sup> the media agencies, especially commercial satellite TV entertainment and news channels now have a global footprint, though unlike Chinese TV which now has a global channel, India's *Doordarshan* has a more modest external footprint. Today, satellite TV is beginning to be overtaken by internet TV; a few private Indian news channels are beginning to provide live, free feed through this medium.

What is missing in image management is coordinated action among all these agencies. One possible way to do this is to borrow from the French and UK examples, via the 'public

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<sup>7</sup> This is a miniscule number compared with 150,000 foreign students at Chinese universities.

diplomacy boards' that the heads of these foreign ministries chair. That method works not because they have authority over the different agencies concerned, but because image management is vital to the country's external policy, and such coordination is of utility to all the independent agencies, given that strong action in one sector produces spinoff benefit for all the others.

Another way of examining branding is to analyse India's soft power; we may recognise that plurality is one of its special attributes. Some major contributors to the country's image, such as Bollywood and the rest of the Indian cinema, have gained international attraction mainly without any government intervention. According to branding expert Simon Anholt, "90 percent of a country's reputation is beyond the control of the country, as perceptions have been created over generations, but the remaining 10 percent is under a government's control..."<sup>8</sup> That may lead us to appreciate the relatively finite role that can be played in managing image through official action.

In this context, it is important to note that both state and non-state actors in many developing countries look forward to replicating various social development initiatives that India has undertaken in the recent past. Many of those initiatives, such as right to information, employment guarantee scheme, are actually a result of actions on the part of Indian civil society movement. Realising the potential role that Indian NGOs can and should play in building the country's image among the larger populace and through the use of soft power, MEA has developed a programme to support Indian NGOs to replicate their experience and knowledge in African countries which are facing similar developmental challenges as India faced in

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<sup>8</sup> Interview given by Simon Anholt, *The Mint*, New Delhi, September 05, 2009

60s and 70s. This type of South-South cooperation among non-state actors is unique and will help in taking forward the Indian model of development.

Another challenge, common to all institutions, is to raise the *average performance level* of personnel, which for the foreign ministry translates into the performance of its overseas missions and units at headquarters. Empirical experience shows that those in the top 10 percentile will manage to thrive and deliver quality results in virtually all environments. It is the bulk that lie in the middle that need to be encouraged and assisted to perform better; in particular, those that are at the very bottom should be helped to do their very best. Among the embassies and the consulates that are the field units of the diplomatic system, the economic arena is special in some ways. It produces indicators that are concretely visible, i.e. the figures relating to trade and investment flows, as well as numbers of foreign tourists visiting one's country. Of course, these diplomatic agents, much like the personnel working in commerce and industry ministries, are not themselves traders or investors; they are usually the initiators, facilitators and supporters of the enterprises, led by businessmen that produce exports, and flows of FDI and of tourists.

That leads to a question. Does it make sense to fix hard targets for exports and for investment flows for embassies? Our answer is an emphatic yes. At a time when many diplomatic systems are moving to tight focus on performance management methods, many borrowed from the corporate world, we should give close attention to improving techniques that help to raise our overall level of economic support to business, and translate that into better economic results for the country. Improved performance management affects more than economics, and it is worth doing also as part of a broader plan to upgrade the diplomatic system.



*Training* is one sector in which MEA has done relatively well, in the emphasis given to the economic dimension in entry level programmes at the Foreign Service Institute, and in the mid-career course that are now being run mainly at some management schools where MEA officials attend programmes. There remains considerable potential for expanding these training activities, especially by way of short courses on economic issues, including negotiations and on some specific issues such as WTO affairs, climate change negotiations, challenges to address global food security concerns and through distance learning for officials posted abroad; this option is ideal for foreign ministries given the high cost of bringing in officials home for courses held at any single location. These are matters of detail that merit attention at the highest level in MEA.

The other broad point, not limited to economic diplomacy, is that training should be treated as a core priority by MEA. During the course of a training programme held in a Gulf country in 2010, the Foreign Minister dropped in unannounced at a lecture that was underway, and waited till the two lecturers had finished their presentations. He then began his remarks to the class, half composed of new entrants while the other half were officials with around five to twelve years of experience; he commenced by saying: “Training is the most important activity for the Foreign Ministry.” The Ministry needs to manifest its ‘ownership’ of this Institute, a point that was also made, in indirect fashion, in the Abid Hussein Committee report of January 2009.<sup>9</sup>

Since 2008, the MEA holds an annual conference of all its ambassadors in New Delhi. This is an excellent initiative; the

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<sup>9</sup> The report of the Hussain Committee was published in May 2009; it is available from the website of FSI ([fsi.mea.gov.in/](http://fsi.mea.gov.in/)). *Its recommendations await implementation, including one that training in economic diplomacy needs to be strengthened.*

process of dialogue between the headquarters and the envoys abroad would be enhanced if an indirect professional communication function were built into that conference. This can be done by setting out a few specific topics for discussion, such as methods of economic promotion, or diaspora outreach or cultural exchanges; some of the participants would prepare short presentations, which would then be discussed by the conference, sometimes in parallel sessions to save time. In effect this gives the conference a kind of mutual learning function, sharpening professional skills.

For India's economic diplomacy to be more successful what is needed is more coordinated actions on the part of MEA and the Commerce and Industry Ministry. MEA officials should be trained on the nuances and intricacies of trade and investment negotiations, and equally the officials of the commerce and industry departments and other line ministries should be aware about the larger context of economic diplomacy. In the recent past, the Department of Commerce supported an initiative to train its officials (and those from other economic ministries, MEA and also business chambers) on negotiating techniques and larger issues of economic diplomacy.

Support to organising this training programme was given to CUTS International, an Indian NGO having offices in many countries of the South, working on international economic policy issues. More than 100 officials from junior, middle and senior level were trained. Partly as a result of this programme, the Commerce Department agreed in 2008 to initiate a 'challenge fund' under its Market Access Initiative to support Indian missions to conduct specific activities to promote Indian exports and investment. So far, more than 15 missions have availed this Fund and it is important to note that most of them are located in the so-called non-traditional markets.

Finally, let us look at Bayne's 'three tensions' as the drivers of commercial and economic diplomacy (see Chapter I): those between political and economic issues; state and non-state actors; and public and private entities.

*Politics and economics:* If economics was important in relations between countries before the 2008 global recession, its value has grown even higher today, as exemplified for India in the 2010 visits to New Delhi by British Prime Minister David Cameron and US President Barak Obama, plus the leaders of the other P-5 nations that came to India in the second half of 2010 — they and most other leaders today travel abroad as unabashed economic salesmen for job creation and business capture for their home constituencies. But politics remains the foundation on which economic cooperation is built. We might conclude by saying that more than a 'tension' between politics and economics, there exists for the great part a singular harmony and synthesis, where each reinforces the other. Contradictions are perhaps possible, but India has mainly seen the two objectives as harmonious and mutually complimentary.

*State and non-state actors* also seem to coexist well in India's practice of economic diplomacy. The two reinforce one another, and are beginning to use public private partnership (PPP) methods to extend their cooperative actions. Examples have been furnished in earlier chapters, but in brief, one may mention the India Brand Equity Fund, and the Invest India partnership, both using the PPP format. What is needed are systemic dialogue arrangements between them.

In like fashion Indian *public and private entities* now function in a manner that takes the strengths of each across to the other kind of entity. For instance, India's leading 'private sector' bank, ICICI began as a public sector enterprise and gradually transformed itself into a private sector bank when its equity ownership was sold from official agencies to private Indian shareholders and foreign institutional investors. On the

other hand, some of the best public enterprises have worked in effect as agile private sector entities. In the reverse direction, some of the leading privately owned companies, such as those belonging to the huge and diverse Tata group, are owned in effect by trusts, and function not to advance the interests of the promoter family, but to bring value to all their stakeholders, including the hugely diversified shareholders, as well as employees and business associates.<sup>10</sup>

This public-private sector synergy is visible in India in some other ways. First, contrary to past practices, the business associations, ASSOCHAM, CII and FICCI now have members from both these sectors. CII also prides itself in having foreign enterprises that are active in India as its members. Second, and this is the key point for this collection of essays, in the practice of economic diplomacy by Indian embassies and by the government departments, both the public sector and the private sector are full and equal participants.

What is now needed is involvement of the civil society in India and abroad by complementing economic diplomacy with public diplomacy so as to make the effects of all these efforts much more inclusive, benefiting the people at large. The ultimate test of economic diplomacy should not only be a percentage increase in exports and or rising figures of investment, but also and importantly how it has helped in raising people's standards of living. In other words, 'faces' should be associated with 'figures'.

This collection bears testimony to the vigor of India's economic diplomacy. The essays narrate graphically the solid contribution that Indian embassies and consulates make, in handling external economic promotion as a core activity, in advancing the country's interests.

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<sup>10</sup> This diversified shareholding is visible in the fact that some of these companies have hundreds of thousands of shareholders.