Economic Diplomacy: India's Experience

Edited by: Kishan S Rana • Bipul Chatterjee

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CUTS International

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With its headquarters and three programme centres in Jaipur, India, one in Chittorgarh, India, a liaison office in New Delhi, India and resource centres in Calcutta, India; Lusaka, Zambia; Nairobi, Kenya; Hanoi, Vietnam and in Geneva, Switzerland the organisation has established its relevance and impact in the economic policy-making circles and among the larger development community in the developing world and at the international level.

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ACKNOWLEDGEMENT

This book highlights some of the challenges of India's economic diplomacy in the globalised world of the 21st Century. It bears testimony to the vigour of India's economic diplomacy. The essays narrate the multifarious contributions that Indian embassies and consulates make, handling external economic promotion as one of their core activities.

We express our gratitude to the essay authors: Talmiz Ahmad, Jawed Ashraf, Arjun Asrani, Rajiv Bhatia, Deepak Bhojwani, Sujan Chinoy, Tarun Das, A Gopinathan, Mohan Kumar, Shiv N Malik, M P M Menon, Siddhartha Mitra, Som Mittal, Anup Mudgal, Amar Nath Ram, Leela K Ponappa, V S Seshadri, Harsh V Shringla, Gurjit Singh, Amar Sinha, N Srinivasan, Apoorva Srivastava, Navdeep Suri and S Swaminathan.

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Words alone cannot convey our gratitude to those that have contributed in every big and small way to this volume. Yet, the world thrives on words. Any error is our responsibility.

KISHAN S RANA
BIPUL CHATTERJEE

ABBREVIATIONS

ACP	African, Caribbean and Pacific
ADIA	Abu Dhabi Investment Authority
ADIC	Abu Dhabi Investment Council
ANC	African National Congress
ANFD	Australian National Field Days
APEDA	Agricultural Products Export Development Authority
ASEAN	Association of Southeast Asian Nations
BEE	Black Economic Empowerment
BEML	Bharat Earth Movers Limited
BN	billion
BSM	buyer-seller meet
Cd'A	charge d' affaires
CHOGM	Commonwealth Heads of Government Meeting
CII	Confederation of Indian Industry
CLE	Council for Leather Export
COMESA	Common Market for Eastern and Southern Africa
CTL	Coal-to-Liquid
DIFC	Dubai International Financial Centre
EC	European Community, European Commission
ECOWAS	Economic Community of West African States
EEPC	Engineering Export Promotion Council
EFTA	European Free Trade Association
EP	European Parliament

EPCH	Export Promotion Council for Handicrafts
EPG	eminent persons group
EU	European Union
EXIM	Export-Import (bank)
FDCI	Fashion Design Council of India
FDI	foreign direct investment
FICCI	Federation of Indian Chambers of Commerce and Industry
FIEO	Federation of Indian Export Organisations
FTA	free trade agreement
GATT	General Agreement on Tariffs and Trade
GCC	Gulf Cooperation Council
GDP	gross domestic product
GoI	Government of India
GSP	Generalised System of Preference
HIPC	Highly Indebted Poor Countries
HoM	head of mission
HS	Harmonised System
IAFS	India Africa Forum Summit
IBF	India Business Forum
IBSA	India-Brazil-South Africa
ICT	information and communication technology
IETF	Indian Engineering Trade Fair
IGCC	Indo-German Chamber of Commerce
IGNOU	Indira Gandhi National Open University
IMF	International Monetary Fund
IPIC	international petroleum investment company
IT	information technology
ISLFTA	India-Sri Lanka Free Trade Agreement
ITC	International Trade Centre
ITEC	Indian Technical and Economic Cooperation
ITPO	India Trade Promotion Organisation
JSM	Japanese steel mills
LoC	lines of credit, letter of credit

MEA	Ministry of External Affairs
MECL	Mansarovar Energy Colombia Ltd
MEP	Members of the European Parliament
MFN	most-favoured nation
MMTC	Minerals and Metals Trading Corporation
MN	million
MoC	Ministry of Commerce
MoF	Ministry of Finance
MoS	Minister of State
MoU	memorandum of understanding
NAFTA	North American Free Trade Agreement
NASSCOM	An association that serves the interests of IT services companies
NEPAD	New Partnership for Africa's Development
NGO	non governmental organisation
NMDC	National Mineral Development Corporation
NSAs	non-state actors
NTBs	non-tariff barriers
ODA	official development assistance
OPEC	Organisation for Petroleum Exporting Countries
OVL	ONGC Videsh Limited
PEC	Project Equipment Corporation
PMO	Prime Minister's Office
PPP	public private partnership
PSU	public sector undertaking
RBI	Reserve Bank of India
RoO	rules of origin
RTAs	regional trading agreement
S&T	science and technology
SAARC	South Asian Association for Regional Cooperation
SABF	South African Business Forum
SAFTA	South Asian Free Trade Area

SAPTA	SAARC Preferential Trading Arrangement
SEZ	special economic zone
SFL	Sundaram Fasteners Limited
SIPA	Silicon Valley Indian Professionals Association
SME	small and medium enterprise
SRTEPC	Synthetic and Rayon Textiles Export Promotion Council
SUV	sports utility vehicles
TC	Technical Cooperation
TiE	The Indus Entrepreneurs
Tr	trillion
UAE	United Arab Emirates
UNDP	United Nations Development Programme
UNESCAP	United Nations Economic and Social Council for the Asia and Pacific
UNSC	UN Security Council
USSR	Union of Soviet Socialist Republics
WEF	World Economic Forum
WTO	World Trade Organisation

NOTE ON CONTRIBUTORS

Talmiz Ahmad joined the Indian Foreign Service in 1974 and, after several postings in the Gulf and West Asia, he became Ambassador to Saudi Arabia in 2000. Later, he was Ambassador to Oman (2003-04) and UAE (2007-10). He also served as Additional Secretary for International Cooperation in the Ministry of Petroleum and Natural Gas and as Director General of the Indian Council for World Affairs. He returned to Saudi Arabia for his second stint as Ambassador in January 2010. His book, *Reform in the Arab World – External Influence and Regional Debates* was published in 2005. His new book, *Children of Abraham at War – The Clash of Messianic Militarisms,* was published in 2010.

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FOREWORD

Economic Diplomacy – Changing Contours

Globalisation has radically transformed the contours of international economic relationships between countries, throwing up new challenges and complexities in the economic, social, political and cultural spheres. In this scenario of interconnectivity and interdependency, with an increasing number of players striving to influence the outcome of economic relationships, economic diplomacy has assumed immense significance and posed new challenges to diplomats around the world.

With the ever increasing integration of markets, economies and cultures, the term 'diplomacy' itself has undergone an enormous change in connotation. This transformation encompasses a widening and deepening of the dimensions of diplomacy, a gradual evolution of its modus operandi and a change in the role and nature of players involved in it. Terms like non-state diplomacy, corporate diplomacy, business diplomacy, NGO diplomacy and track two diplomacy have found their place in the lexicon of economic diplomacy.

In an outward-looking, liberal, macro-economic framework increasingly being embraced by major world economies, economic interdependence and requirements of policy coordination have overlapped. Transnational economic interests, which were prominently confined to sovereign interests, have now become greatly diverse, with a wide cross-section of state and non-state entities entering the processes of international economic agenda-building and decision-making.

Among the non-state actors, multinational corporations are powerful pressure groups at the global level, with profound penetration into systems of international economic policy formulation. Apart from this, research institutions, media, environmental groups and other non-governmental organizations endeavour to influence the shape of the international economic agenda.

Within the government too, the conduct of economic diplomacy has become increasingly dispersed with various Departments interfacing with their foreign counterparts and seeking facilitation and support of our Missions. State governments too are competing among themselves for allocation of greater economic space and commercial advantages by instituting competitive concessional policies and incentive structures. With a high premium being attached to economic performance of state governments, this has become an important diplomatic dimension, especially in a highly diverse, pluralistic country such as India.

These economic and commercial pursuits of different state and non-state entities, assiduously followed with multiple strategies and varied tools, are not always in harmony with each other, thereby raising issues of consistency and consolidation of economic agenda at the national level. Employing effective methods of arriving at a consensus in competing economic agendas, conflict resolution and promotion of mutual trust in the best national interest is a major challenge to diplomats.

Added to this are economic episodes of lasting consequence like the recent global financial crisis which precipitate changes in the rules and contours of the international economic agenda and equations. Seamless adjustments in the content and tools of economic diplomacy are, therefore, a pre-requisite for business and corporate survival. Such dynamism is also necessary to avoid disruptions in the growth trajectory of economies. India has done very well, on this count, in the recent past.

The right mix of policies and infusion of resources, coupled with the strong fundamentals of the Indian economy, have ensured that India has managed to maintain an impressive growth rate, high foreign exchange reserves, increasing exports, rising foreign investment, both direct and institutional, and a healthy and consistent trend in all the macro-economic indicators. India has established itself as a major global player in information technology, biotechnology, pharmaceuticals, telecom and other areas. This new paradigm shift in economic strength need to be translated into strategic global influence.

The Government of India has taken various initiatives to raise the profile of India as an emerging economic power in the international arena. Our foreign investment policy is among the most liberal and India is fast emerging as one of the most favored investment destinations in the world. We have been negotiating for greater market access for our products under the Doha Development Round in the WTO with a view to protecting our trade interests. We have also been pursuing a strategy of forging trade and commercial alliances in the form of bilateral and regional free trade agreements and comprehensive economic partnership agreements. Our contribution to the world economic and financial architecture through various groupings like the G-20, IBSA, SAARC, World Bank and IMF among others is well known.

Undoubtedly, globalisation and rapid technological progress have fundamentally changed the way business is done worldwide. Indian businesses and enterprise have shown enormous resilience in an increasingly competitive global economy and have played an important role in driving our growth process. They have not only taken up the challenge of tapping new markets for exports and become successful entrepreneurs, but have also become major investors abroad and entered into mergers and acquisitions energetically. In this scenario, the role of diplomats in facilitating and supporting the efforts of the business community has become more pronounced. They need to actively reach out to investors and partner with other organs of the government and the private sector to promote trade, foreign investment and technology flows.

Economic interests have increasingly become the prime mover of India's international relations. The focus of our economic diplomacy has shifted towards the need to protect and promote our economic and commercial interests abroad and to exploit the opportunities thrown up by the fast integrating world. Bilateral Free Trade Agreements, Multilateral Trade Negotiations, Bilateral Investment Protection Agreements, technology transfer, diversification of export markets, promotion of foreign direct investment, reforms of the international economic and financial infrastructure, promoting energy security through diversification and acquisition of oil and gas resources, and accessing scarce raw material assets have become important components of our economic diplomacy strategy.

The new vistas of the profession provide diplomats with profuse opportunities, but also pose difficult challenges, transcending which, necessitates continuous capacity building and upgradation of skills in sharing and optimally utilizing the available diplomatic space. As expounded in this collection, diplomatic space has been substantially widened with the infusion of networking as an instrument of diplomacy, especially for non-state players.

Having mentioned the complexities that the term diplomacy has come to signify, with the multiplication of its dimensions, tools and players therein, it should be placed on record that trade, aid and investment still constitute the cornerstones of economic diplomacy. This compendium, hence, rightly devotes its greatest attention to these issues, encapsulating recent developments and presenting interesting case studies in different country contexts. It gives me great pleasure in commending this collection to all observers of foreign policy, students and academia as a valuable reference point on the changing role of Missions and the challenges faced by them in bringing together various stakeholders through diplomatic engagement, and in fostering trade and investment as principal tools of economic diplomacy.

In conclusion, I wish to compliment Ambassador Kishan S Rana for conceptualising this book and presenting an interesting compendium of articles highlighting the challenges of India's economic diplomacy in the globalised world of the 21st Century. My thanks to Bipul Chatterjee, co-editor, and to CUTS International for sponsoring this book.

NIRUPAMA M RAO
Foreign Secretary of India

PREFACE

Globalisation has augmented the importance of economic inter-dependence among countries. The emergence of an expanding rules-based global trading system under the World Trade Organisation and bilateral/regional trade agreements has opened the door for new opportunities in the sphere of world trade. This has spurred countries into engaging in negotiating a large number of international agreements through bilateral, regional and multilateral fora. These negotiations have generated the need for better understanding of the science and skills of economic diplomacy.

Economic diplomacy has evolved from trade diplomacy. Traditional trade diplomacy was the domain of government officials/diplomats and there was not much involvement of the private sector and the civil society except in some developed countries. With ever expanding economic globalisation and associated complexities, economic diplomacy has become an intrinsic part and determinant of the process of formulating and implementing a country's foreign policy.

A significant result of the evolution of traditional trade diplomacy into economic diplomacy is that the private sector and the civil society are now even more involved in decision making that influences the negotiating position of a country. While private sector involvement stems from the need to remain competitive in relevant markets, the involvement of the civil society results from the imperative to get views of common stakeholders factored into negotiating positions to imbue the position with their concerns, and thus both engagements result in wider national ownership.

Economic diplomacy is concerned with anticipating and influencing the outcomes of future economic policy regimes of other countries. This requires a need for better understanding of the working of market forces in different countries in the given dynamic global economic environment. The process of continuous engagement through economic diplomacy helps a country in advancing its economic interests and, equally importantly, those of its partners.

A crucial pre-condition for the successful conduct of economic diplomacy is the existence of a critical pool of skilled personnel in the government, private sector and civil society to understand and negotiate trade, investment and other economic issues from the national development perspective after taking into account a country's strengths, limitations, opportunities and threats.

The narrow perspective of economic diplomacy defines it as the conduct by government officials/diplomats in the context of negotiations and other relations between nations – the art and science of conducting such relations, skills in managing negotiations, public relations, etc so that there is little or no ill-will. In other words, negotiations must end as a positive sum game. The broader perspective of economic diplomacy rests on the management of international relations through negotiations by government officials/diplomats; the skills required for such management; adroitness in personal relations; tact and engagement with private sector and civil society, etc.

In other words, economic diplomacy deals with articulation of foreign policy in the real world of economic relations between nations to flesh out and implement the principles and objectives set out in the policy. It involves the application of skills and tact in the conduct of official relations, particularly trade and investment, and in engaging the private sector and civil society constructively by governments of sovereign states.

National economic success in today's world depends crucially on the skill of negotiators in forging effective and beneficial economic relationships/partnerships. Learning new skills and acquiring new knowledge is no longer *just desirable*; it has become an *imperative*. Over the years, Indian negotiators have acquired new skills and knowledge on economic diplomacy and the country is now in a position to cross-fertilise such experiences with those from other countries.

Thanks to the support rendered by the Department of Commerce, Government of India, CUTS International has developed an ongoing programme to build the skills and enhance knowledge of the relevant stakeholders from India and other developing countries on economic diplomacy and related matters. This collection of essays is a result of this endeavour. It would not have been possible without active involvement of Ambassador Kishan S Rana. I thank him and my colleague, Bipul Chatterjee for bringing these largely untold stories to the public domain.

This book is not only an attempt to enhance the negotiating ability of our future diplomats but it will also act as a repository of knowledge for those who are eager to get more and more engaged with a growing economy like India. I thank the authors for sharing their knowledge/experience on India's economic diplomacy. I am sure that this knowledge will be applied to achieve our foreign policy objectives.

PRADEEP S MEHTA
Secretary General, CUTS International

Context and Objectives

1

Introduction: The Role of Embassies

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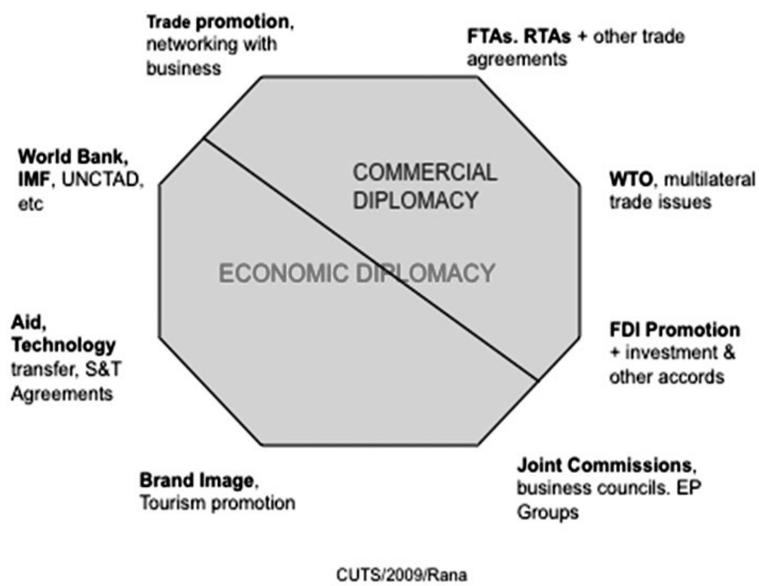
Introduction

Economic diplomacy is a multi-hued activity, easy to describe in broad brushstrokes, but harder to pin down with precision. From the perspective of members of diplomatic and commercial or trade services, and those that are the 'customers' or users of these services, economic diplomacy is a plural set of practices, all aimed at advancing the home country's external economic interests.

Is it different from commercial diplomacy? Opinions differ; some of those that have worked in this métier tend to see commercial diplomacy as a subset of the wider compendium of economic diplomacy. For instance, typically, commercial diplomacy would not include the management of economic aid – either as a donor or as a recipient – but that would clearly fall within the rubric of economic diplomacy. The same may apply to managing relations with international economic organisations, such as the World Bank and the International Monetary Fund, or the UN regional commissions such as the

Economic Commission for Asia and the Pacific (ESCAP). A chart showing their characteristics and differentiation is set out in figure 1.

Figure 1: Economic & Commercial Diplomacy



For business enterprises, industry bodies, consultants, users, and all those directly concerned with overseas economic activities, such distinctions are not of great interest. They are much more concerned with the way official agencies and the business promotional bodies can help them to navigate their way in their profit-oriented activities in foreign markets. They are the true customers of economic diplomacy.

Seen this way, the ministries and their subsidiaries, the embassies and consulates, as also chambers of commerce, industry bodies, export promotion bodies and the research agencies connected with this work, are all service providers to these real-world customers. Their task is to provide information, and facilitate these customers in their overseas interactions. When the government agencies set the policy framework by framing rules and laws that govern such activities, or negotiate bilateral, regional or global agreements, they are still in their basic role of service providers. The customers are the real owners of economic diplomacy. They are also the actors that actually generate trade in commodities and services, execute foreign investment activities at home and abroad, and implement technology partnerships.

Economic Diplomacy: Origin & Stages

When did economic diplomacy originate? In rudimentary form, external exchanges commenced when inhabitants of different habitations, regions, and city-states exchanged products with one another, and offered services to one another. The oldest documentary records we have of commercial exchanges between kingdoms are the Amarna Archives, the clay tablets of Middle Egypt of the period 1460-1220 BC, which were transcribed fairly recently.[1] They detail the extensive trade that existed in that era among the countries and civilisations of Egypt and West Asia. Elsewhere, the Silk Routes of India-China and China-Europe, namely the western routes that traversed Central Asia and the eastern and southern route that traversed what is today Myanmar, provide similar evidence of exchanges of goods, religious artefacts, and manuscripts, between peoples and cultures separated by vast distance and geographic barriers. Kautilya's *Arthashastra*, the masterly 3rd century BC treatise on statecraft, has extensive references to the management of economic affairs.[2]

1 See Raymond Cohen and Raymond Westbrook, eds, *Amarna Diplomacy: The Beginnings of International Relations* (John Hopkins University Press, 2002)

2 L N Rangarajan, ed. & translator, *Kautilya: The Arthashastra* (Penguin Classics, India, 1992)

Throughout history, trade provided one of the first impulses for inter-state contacts and agreements, as well as war and conquest. Trade was also the driving force in the spread of colonialism. Trade drove Vasco da Gama's journey to India in 1498, and Europe's 'discovery' of the riches of the East Indies, and the journey of Christopher Columbus to the Americas. Often, the flag followed trade.

Though emissaries had been exchanged between kingdoms and empires since times immemorial in many world regions, the first form of modern permanent overseas representation took the shape of consulates, around the 16th century; these outposts were established in the Mediterranean, during the Ottoman Empire, when Italian principalities sought commercial markets, and the foreign traders themselves organised a form of joint representation in the ports, to deal with the local authorities.[3] These early consulates saw the advantage of gaining support from their home administrations, and thus were born the first overseas representation offices – the resident embassy came a century or so later.

If we fast-forward to the contemporary scene, what is the content of economic diplomacy? We may consider again the octagonal chart presented above. Based on empirical evidence, we see that economic diplomacy as practised by states and their diplomatic systems in the past 40 years or so usually traverses four stages in its deployment.[4] They are described as below.

- **Promotion** of trade is usually the first key goal, supplemented by promotion of inward investments,

3 See the chapter on 'Consulates', GR Berridge, *Diplomacy: Theory and Practice* (4th edition, 2010)

4 See Rana, 'Economic Diplomacy: The Experience of Developing Countries', Chapter 11, Nicholas Bayne, and Stephen Woolcock, *The New Economic Diplomacy: Decision Making and Negotiation in International Economic Relations*, 2nd edition (Ashgate, London, 2007)

when around the 1970s, the mobilisation of foreign direct investment (FDI) became a priority for governments. Developing countries 'discovered' the importance of economic diplomacy around this time, impelled in part by the urge to improve their trade earnings. For India, the first 'oil shock' of 1973, when the price of crude oil quadrupled overnight, provided the real impetus to economic diplomacy. India immediately opened embassies in all the Gulf countries, many headed by young diplomats who were given the rank of ambassador; project exports were a major focus and they delivered result. Matching actions were taken in North Africa. This was also the time when workers and technicians were sent out to the oil-rich countries that were in the midst of implementing ambitious projects. New income streams were created for the labour-exporting countries. Globally, such earnings today total over US$700bn; in 2008 India earned US$55bn through such remittances from its overseas workers, technicians, and its diaspora.

- The second broad objective that economic diplomacy has pursued, starting around the mid-1980s, is **networking**, the mobilisation of wide clusters of supporters and participants, in trade and investment promotion, and in technology-acquisition activities. This led to public private partnerships (PPPs), and outreach to multiple actors, both at home and abroad, as contributors to economic diplomacy. Companies, industry bodies, chambers of commerce, thinktanks and business schools were all validated and legitimised as crucial partners. In India that meant working closely with its apex business bodies, especially the Confederation of Indian Industry (CII), Federation of Indian Chambers of Commerce and Industry (FICCI), and the Associated Chambers of Commerce and Industry of India (ASSOCHAM). In similar fashion, the score and more export- promotion councils created by the Commerce Ministry, and the Federation of Indian Export Organisations (FIEO) also began to work closely with Indian embassies, to pursue new products and markets.

- The third phase is **country promotion**, which connects with all the economic activities, including the inflow of foreign tourists, which is a key source of employment and for foreign-exchange earning. Many countries took this up as a sustained activity in the 1980s and 1990s. While business takes place even in situations of adversity, a positive country image facilitates trade exchanges. Overseas investments are tied even more closely with the reputation of the country. Rich and poor states alike invest in branding and re-branding. Embassies contribute to this, often as first points of contact; this is one reason for the increased importance that foreign ministries now attach to improving their visa services. As the reputation of home enterprises resonates on the global stage, it interacts with and synergises the country brand as well. Indian missions pushed participation in specialised trade fairs abroad, as well as single-country trade shows, such as the series of 'Made in India' events held across the world, as part of this branding activity.
- The final **regulatory** phase has gained in importance as the management of external economic activity has complexified. The establishment of World Trade Organisation (WTO) in 1995 has elevated trade diplomacy, multilateral, regional, and bilateral, to a new high. Unlike its precursor, the General Agreement on Tariffs and Trade (GATT, the predecessor to the WTO), WTO involves governments, business bodies and public agencies, into detailed management of the conditions

under which trade takes place. The complex negotiations of the ambitious and highly diverse agenda of the WTO raised the salience of regulatory issues, and posed new challenges for developing states in terms of their 'capacity' to engage in these negotiations. An influx of free and preferential trade agreements, has also involved governments in complex trade management tasks, and mastering a new lexicon. Indian embassies have been closely involved in the drafting and negotiation of single-country and regional free-trade agreements (FTAs).

These stages have been traversed in succession, as layers of activity that have been added, as countries have moved forward in their external economic activities, but without the activities connected with previous phase abandoned or minimised. For instance, the task of trade and investment promotion does not wither away when networking and regulation management emerge as necessities; country image pervades all other actions, and even small states now exert themselves to improve their brand reputation.

With the passage of time, large home enterprises no longer need support to enter foreign markets, though small and medium sized enterprises still need help. At the same time, the quality of the external economic engagement of governments becomes more complex; they then enter into PPPs, to better manage external economic interests. When home enterprises enter foreign markets as investors – as has happened in the past few years with Indian companies – they need different types of support from official agencies, sometimes to overcome local barriers.[5] And there remain smaller

5 When Mittal Steel, based in the UK and owned by an Indian entrepreneur L N Mittal, took over the Netherlands-based company Arcelor in 2007, the Indian government supported them, in the face of what was perceived as hesitation in some European countries. Chinese oil companies have faced obstacles in the US in attempts to take over US companies, and this has figured in discussions between these countries.

enterprises that still need support to get into foreign markets, though the nature of their needs evolves. All this adds to the complexity of economic diplomacy, in that the same units that engage in the one activity are also required to address the others.

What can Embassies Deliver?

The focus of the essays in this publication is on the role that embassies and consulates can play, as the public service overseas outposts of the country, to help the real actors of economic diplomacy, the home enterprises and businessmen. In particular, is there a special role that they might play when they represent developing countries, to the extent that this is different from the role played by the diplomatic and commercial missions of rich states? The response provided by the authors of this collection is based on India's experience, but it is also of relevance to many other countries, since the operational conditions for all states seeking market entry and expansion in their engagement are essentially similar.

As many of these essays show, it is the initiative taken by embassies and consulates that often provides the initial impetus, be it in relation to trade or investments. Equally, it is not difficult, for the great part, to motivate home agencies, be it the promotion bodies, such as export councils, or trade associations, and of course the business enterprises. Often it is the mission official on the spot, who identifies an opportunity and flags it for action. This is especially true of the initial phase of the external economic action cycle, described above.

All countries now treat economic promotion as a high priority. Many entrust this work to the diplomatic service, while others handle it exclusively through specialist commercial services, or 'trade commissioners'.[6] We believe that detachment of commercial from other diplomatic work sometimes reduces attention to investment mobilisation, and country promotion; one also misses the cross-connections of integrated diplomacy. Countries that do not practise 'integrated diplomacy', nevertheless link economic and political work at the apex, giving the ambassador overall charge.

No one has analysed if entrusting political, economic and all other diplomatic tasks to one single set of officials, who rotate between these jobs, works better than having specialists for each work area. For one thing, in small establishments this separation just isn't workable. Similarly, in small embassies, where an ambassador may have only one or two diplomats assisting him, everyone pitches in to handle the full range activities, including consular, cultural, information, and diaspora outreach tasks, besides political and economic work. The US diplomatic service has five specialised 'cones' within which officials work, and two of these are political and economic affairs – and it has a separate commercial service. The US is virtually unique in operating such sub-sections among state department officials; Australia has a separate commercial cadre and a consular service.[7]

M P M Menon's essay describes well the manner in which political actions mesh with economic diplomacy (he writes about his experience in the Gulf region and elsewhere).

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6 Until about 30 years ago, a majority of countries had separate commercial services for external economic work, but the trend has been for integration with other diplomatic tasks. A major exception is the US, which has a separate Commercial Service that operates under the US Commerce Department, but at the level of the ambassador the work is fully integrated.

7 Many European diplomatic services ran such sub-cadres up to about the 1950s, but thereafter shifted to a single service handling the full range of tasks, except that some such as the Germans have specialists from their Economics Ministry to handle economic work.

Trade Promotion

A high economic priority for virtually every country is export promotion. While facilitating the expansion of existing export product lines is an obvious concentration area, it is in the promotion of ***new export products***, and the exploitation of *new markets* that embassies can provide special help to home enterprises. We see this in a striking fashion in the several essays in this collection.

For developing countries, external markets pose several kinds of problems. First, home exporters do not know the basic environment in foreign states, and do not have the capacity to invest in exploration, much less pay consultants to advise them on entry strategies. Associations of exporters at home confront a like problem, though on paper they should be able to carry out market surveys and the like.

Second, foreign regulations on safety and environmental standards, and other norms laid down by potential markets are little understood by home exporters, and pose real non-tariff barriers (NTBs) to entry.

Third, home exporters lack credibility with potential foreign customers, and this becomes a chicken-and-egg syndrome, making it difficult to break this cycle of unfamiliarity.

In such situations, the diplomatic mission engaged with commercial promotion has its work cut out. The simple kind of things it needs to do include the following.

- *Informing home business associations and individual enterprises on the basic economic conditions in the target country* – Such 'country notes' are available on the websites of the bigger countries and one needs to simply adapt these to one's needs. This is a useful first step, and connects with producing sector-specific guides for home exporters; commercial officials are seldom well-trained in such tasks – and clearly this should be a priority in training programmes – but it is possible to learn on the job, and the very act of undertaking such tasks becomes a learning process. **Sujan Chinoy** describes this well in his essay (covering a range of economic promotion activities out of Shanghai and Sydney).

- *Consular work* – Often seen as routine, also throws up business opportunities, as evident in **Arjun Asrani's** essay (strongly focused on Japan, he also describes the role of official entertainment and teamwork at different locations).
- *Analysing the potential markets for the home country* – A simple method is to match the export basket of one's country with the import basket of the target country; this identifies the potential, the more so when it is matched with actual exports from home to that market. Next, one needs to identify the potential competitors and analyse their products that reach that market. That provides clear indication of the areas where one might concentrate, provided the price and other conditions are suitable. We see this in **Anup Mudgal's** essay (on the planned manner in which product lines were identified to pursue new markets in Mexico), and in the narrative offered by **A Gopinath** (covering the promotion of exports of meat and tea to Egypt).
- *In parallel, contact has to be established with the importers of the selected products or services, and sensitise them on what the home country might offer* – Often, this involves persuading them to visit the home country; it also helps to put potential importers in contact with existing local importers of other products, to overcome potential hesitation and other obstacles. **Harsh V Shringla** narrates well the local problems that have to be traversed (he writes about supplying granite from India for the Ben Gurion airport in Israel).

- *Credibility is also built when home exporters and manufactures take part in trade shows in the target country* – There is a whole set of craft skills pertaining to successful trade-show participation overseas. Some like the Indo-German Chamber of Commerce have built considerable expertise in this, and it pays a first-time exhibitor to read the available literature on the subject; the International Trade Centre at Geneva also has considerable material on this.

  V S Seshadri's essay (on methodically exploiting the market for footwear in the US), illustrates the calculated manner in which trade shows can be used. It is often best to join an established trade show, rather than hold a single-country special event; in attempting the latter in an advanced market the key problem is always to get the right clients to come to one's event. In countries where a trade show culture is yet to built up, or when one has a politico-economic compulsion to make a splash, it may also pay to hold one's own 'Made in India' type of special fair.
- *One option, not often tried out, is to permit an exporter to hold a small buyer-seller show on the premises of the embassy or consulate, if necessary, charging the exporter for any additional direct expense for this purpose* – The larger embassies now have their own small trade centers that can host such events. This adds to the credibility of the exporter and also incidentally builds the embassy's contacts with the home enterprises. All too often, government agencies miss out on the perspective of their domestic customers. **Shiv N Malik's** essay narrates how business perceives the role of embassies (particularly his experience in relation to important negotiations in Japan, as seen by the head of a public-sector enterprise).

- *Visits by business delegations are a key method for export promotion and for FDI mobilisation* – **Apoorva Srivastava** describes the way such visits can transform the perception of key decision-makers (she narrates the way business connections were developed with the French fashion industry). The embassy's professionalism is visible in the way such visits are planned; the effort to create a broad catchment of potential business partners eventually narrows down to a handful, for first business contacts and trial orders. It is the one-to-one meetings that lead to business, and this hinges on effective 'match-making' between the buyer and seller. On the other hand, when the exporter from home has built up business contacts, and aims at expanding business, the task is in many ways easier, in that the home exporter has already a good handle on his prospects, and needs little more than marginal or incremental help from the embassy.
- *In a bilateral relationship, each country takes care of its own export promotion* – Does this mean that one should do nothing in relation to the exports of the other country? While this cannot be a high priority, it is useful to remember that there exists a duality in commerce, the fact that countries are both exporters and importers. Thus helping with trade on a total basis makes good sense. That applies particularly to problem-solving, that is, in relation to helping business partners to resolve trade disputes. The old prescription might have been that official agencies might mainly act as facilitators, urging the disputants to work for solutions.

  But consider **Amar Sinha's** essay (on the travails of an Indian software company in an unnamed Asian country); in some situations, embassies have to play a more vigorous role. This becomes essential when local businessmen marshal support from the local authorities, to the point of misusing the legal process. Economic relations cannot advance if businessmen do not have confidence in one another's capacity to overcome problems as they come up, in the normal process of trade.

Each point made above can be backed up by practical examples, and the essays in this collection bear this out in their own ways, in the real situations that arise in different country environments.

Investment Promotion

Mobilising FDI for the home country is the other major leg of economic promotion. The same mix of issues comes up as with pushing exports: establishing credibility; finding the first breakthrough; cultivating potential investors from the target country; organising business delegations; taking part in investment promotion events, and the like. Energy security is a growing preoccupation, and also entails focused actions, as described by **Deepak Bhojwani** (covering Indian oil diplomacy in Latin America), while **Jawed Ashraf** addresses this issue from a neighbourhood perspective (sketching the progress of the on-and-off hydropower projects with Nepal). Some of the embassy tasks are:

- Cultivating business chambers and industry associations on a permanent, ongoing basis is essential, especially when local companies are unfamiliar with the partner in an investor role. **S Swaminathan's** essay provides vivid insight (covering Indian investment in the Brazilian pharma industry). Embassies can facilitate visits by business and eco-political delegations from the target country. The latter especially includes visits of delegations led by ministers and local or provincial leaders, who very frequently now take with them business delegations. It is not sufficient to say that the embassy of the counterpart country will take care of such visits; the embassy's contacts and credibility hinge on how effectively it supports such visits and smoothens their path.

- Even more than in the case of trade, investors are attracted by 'success stories' the more when they are narrated in honest terms by other foreign investors. Everyone expects the country seeking FDI, be it at an investment-promotion seminar or at a large business conference, to say good things about their home country. It is the narratives from other investors that are listened to with special attention. The embassy should invest effort into searching out such exemplars, and bringing them on board in their investment mobilisation efforts.
- World Bank studies, and the experience of successful investment promotion agencies from countries such as Ireland and Singapore has shown that the clinching element in investment promotion is sustained cultivation of selected target companies – sometimes called the 'rifle shot' method. Effort goes into making the determination as to the best targets to pursue; home agencies can help in this, if they have the skill and inclination, but even without that the embassy can act on its own initiative, using common sense, combined with real understanding of the scene in the target country. **Talmiz Ahmad** describes the manner in which the promotional role is played out on the ground (covering the intensive actions deployed in the UAE to obtain inward FDI).
- Embassies can also play a key role in improving the 'conversion rate' between investments that are approved by home authorities, and those that are typically implemented. Part of the reason for this gap between the two is that even after approval, some foreign

companies take time to move forward with the investment project; some projects are abandoned if business plans change. India has found that at times the actual conversion or implementation rate has been as low as 30 percent. The essential element is for the embassy to be in the information loop from the outset, when projects of a certain size are approved at home. In many countries, this simply does not happen, and it is part of the hiatus between the MFA's system and the other branches of government.

- As economic development moves forward, countries that were primarily recipients of FDI slowly morph into exporters of capital, venturing out to external markets with their own FDI. To start with, developing countries tend to focus on countries less developed than their own. Thus by the 1980s, Indians enterprises were investors in some African countries – for instance by that date in Kenya, three leading companies, Raymonds, the GP/CK Birla group acting through Orient Paper, and the Life Insurance Corporation of India were the principal investors in major projects, each of which was a remarkable success. Embassies usually do not have a large role when the FDI goes to developed markets.

  But even major investors face situations when some form of government help is needed, as billionaire LK Mittal found in 2006 when he faced what was perceived as potential prejudice in his efforts to take over Luxembourg-based company Arcelor; the Indian government issued statements of support, and held meetings with European ministers in several capitals; the merger went through. We may be sure that Indian diplomatic missions played a role behind the scene. Generally speaking, in a globalised world, the principal actors handle mergers and acquisitions abroad in close confidentiality. But missions have a role in assisting to sustain an enabling environment, with discreet intervention as needed by the home enterprise. These points connect with the issue of country image, as narrated in the concluding essay in this collection.

- Sub-state entities, such as provinces, cities and regions, and parts of countries often conduct their own activities to attract FDI. Most Indian states send delegations abroad, using the diaspora from their own regions as points of contact and as catalysts. But we have not moved to a situation where such entities establish their own overseas representatives or official agents for this purpose, as some rich and large countries have done. Embassies play a large role in dealing with these actors, assisting their delegations and dignitaries, both inbound and outbound.

All countries and regions, rich or poor, strive to attract investments, given that it contributes to economic growth. Besides FDI, 'portfolio investment' and other forms of indirect investments that come in through the stock market or as private-equity contributions are also sought, but they have a lower priority because such investments are more volatile. Funds from abroad, invested in the home-capital market move in and out with rapidity, and are in the nature of fair-weather friends. They have a positive role, but are usually not the focus of promotional efforts.

Technology Acquisition

This is an understated area of promotional activity, not because it is unimportant, but rather due to the fact that it is usually the principals, i.e. the enterprises seeking or selling their technology that are in the best position to know their external market, and diplomatic missions are usually not in a position to do more than setting up an enabling environment, or to help resolve problems. In one instance in Germany in 1994, when a major Indian enterprise ran into problem with the initial operation of a plant that incorporated technology from a major German enterprise, the embassy used its contacts with the latter's CEO to obtain a promise that no effort would be spared in overcoming that issue.

In the larger embassies that have science attachs, it makes sense to involve them with investment-promotion actions, and to harness their technical knowledge to identify the sectors that should be a priority, for inbound and outbound business delegations. In 2010, it was learnt that India was in the midst of expanding its network of science & technology counsellors in embassies abroad, from the existing low figure of four to more than double that number. That is timely. Usually, technology comes in with FDI flows, but in some cases a foreign partner prefers a lower form of collaboration, the technology or licensing agreement. This can be a major vehicle of partnership, and sometimes serves as a prelude to financial investments. We see this indirectly in several essays.

Aid Management

In countries that are donors or recipients of external aid, the diplomatic establishment has a role to play. An increasing number of developing countries play both these roles. It is rather seldom that inbound aid is handled in the foreign ministry; usually it is the planning ministry, or finance, or an economics ministry that handles this task. In such situations, embassies keep up regular contact with the donor establishments in the country of assignment, but play a rather small role on substantive issues. But in relation to outbound aid, embassies identify potential projects, for financial and technical aid, and help monitor the implementation. Few developing countries have full-time aid specialists in their overseas embassies, though in the case of developed countries that are major donors, recourse to such specialist staff is the norm.

Now that overseas funding is increasingly delivered via NGOs, in both the donor and recipient states, contact with such organisations is a priority task for embassies. That has the incidental advantage of widening the contacts of embassies, and deepening their understanding of socio-economic dynamics in foreign states.

Aid diplomacy also intersects with commercial diplomacy in the leverage it provides for trade, service and investment opportunities for the donor country. Thus export credits, as well as loans and grants given as 'official development assistance' (ODA) are directly linked with business for the donor, or have an implicit connection, even if in nominally such aid is 'untied'. This also entails close connections between embassies and home enterprises, to suggest the projects, services and equipment to be furnished. **Navdeep Suri's** essay and the one by **Gurjit Singh** (covering respectively India's successful foray into Francophone West Africa and the management of technical aid as a driver of relations in Ethiopia) provide an authentic portrait of India's aid diplomacy.

Regulatory Environment

The increasingly managed nature of trade and other economic relations directly involves governments in issues that did not figure in bilateral and multilateral dialogue in the past. **Amar Nath Ram's** essay captures well the scene from a key vantage point (covering a range of issues between India and the EU, as seen from Brussels). **Siddhartha Mitra** narrates the importance of bilateral free trade agreements (FTAs), as also the operation of the law of unexpected consequences; (he writes about India's first bilateral FTA, with Sri Lanka, signed in 1999). **Leela K Ponappa** provides an insider view (describing in fine detail the internal process and the negotiations behind that important FTA accord).

After 1995, the WTO is the focus of action on an array of economic regulatory issues, especially with the Doha Round of negotiations launched in 2001 remains unconcluded. The essay by **Mohan Kumar** covers this (sketching the picture as seen from Geneva, and the manner in which our diplomats strive to advance Indian interests).

Building Partnerships

In the 2nd edition of the excellent guide *The New Economic Diplomacy*, the book's co-author and editor Sir Nicholas Bayne posits three major tensions as the drivers of today's commercial and economic diplomacy.[8] These are between: political and economic issues; state and non-state actors (NSAs); and public and private entities. As this book shows, these are among the connections that drive the manner in which economic diplomacy is practised on the ground.

Most of the activities sketched above entail extensive interactions between the official diplomatic establishment and non-state actors, both abroad and at home. This comes across in a number of essays in this collection, notably in the essays by **Tarun Das** (describing the working of strategic groups set up in recent years, composed of non-officials, for Track Two dialogue with key partner countries).

Abroad, the non-state partners include: business associations, plus enterprises that are engaged in economic interactions; thinktanks, universities, and institutes, not to forget business schools; media institutions; local associations that have connections with the home country, including groups of returned students and friendship associations; members of

8 Nicholas Bayne, and Stephen Woolcock, *The New Economic Diplomacy: Decision Making and Negotiation in International Economic Relations*, 2nd edition (Ashgate, London, 2007)

eminent-person groups and other friends, and in effect any organisation that has the will and capacity to help. At home, the same spectrum of agents is available.

Furthermore, the very act of engaging such actors opens up prospects for the embassy to widen its connections, and work with them as much for economic as for other activities. All too often, it is the cross-connections between actors helping outside their main action areas that produce that synergy on which building bilateral relationships today hinges.

The diaspora can be a key associate in economic diplomacy, as some of the essays, and the personal experience of most diplomats bears out. In the countries where they are present in large numbers, this is self-evident. We see this in the role played by them at individual and at group levels, as narrated in some essays, such as the one by **Kishan S Rana** (sketching the role of diaspora and other non-state actors at San Francisco and elsewhere). Even in foreign capitals where only a handful of local resident compatriots are to be found, they are partners of choice, for the local knowledge they possess, and the leads they can provide in relation to opportunities, be it in the economic, cultural, or even the political arena.

Economic diplomacy connects closely with the country brand, because a country's trade and investment destination profile both contributes to, and is influenced by the reputation that the country enjoys internationally. Foreign ministries and their agents, the network of embassies, are directly concerned with this. It is another matter that in many developing countries a 'whole of government' approach either does not exist, or is under evolution. Image-building takes many forms, and works especially well when it takes the shape of 'PPPs'. We see this in **N Srinivasan's** essay (covering the role played by the leading industry association CII, acting with Indian missions in organising car rallies in the South Asian countries). **Rajiv**

Bhatia's essay on India's strategic partnership with South Africa looked at the economic and political context of a key bilateral relationship. Our collection is rounded off with **Som Mittal's** essay which covers possible areas of partnership between an industry and the Indian missions.

A Final Point

Do all embassies function as sketched here? The cases covered in these essays do not always reflect the norm. At the same time, there subsist within the Indian diplomatic structure many unsung heroes, those that work hard to deliver value to the country and the stakeholders. In every system, identifying the best serves to inspire others, as an open demonstration of what is possible, and helps raise the bar for all.

From this perspective, some broad ideas can be offered. First, any kind of proactive action involves the risk of failure, or the possibility of being unable to achieve fully the set objective. That might lead one to conclude that inaction is risk-free, though in reality, inaction is as much a response as anything else; alas, most public administration systems do not identify, much less levy sanction against, the sins of omission. A good system ought to encourage proactive actions; it should guide its officials towards good judgment, through training and sound mentoring.

Second, motivation is at least partly connected with reward. While the very best officials are self-driven, some recognition for outstanding performance is good for any system. Given that the entire Indian promotion system is seniority-based, with no more than a mild seasoning of merit factored in, reward takes the shape of the assignments entrusted. In this respect, the Ministry of External Affairs (MEA) does well in entrusting key overseas assignments mainly to high performers, with low regard to rank.[9] But better methods of reward are needed.

Third, MEA sorely needs to work out a good performance-management system, which would indirectly help to strengthen economic diplomacy. With the entire public administration system moving towards 'output accounting' – via the annual budget outcome reports that each ministry is now required to submit to the Parliament, this is a logical corollary.

The narratives that follow speak with both eloquence and persuasion.

9 The distribution of the 20-odd ambassadors in Grade I (equivalent to secretary to the Government of India) at any point in time shows this. More than a few are at salubrious but unimportant Western capitals, while embassies in key neighbourhood countries are headed by envoys in Grades II or even III.

2

Best Practices – A Personal Narrative

ARJUN ASRANI
Member, National Security Advisory Board &
Chairman, India-Japan Partnership Forum
Ambassador to Japan (1988-1992)

In the practice of diplomacy, as seen from the perspective of our Missions abroad, opportunities arise almost on a daily basis for taking actions that advance the interests of our country, be they in the purely cultural, political, or commercial sectors. It takes some effort, therefore, to single out those instances where primarily economic objectives were achieved; nor is it possible to quantify the results that were attained. Let me narrate some of my experiences.

Indian Visa for Foreign Business Visitors

The Visa section in any Embassy is its only window that accesses the general public. While visa work may appear to be of routine character, its importance in public relations should not be underestimated, especially *vis-à-vis* tourism and business travel facilitation. Moreover, today, visa and consular work is coming to be recognised as a strategic assets in the public diplomacy outreach of foreign ministries; some countries, such as Japan, have mandated that all their officials must handle this work for a minimum time period of one year, to gain insight.

Back in 1960, as a Third Secretary in the Indian Embassy in Tokyo (which in our system is the rank assigned to young IFS Probationers), I was temporarily given charge of the visa section. The Visa Assistant was required to put up to me a monthly report of the passport and visa services rendered. I was surprised to see the large number of visas refused – and that too in a friendly, non-controversial country, from where every visitor could bring a good amount of the much-needed foreign exchange. To justify his actions, the Assistant showed me the Ministry of External Affairs (MEA) manual of instructions on the subject. One of these instructions stipulated that no foreign national should be given a visa to attend a conference in India, unless the holding of that conference had the prior clearance of the Government of India. Then the Assistant showed me samples of visa applications that he had rejected. In almost all of these the applicant had filled out our form, giving the purpose of his visit as 'conference with business partner in India'.

I explained to the Assistant the difference between the kind of politically significant conference the MEA had in mind and the kind of business meetings that the Japanese applicant had in mind. In addition, I laid down that while the Assistant should continue to use his discretion in issuing visas, he would require my prior permission before turning down any application. Needless to say, not only did the number of Japanese visitors to India go up after that but, more important, we managed to remove a negative impression in the minds of Japanese businessmen dealing with India.

Negotiating Skills: Understanding the Foreigner's Perception of Indian Businessmen

A big advantage that a career diplomat may have, in comparison with home-based colleagues, is his personal understanding of the prevailing perceptions the host country has concerning India and Indians. This understanding can be very useful if transmitted to Indian compatriots dealing with that host country in a suitable fashion.

Let me provide an example. Around 1990, while I served as the Indian Ambassador in Tokyo, the Trade Development Authority of India organised a 'buyer-seller meet' for Indian garment exporters. About 60 Indian garment exporters had brought along their samples and set up individual stalls in a big hall; Japanese importers were invited, through arrangements carefully worked out in advance, to come and negotiate deals on the spot. As customary, the delegation called on me and I gave them some general advice.

As they were leaving the Embassy, one of them stayed back and asked me for 'just one tip' on how to succeed with the Japanese. I asked him, in response, whether he could act the role of a foolish or naïve person. Seeing him nonplussed, I explained to him that while dealing with a prospective Japanese customer, he needed first of all to overcome the average Japanese businessman's impression of the Indian businessmen as particularly wily individuals, who could only be handled through hard bargaining. I suggested to him that the best way to overcome this impression was to honestly put his cards on the table.

For instance, he could explain to the Japanese counterpart his costing of a garment in detail, i.e. the cost of materials, labour, overheads, etc., and *then deduct from the total cost any export incentive that the businessman received from the government*. I advised that it would be the last item that would help to disarm the buyer and overcome his distrust. Having arrived at the net cost, the (Indian) businessman could then allow for some bargaining with the Japanese buyer on the profit margin, as a percentage of the cost.

I offered that advice on the spur of the moment, but was much pleased when this Indian exporter called on me before leaving Tokyo, to happily report to me that he had faithfully followed the advice and had ended up getting the largest orders amongst all the 60 Indian exporters. I would not vouch this as a universal formula, but clearly it helps to disarm the other party by being forthright.

Commercial Aptitude and the Importance of Hospitality

In our system, the Head of Mission (an ambassador or high commissioner), has considerable latitude in the allocation of duties amongst his officers. It is up to him to judge the individual capabilities and apportion the work accordingly.

In a certain oil exporting country, where I served as the envoy in the early 1980s, I found to my dismay that it was very rare to get the top officials to come to one's parties – which is all too often the informal setting where barriers to communication can be broken. India had a major presence in the country, in terms of big project contracts, but very little trade. This was surprising, since this oil-rich country imported good quantities of items like garments, pharmaceuticals, tea and coffee, spices and the like – precisely the items where India was competitive. Apparently they were importing these items through third countries, mostly European, relying on their established channels.

At the time, I had with me a very bright Private Secretary who came up with an innovative idea. He proposed that if I could change his official title to Attache (Commercial) from Attache (PS to Ambassador) and further put at his disposal a part of my representation grant for hosting parties at his house, he would be able to show me results in terms of increased Indian exports to that country within a short period. His reasoning was that it was the junior officials in the host government who needed to be persuaded and those officials would not dare to come to any parties hosted by the ambassador or the counsellor. On the other hand, they would be quite comfortable at his level. I agreed and, within a few months, he was able to facilitate the signing of an impressive number of contracts with Indian public sector trading companies. In fact, he was so successful that at the end of his tenure, he retired from government service, set up his own business in the Gulf and is today one of the highly successful and leading Indian businessmen in the area.

The Importance of Track II

There are occasions when, in times of crisis or urgency, normal channels of interaction with the host government might not produce the desired results. This is why it is crucial to cultivate important and influential people as personal friends or, even better, as friends of India, to whom one may turn in times of need.

A testing time for India-Japan friendship came in 1991, when the country's balance of payments was under severe pressure. Our foreign exchange reserves had come down to under US$1bn. The then minority Government of Prime Minister Chandra Shekhar was seen as one that might not survive for long. As the Indian Ambassador in Tokyo at that time, I realised the depth of the crisis when I received insistent calls from Delhi asking me to arrange appointments for an urgent visit to Tokyo that our Finance Minister, Yashwant Sinha was to undertake. The Japanese were in no mood to accommodate an unplanned visit, and that too from a finance minister in a government that appeared to be temporary. Additionally, the Japanese were so convinced of the high and traditional prudence of the Indian Finance Ministry that it took a great deal of persuasion to convince them of our predicament.

Eventually, an appointment with the Japanese Foreign Minister was promised, but even the Foreign Ministry could not succeed in getting for us the more crucial appointment with the Japanese Finance Minister. We then had to pull out all stops and use all the good offices of our Japanese friends in Tokyo. I turned to: first, a top Japanese company chairman whom I had helped to overcome some bureaucratic Indian hurdles; second, a ruling party MP, who was close to the then Japanese PM; and third, the chairman of India-Japan Partnership Forum, who had earlier served as the foreign minister and parliament speaker. All of them were mobilised to secure an appointment with the Japanese Finance Minister.

To cut a long story short, the visit did materialise and we secured the Japanese government's commitment to give us emergency, quick-disbursement assistance of about US$300mn, which helped us until the International Monetary Fund (IMF) and the World Bank could help out more substantively. Equally important, the Japanese Finance Ministry persuaded Japanese banks to roll over hundreds of millions of dollars in short-term loans falling due from Indian entities at that time. The Bank of Japan also joined its counterparts in UK and Switzerland for another quick loan against the pledge of Reserve Bank of India's (RBI) gold reserves.

Flush as India is today with nearly US$300bn in foreign exchange reserves, it is difficult to imagine our panic at that time, or the significance of these amounts. Our Finance Ministry even seriously considered selling our extremely valuable Embassy office premises in Tokyo to avoid any default in our international obligations! It is no wonder then that soon thereafter, once elections were held in July 1991, and the new government took office, Dr Manmohan Singh, who became the Finance Minister, made a special trip to Tokyo to thank the Japanese government and inform them of the wide-ranging economic reforms that he and the Government of P V Narasimha Rao launched. The rest, as they say, is history.

For me, there was an amusing denouement to this episode. When I called on the vice president of the Japanese government fund responsible for official development assistance (he had been at Oxford with me) to thank him for the emergency assistance, he asked me, with a twinkle in his eyes, how the Japanese government could afford to let India default – after all, was not Japan India's biggest creditor? And, here I was, flattering myself that I had helped save my country from a major crisis!

3 Commercial Diplomacy in Mexico (2000-04)

ANUP MUDGAL
Consul General, Munich
Counsellor, Indian Embassy, Mexico City (2000-2004)

I joined at Embassy of India, Mexico in September 2000 and remained there till August 2004, which coincided with the Government of India's special initiative to promote trade and economic linkages with Latin America under the banner 'Focus LAC'.

The broad macro-economic assessment of Mexico was encouraging; the country had all the features of an important potential market for trade and investments – one of the largest economies in the region with a gross domestic product (GDP) of around US$637bn (2002); a major market with a population of over 100 million; stable macro-economic fundamentals without any crisis of confidence. An annual two-way trade of over US$325bn (2002) was comparable to the total figure for other Latin American majors namely Brazil, Argentina and Venezuela put together. The country is also amongst the top oil producers and exporters outside the Organisation for Petroleum Exporting Countries (OPEC). Mexico was uniquely placed because of its wide network of free trade agreements – a member of the world's largest economic area North American

Free Trade Agreement (NAFTA); and with a host of similar preferential arrangements with European Union, Israel and some countries of Central and South America, and further expanding. These features provided a compelling case for India to explore closer economic and trade ties.

We had absolutely no doubt that Mexico was not only a huge market in its own right but could also act as a gateway to its FTA partners. The challenge was to precisely identify potential product lines which had demand in Mexico and possibilities of competitive supplies from India. Based on the composition of the Indian export basket in the preceding three to five years, four thrust sectors were identified for trade and investment promotion. These were (i) engineering and allied products, (ii) chemicals and pharmaceuticals, (iii) textiles, and (iv) gems and jewellery. Under the services, the obvious target was software and information technology.

We used an organised approach to identify the trade opportunities. In relation to each of the above sectors, the structure of the Mexican market and imports were studied right down to the eight digits of the harmonised system (HS) and product lines of strength for India were identified. Under these four sectors, over 35 chapters of the HS and several hundred product lines at eight digits were extensively researched. For each product line, data was compiled for the existing Indian exports as also the total Mexican imports with India's market share and imports from the other major suppliers. With a view to helping the Indian companies to develop a better understanding of the market, for each product line, we provided information on the tariff and other relevant regulatory framework, including the preferential and most-favoured nation (MFN) duty rates.

Taking into account Mexico's FTAs, the Indian companies were also provided with detailed information relating to the value addition norms so that they could explore prospects for joint ventures and other options for local production to access the huge market of Mexico's FTA partners, especially NAFTA. Our market reports also provided easy information relating to: procedures for setting up local offices; major sectoral trade fairs; specialised chambers of commerce and major potential trading partners. The market reports were widely disseminated to the Indian business community through the Ministry of Commerce & Industry website and other available channels.

In addition, special trade promotional efforts were carried out by way of participation in carefully selected trade fairs and well-organised buyer-seller meets (BSMs) covering the key sectors. The Indian participation at these events was limited to companies that had real potential rather than the usual random selection. Similar targeted efforts were carried out in terms of local publicity to improve the prospects for correct match-making.

Based on our experience of various trade promotional activities and efforts, participation in specialised sectoral trade fairs was found to be the most effective tool, especially for newcomers. These trade fairs provided the participants with the widest possible exposure to local buyers, importers and end-users. They also afforded the exporters an opportunity to learn about the nature of the local market and the products and prices of their competitors. No other purely bilateral trade event could match this advantage. BSMs were encouraged on the margins of these trade fairs or in respect of products and companies that had already gone through the initial market exposure.

The trade fairs which became targets of regular participation by Indian companies were: (i) Expo-Farma, Mexico City for chemicals and pharmaceuticals; (ii) Exintex, Puebla for textiles; (iii) Expo Internacional Rujac, Guadalajara for auto parts and tools; (iv) Expo Metal Mecanica, Guadalajara for engineering products; (v) Expo Nacional Feretera, Guadalajar for general hardware and tools; and (vi) PAACE Automechanika, Mexico City for auto parts. Mexican companies and buyers were also invited to visit important trade fairs in India; in many cases, these visits were sponsored by the concerned Indian export promotion councils.

Several trade chambers and export promotion councils on both sides played an important role in the promotional activities. Some of the key chambers and trade associations based in Mexico City, that proved to be extremely helpful were: (i) Mexican Foreign Trade Council (COMCE); (ii) National Chamber of Manufacturing Industry (CANACINTRA); (iii) Confederation of Chambers of Industry (CONCAMIN); (iv) Confederation of National Chamber of Commerce (CONCANACO); (v) National Chamber of Commerce of Mexico City; (vi) National Association of Chemical Industry (ANIQ); (vii) National Chamber of Pharmaceutical Industry (CANIFARMA); (viii) National Association of Manufacturers of Pharmaceuticals (ANAFAM); (ix) National Chamber of Electronic and Telecom Industry (CANIETI); (x) National Association of Mexican Importers and Exporters (ANIERM); and (xi) National Association of Departmental and Chain Stores.

On the Indian side, a very active support was provided by the Confederation of Indian Industry (CII); Federation of Indian Chambers of Commerce and Industry (FICCI), PHD Chamber of Commerce; Basic Chemicals, Pharmaceuticals and Cosmetics Export Promotion Council (CHEMEXIL); Export Promotion Council for Handicrafts (EPCH); Engineering Export Promotion Council (EEPC); Power Loom Development and Export Promotion Council (PDEXCIL); Synthetic and Rayon Textiles Export Promotion Council (SRTEPC); Plastics Export Promotion Council (PLEXCONCIL); Electronic and Computers Export Council (ESC); Council for Leather Export (CLE) and Indian Trade Promotion Organisation (ITPO).

We were, in a way, also lucky that Mexico, during my assignment, was passing through a phase of rapid growth and extraordinary macro-economic stability. Accordingly, the results were quite encouraging. As per the local data, India-Mexico two-way trade surged by close to 250 percent from US$384mn in the year 2000 to US$1314mn in the year 2004, almost 3½ times in four years. This trend continued and the bilateral trade was all set to cross US$2bn at the close of 2007. The sector-wise performance was quite balanced and the chapters covered by our market reports demonstrated strong performance.

Our efforts to promote joint ventures and investments in thrust areas of IT, pharmaceuticals and engineering also showed encouraging results. Total investment by people of Indian origin in Mexico had reached around US$1.6bn till I left and new ventures were emerging in the area of pharmaceuticals, IT and electronics.

Indo-Mexican bilateral trade far exceeded the general trend, both in terms of total Mexican imports and global Indian exports. For the period 2000-2007, global Mexican imports went up from US$174bn to US$283bn (a 62 percent increase). Indian global exports went up from around US$45bn (2000-01) to US$126bn (2006-2007), an increase of 180 percent. Compare these figures with Indian exports to Mexico for the period 2000 to 2007: they surged from US$288mn to around US$1207mn , an increase of over 320 percent. New Indian joint ventures in the fields of pharmaceuticals and IT have the potential of adding substantial value to the future economic linkages.

This performance evidently goes beyond being a sheer coincidence. On the other hand, howsoever much an Embassy or a commercial office located abroad may wish to see a higher level of trade between the home country and the receiving State, it is not itself a direct agent engaged in trade. The commercial diplomats work with those engaged in business and facilitate higher trade flows. They may provide better information to the home exporters on the target markets and encourage and motivate them to come forward. They also work with the trade entities of the target country, promote visits by businessmen in both directions and improve mutual familiarity through participation in trade exhibitions and the like. All these activities involve close liaison with businessmen, chambers of commerce and other trade multipliers. This was our experience and we saw that in the process of building trade and investment related connections, we also found new opportunities for closer political, cultural and other ties. This is a reflection of the interconnectedness of diplomatic work, which is a continuous process where each diplomat further builds on the work done by his/her predecessors and hands over the process to the successor for continuation. The officials keep changing but the process moves on.

Editor's Note: The two-way India-Mexico trade was US$541mn in 2005-06, and reached US$2.4bn in 2008-09.

4 Economic Diplomacy in China and Down Under

SUJAN CHINOY
Joint Secretary, National Security Council Secretariat, New Delhi
Consul General of India in Shanghai (2000-2005) and
Consul General in Sydney until 2008

Economic diplomacy is ostensibly the product of the age of globalisation; in fact, political relations have always been viewed through the prism of economic ties. As an adjunct to other tools of statecraft such as cultural and military means, the success of economic diplomacy has often ushered in periods of stability and progress in inter-state relations; its failure, equally, has emboldened jingoism and economic protectionism. Colonisation in Asia and Africa was a result of a rapacious thrust to secure resources and markets. Economic diplomacy, conducted on the basis of sovereignty and equality, can facilitate political reconciliation and advance the objectives of regional economic integration.

The 21st century poses fresh challenges for economic diplomats in terms of the emergence of a global economy of mutual interdependence, climate change, and the scrimmage for energy, food and the earth's natural resources. For developing countries like India, a level playing field and access to raw materials, markets and modern technologies assumes even greater importance than in the past.

As a practitioner of economic diplomacy since 2000, first as the Consul General of India in Shanghai and then in a similar capacity in Sydney, I had the opportunity to observe first-hand and participate, albeit in a modest capacity, in the great economic effervescence in Asia, and more particularly in the Asia-Pacific region. My tenures in China and Australia coincided with the shift of global manufacturing to Asian countries and a revitalisation of trade, labour and capital flows in Asia and in the Asia-Pacific region, as reflected in the burgeoning trade and economic engagement between India and China and the emergence of Australia as a major source of natural resources for the engines of growth in China and India.

In East China, the provenance of one-third of China's GDP and global trade, I prepared analyses of the local economy, supported trade delegations, responded to trade enquiries and made special presentations on trade and investment opportunities on both sides with a particular focus on regional economic centres. One very useful exercise, welcomed by entrepreneurs and chambers of commerce in India, was our initiative in preparing and distributing special reports and publications on different sectors of the Chinese economy such as chemicals, pharmaceuticals, plastics, the automotive industry, gems & jewellery, and information technology, under the 'Doing Business in East China' series.

The start of this decade was a period of great flux, with captains of industry in India experiencing economic epiphanies about the importance of global risk-mitigation strategies and the importance of being part of the Chinese economic landscape. Indian companies were cautiously scouting for opportunities to invest in China in order to take advantage of lower costs, special incentives and greater connectivity to the global reseaux of raw materials, labour and markets.

One such company was the dynamic Sundaram Fasteners Limited (SFL) of the TVS Group, which committed in 2003 about US$5mn to establish the first wholly Indian-owned manufacturing plant in Haiyan County in Zhejiang Province, to manufacture a range of automotive fasteners for export to the US and the EU. I recall being asked by Suresh Krishna, Chairman & Managing Director of SFL, for my views about the economic environment in Zhejiang Province. In light of the incentives offered by the local government, I urged him to heed the proverb – 'the early bird catches the worm'. Later, he publicly acknowledged that the assessment stood vindicated by the success of Sundaram Fasteners (Zhejiang) Limited.

In a similar vein, I was requested to brief N R Narayana Murthy, Chief Mentor, Infosys, and Ratan Tata, Chairman of the Tata group, about the prevailing economic situation and opportunities in East China at a time when major business decisions about investments and tie-ups in China for their companies were in the offing.

For those engaged in economic diplomacy, the importance of cultivating a rapport with senior leaders in the country of posting cannot be overemphasised. In 2005, the then Party Secretary of Jiangsu Province and the highest-ranking leader of this important economic powerhouse in East China, discussed with me his proposed tour of India at the head of a provincial delegation. Jiangsu Province was especially keen to provide incentives to Indian IT companies to encourage them to establish development and training centres in Nanjing.

We facilitated a useful visit to India for the delegation. I also introduced several Indian IT companies based in Shanghai to the Government of Jiangsu Province. As part of a thrust on developing trade and economic ties with regional economic centres, we organised trade & investment seminars in important economic centres in Jiangsu such as Kunshan, Wuxi, Zhenjiang, Yangzhou and Nanjing. We invited the chief representatives of Indian companies such as TCS, NIIT, L&T, Ranbaxy, Reliance, Raymond Ltd., Dr Reddy's Laboratories, Essel Packaging, etc. to participate in the seminars which attracted scores of Chinese participants from the Consulate General's well-maintained database.

One important outcome was the agreement between the Indian software and IT training company NIIT and the Jiangsu government to expand NIIT's training centres in Jiangsu Province. Of course, the credit should also go to the proactive Indian CEOs and chief representatives in East China who were quick to spot an opportunity and take the bold decisions required.

In 2003, the Chinese market finally opened up to Indian mangoes. APEDA asked us to organise the first-ever promotion event for Indian mangoes in China. This was not a simple task. At short notice, and at the height of the hot Shanghai summer, a vast consignment of mangoes weighing several tonnes was despatched to Shanghai. When the crates were unloaded from the aircraft, the sweet smell of ripening mangoes permeated the entire cargo terminal. We had no control over the rate at which the fruit ripened, but did wish that it might be slower than what the wafting aroma suggested. One would need time to run the gauntlet of Chinese quarantine and customs procedures and complete the copious paperwork required. The threat of a rapidly ripening consignment of fruit perishing at the cargo terminal galvanised our commercial team into action.

The next few days were a race against time to distribute the mangoes to a sizable list of dignitaries, as well as to supermarkets and Indian restaurants for special launches and buyer-seller meetings for Indian exporters. There was one insuperable problem though. The concerned quarantine authorities had asked for the return of every single skin and stone of every piece of fruit in the large consignment. Since the mangoes had already been widely distributed, I took the only honourable way out of the dilemma. I requested the quarantine authorities to contact the senior leadership in East China for the skin and seeds since we had distributed the fruit to many of them! The teething troubles over, the Mango Festival in Shanghai became a regular feature in our calendar of events thereafter.

After China, Australia proved to be equally interesting. India had recently emerged as the sixth-largest market for Australia's exports and there was new interest all around in the promising economic partnership with India. Soon after arrival in Sydney, I was invited to organise India's participation at the Australian National Field Days 2006 at Orange, in central New South Wales, as Guest Nation Exhibitor. I had decided to continue with a 'regional thrust' initiatives, so successful and rewarding in East China, and accepted the invitation without a second thought. But it was easier said than done! This would be the first time that India would participate in a rural event in Australia, over 300 kms away from Sydney. Until then, trade and economic exhibitions had traditionally been held in the large cities of Sydney and Melbourne.

The Australian National Field Days (ANFD) is Australia's oldest and longest-running agricultural Fair. The event is held annually to showcase farm machinery and equipment to rural industries and individual farmers spread over a large area. Ireland, China, New Zealand, Canada and the UK had already participated at the Fair in previous years as Guest Nation Exhibitors. The Guest Nation's participation was expected to be an all-encompassing event, including the trade, economic and cultural dimensions. Free exhibition space was offered, but the real challenge was to put together exhibits of manufactured goods on a sufficiently large scale as to impress the approximately 30,000 visitors to the Fair from all over the south-central part of Australia.

It was clear that the Fair provided a unique opportunity to project our growing technological and manufacturing capabilities as well as the well-known services sector, juxtaposed with India's growing 'soft power', that is, our rich heritage of dance, music, ethnic fashion, yoga and meditation. I felt that it was especially important to project the 'Made in India' brand in Australia at a time when Indian products were increasingly of high-quality, and, globally competitive.

I was besieged by doubts if we could pull it off. To start with, it was clear that even after the time-consuming task of identifying and inviting the right blend of manufacturers, exporters and exhibitors, we would still face a logistical nightmare in terms of taking the heavy exhibits and performing troupes to a distant regional part of Australia. In view of the enormous costs involved, we had decided at the very start that the only way to ensure a successful event would be to rely on self-financing by all exhibitors and performers. The task also entailed a precise coordination of arrivals, departures, transport, accommodation, clearances, and the mounting and dismounting of a large-scale exhibition involving an eclectic group of companies. It was a moot question if exhibits from India would arrive in time. Approvals from myriad agencies would have to be obtained. Would Indian companies be willing to bear the considerable costs involved in shipping, transportation and other incidentals?

We contacted the Indian Trade Promotion Organisation (ITPO) to invite exhibitors from India, but knowing well the detailed procedures for obtaining customs and quarantine clearances, opted to bank almost entirely on Indian companies that already exported goods to Australia. We invited MRF to display their tyres, and Mahindra & Mahindra to exhibit their tractors and loaders as well as the utility vehicle that they shortly planned to launch in Australia. I pointed out to

Mahindra & Mahindra that the Fair provided an ideal opportunity to conduct field trials ahead of the planned launch. The good contacts with captains of industry established during my stint in Shanghai helped to convince them of the benefits of showcasing their products as part of a comprehensive 'Brand India' platform.

Initial hesitation on the part of their local executives, who had understandably balked at the magnitude of the exercise and perhaps at the costs on transportation and incidentals too, was thus overcome. We managed to get an entire MRF team with a vast quantity of different tyres to display at the exhibition, alongside a score of Mahindra tractors and loaders from their Brisbane assembly plant, and an equal number of their new 4x4 utility vehicles were shipped out for the exhibition and field trials.

The Australian National Field Days 2006 was declared open in the presence of a large gathering that included the local Mayor, Council Members and Members of the Parliament. The inauguration ceremony was held against the impressive backdrop of a traditional Indian façade, an ornate wooden structure provided by the India Tourism office in Sydney which was also part of our team of exhibitors.

The *Bharatiya Vidya Bhavan*, Australia accepted our invitation to participate and added value to the event by organising daily performances, featuring Indian dance troupes brought all the way by road from Sydney. Dance performances such as *bhangra* and other regional styles enthralled thousands of Australians over the course of the three-day event. A Fashion Show of traditional and modern Indian dress, twice daily, at the Women's Interest Centre, was also made possible through the generosity of Sydney-based importers of Indian dresses and Australian models arranged locally by the organisers. Yoga In Daily Life and Brahma Kumaris, two important Indian NGOs with a presence in Australia, also agreed to participate and set up marquees at the fair. The yoga and meditation demonstrations were hugely popular with the visitors, especially the local farmers.

India succeeded in showcasing its agricultural, manufacturing, services and technology sectors at the event. The Mahindra & Mahindra Tractors Division, Mahindra & Mahindra Automotive Division, MRF Tyres, the software industry association NASSCOM, ITPO, International 'Sonalika' Tractors, Trans Asia International and UPICO participated in the event. The Mahindra vehicle was test-driven by hundreds of local residents and farmers over a gruelling test-track alongside other international brands. The feedback helped the company to make the necessary technical modifications before the formal launch in the Australian market the following year. MRF Tyres of India also received great attention at the event. The MRF logo was easily recognised by visitors on account of the eponymous cricket bat used by Indian and Australian cricketers. But this was the first-time that 30,000 visitors, all potential customers from the rural and farm segment, saw MRF car and tractor tyres alongside the Made-in-India tractors, loaders and 4x4 utility vehicles.

We organised a Seminar on 'India-Australia Trade & Economic Partnership' during the Fair to facilitate trade and economic interaction between Indian and Australian businesses. Participants included the Head of the School of Rural Management at Charles Sturt University in Orange, the Executive Director of ITPO, the Chairman Emeritus of the Australia India Business Council as well as senior representatives of Austrade and the Department of State and Regional Development of New South Wales. Senior executives of Indian companies displaying products and services at the fair thus had a chance to introduce their companies to potential clients and partners.

India's kaleidoscopic displays at the Australian National Field Days invited very favourable comments from among the visitors, media and local officials. As part of a publicity blitz to make Australians in the regional parts of the country aware of modern India's multi-faceted achievements, we arranged to distribute to the visitors to the Fair, especially to school-children, over 1,000 copies of a special publication entitled 'India – A Dynamic Democracy' sent by the External Publicity Division of the Ministry of External Affairs. Large quantities of tourism-related brochures were also made available to visitors with door prizes that included a trip to India. A special exhibition hall decorated with traditional Indian motifs and tourism posters was set up by the Consulate General of India in cooperation with the Orange City Council with facilities to screen documentaries on India to visitors throughout the three days.

As part of the effort to promote India, I gave several interviews to radio channels and local newspapers. It is very important to deal with stereotypes in this line of work. One interview with Radio 2DU of Dubbo stood out. The presenter began by expressing his great surprise that India was the Guest Nation Exhibitor at a Rural Fair in Australia. He doubted if India had any manufactured goods to display since, in his view, Indian farmers still relied on wooden ploughshares! I offered to arrange for him a test-drive of the sophisticated Mahindra 4x4 utility vehicle on display. I also informed him, over the live broadcast that was no doubt followed by thousands of Australians across the region, that in addition to ploughshares, India also manufactured sophisticated satellites and had a commercial space launch programme to boot.

Australian company – Australian Agricultural Machinery Group – participated at the Fair, and after attending our exhibition and seminar, decided to invest in India. We assisted them in formulating an entry strategy, identifying contacts and setting up operations in Gurgaon. The company is best known for its technically advanced *Jetstream* range of low-volume crop boom sprays, bulk grain-handling and animal-feeding equipment, which the company hopes to offer to the growing markets of India and the Middle East.

In a digital age when passwords are more important than passports, the paradigms of traditional economic work carried out by diplomatic missions and posts are rapidly evolving. Several exogenous and endogenous factors have played a role. Egregious in its impact is the internet and the plethora of information readily available on the web. The information revolution has whetted the appetite for inputs relevant to business decisions. It has also made instant fulfilment possible through just the 'click of a mouse'. But one still needs to separate the wheat from the chaff in order to draw useful conclusions. Diplomats engaged in economic work are primarily facilitators. They can make a difference, even though they do not play a direct role in the business decisions taken by the captains of industry. The latter have vast resources, human, technical and financial, at their disposal. That can make the work of economic diplomats seem even apocryphal at times.

To avoid being rendered redundant, those engaged in such work must adopt innovative approaches to achieve goals, acquire unique skills and create portfolios of analyses and services that enable them to stay ahead of the competition. Among key determinants are knowledge of foreign languages, deep area and subject expertise and the ability to deftly network high-level business and political contacts to create unique opportunities to further the nation's economic interests.

5

Role of Embassies in Commercial Negotiations

SHIV N MALIK
Chairman, MENTORS
Chairman & Managing Director of MMTC Ltd. (1992-1997)

Indian embassies and high commissions play an important role in facilitating the signing of various trade and investment agreements, double tax avoidance treaties, and other agreements between India and other countries. Such agreements provide the infrastructure and legal framework within which firms trade in goods and services and invest in joint ventures, wholly owned subsidiary companies, establish trade or liaison offices and settle commercial disputes.

The diplomatic support given by the embassies to the government in building the trade and investment infrastructure is immense. They also guide the visiting trade and industry delegations and help in fixing their meetings. They do this for Indian companies too on request. However, the role of the embassies is necessarily more at the macro than at the micro level of the firm.

Business enterprises cannot expect embassies to create customers, though in special situations some of them have even performed this role, especially in new markets. This is essentially the function of a business enterprise. Embassies are sometimes hedged in by limited staff that may not be even commercially attuned.

Our commercial diplomats should have wide exposure to the capabilities of major firms of both the countries, as also to skills, technologies, products and services which can be traded in view of the comparative cost and skill advantage of the countries and the investment opportunities therein. Embassies can collect, collate and analyse the kind of commercial information that will make a major impact on trade and investment in India and the host country. It is important to share this intelligence not only with the chambers of commerce and trade and the government, but also with important relevant companies of both the countries, which can make a significant impact. This is a matter of training and exposure of the commercial diplomats, which will pay high dividend.

It is not difficult for embassies to shortlist those 20 percent of the commercial enterprises, products, services and technologies, which perhaps contribute around 80 percent to the results. They should keep direct contact with such companies in both the countries and update them with the latest commercial intelligence.

The trade and industry associations and the government are slow in transmitting information to the right companies. Commercial information has to reach an enterprise in time in usable and actionable form, for it to have any commercial value. I suggest that embassies wanting to make a meaningful commercial contribution follow this route.

Embassies can and do play an important role in the promotion of India Brand in cooperation with the 'Brand Equity Fund' operated by our Ministry of Commerce, holding trade fairs, big and small, and participating in the trade fairs organised by the host country, inviting important companies to participate in Indian trade fairs, helping companies in match-making, and hosting and being hosted to special seminars to showcase the strengths of the firms of both the countries and other opportunities for commerce and investments. There is scope for doing more of this and improving its quality, which depends on the depth of interest, passion and knowledge of our commercial diplomats. This too can be improved with training, exposure and motivation by the government. Both the industry and the government could consider constituting national awards to commercial diplomats who make an outstanding contribution to the growth of trade, investments and technology transfer. The government could also consider other financial and promotional rewards for making such outstanding contribution by commercial diplomats.

I am not a diplomat. Those in this profession will know better how much extra interest and time they can spend on commercial promotional activity, considering staff constraints. More staff can be demanded, if the commercial interests of the country justify this. Embassies need to quantify the additional trade and investment that can result from posting additional officers for commercial work, and the Ministry of External Affairs should consider their request as if they were a commercial enterprise.

At the same time, the commercial diplomats have to be accountable for achieving their forecasts in a realistic manner. A clear time horizon should keep in mind the time required for developmental spade work, and visible quantifiable results should be delivered in a year or so. The ambassador, commercial diplomats making the recommendation and those who follow them, should be held jointly responsible for the results.

Adequate training and wide exposure can be given in the home and host country to acquaint the officers with the commercial enterprises, their activities and capabilities. They can also be trained in commercial negotiations by deputing some of them in public sector enterprises for short stints.

I have tried to explain this subject with the help of real life case studies of negotiations for the export of iron ore from India to Japan between Minerals and Metals Trading Corporation (MMTC) and the Japanese steel mills (JSM), negotiations between Project Equipment Corporation (PEC) and the Cotton Corporation of India for export of cotton to Vietnam, and those between the board committees of National Aluminium Company Ltd (NALCO) and their unions.

These negotiations may be of lesser import than the country-to-country negotiations held by diplomats. However, they suffice to explain clear learning from commercial negotiations, and how these may relate to other kinds of negotiations.

PEC and the Cotton Corporation of India

In negotiations, our key aim should be to build on shared interests to forge win-win agreements. However, differences between parties can also be a source of creating value. One of the companies I chaired, PEC, was to export cotton to Vietnam for the first time in 1991-92. The supplier was the Cotton Corporation of India. The Chairman of the Cotton Corporation did not want to take the risk of exporting cotton through certain ports of Vietnam. However, at PEC, we had a different risk appetite and perception of Vietnamese ports, and I told him that my company would undertake this risk provided he agreed to give us an additional commission or service charge of 2.5 percent over and above 5 percent he had earlier accepted. He agreed. By exploiting the difference in our risk appetite and our perceptions of risk, we could negotiate an agreement quickly.

We won the contract and cotton worth ₹17 crores was duly supplied at the desired ports successfully. Both the companies gained in the deal. We traded our different risk appetites and perceptions to create a higher value for both.

NALCO and Trade Unions

Let me now give an example of a win-win/integrative negotiation based on creating value on shared interests. Board committees of NALCO, the largest alumina and aluminum producer, was able to revise a wage agreement with the unions who had threatened a major strike, by trading extra benefits to the staff with their acceptance to achieve the best global benchmarks of performance for productivity and better discipline. Both NALCO and the unions gained as it did not cost the unions anything, except better discipline.

Diplomats have to constantly create such win-win situations in most of the negotiations with different countries.

Negotiations between Japanese Steel Mills and India

I would like to give below an instructive case study of iron ore negotiations between India and Japan. It brings out how skillfully the Japanese converted a distributive deal (one party's gain is another party's loss) into an integrative deal (both parties gain) and managed the pre-negotiation, preparation and other stages of negotiations.

Both the suppliers and buyers attempted to get the maximum value out of the transaction; Japan tried to pay the lowest price and we tried to maximise the price. To that extent, it was a distributive negotiation. However, what changed the nature of the negotiation was that long term interests were involved on both sides, making it necessary for both to compromise and be fair. Therefore, an element of integrative negotiations was involved and both sides tried to create value by fully sharing each other's concerns and by seeking out the full picture from the other party.

For instance, Japan was mainly interested in the high grade Bailadila and other iron ores, as the low grade Eastern Indian ores were uneconomic. On the other hand, India was keen to export Eastern ores to maintain employment; further, India wanted to preserve the high grade ores for the domestic industry.

By agreeing to lift a large quantity of low grade Eastern ores and by compromising to lift every year a progressively reduced quantity of high grade Bailadila ores, Japan accommodated India and thus created value for us. India created value for Japan by continuing export of Bailadila ores despite domestic pressure, keeping in mind the development work done by Japan for Biladilla.

An outside independent and objective standard – of fair price based on an objective analysis of the global demand and supply position – was brought in to settle a fair price.

I led the Indian delegation for export of iron ore to Japan for five years between 1992 and 1997, as Chairman of MMTC. Iron ore was India's largest export to Japan. The value of the five year contract (1992-97) we negotiated with Japan, which was divided into five annual contracts, was about ₹3500 crores (about ₹7, 000 crores at today's prices).

The JSM to which we supplied iron ore regularly included Nippon Steel, Sumitomo Metal, Kobe Steel, Kawasaki Steel, NKK, Nisshin Steel and Nakayama Steel, all of whom came together in a consortium. They nominated trading companies as chief coordinators to liaise with us, the Government of India and others. Okura and company was the coordinator for MMTC.

Their coordinator kept in touch with us on day to day basis. We maintained a liaison office in Tokyo, which kept us informed about developments in JSM and their reactions. These arrangements facilitated back door diplomacy.

The coordinators kept us informed about the views of the JSM, gauged our reaction to their thinking and anticipated our likely approach to the forthcoming negotiations, and conveyed it to the JSM.

I was impressed by their knowledge of the Indian ports, difficulties for shipments, wagons availability and movement and quality problems in our ports, etc, and difficulties faced by the JSM with our product. They were in regular touch with the senior officials in our relevant Ministries to assess how much high grade Bailadila ore would be permitted to be exported through MMTC and National Mineral Development Corporation (NMDC) as a policy.

They would sensitise us on the concerns of the JSM and vice versa. They were aware of the total global production and consumption of steel and iron ore and the demand supply gaps. They were fully in the picture about their rival buyers in Europe and its suppliers and position of our competitor suppliers like, Brazil and Australia, etc.

I was impressed with their intense preparation in collecting the quantity and quality of information at the pre-negotiation stage. Many Indian companies do not take the pains to do so, thus yielding an advantage to the other side.

An additional secretary to the Government, who had officiated as the Chairman of MMTC before me, led the previous negotiations with Japan. That year, the Indian delegation had felt cold-shouldered by the Japanese, presumably because the Japanese did not want to negotiate with a bureaucrat as they might have feared a more rigid approach. This story shows how much importance the good negotiators attach to the composition and the leader of the other team.

One has to be sure about the facts while negotiating with the Japanese. Loose remarks and wrong claims bring down credibility irretrievably. Hence, the preparation must be very thorough and you are expected to be as well informed as the JSM are with the good offices of their trading companies.

One has to be cautious during the dinners hosted by them and not blurt out the stand you are likely to take during negotiations, which will be conveyed to their leader immediately, putting you at a great disadvantage during the formal negotiations the next morning.

Japanese decision making is slow as all the stakeholders and levels involved in negotiations are consulted. They try to achieve a consensus through this long drawn process. This gives them the advantage of drawing on the expectations of all the stakeholders, plus the experience of all rungs of managements in their hierarchy, who are closest to the shop floor or the customer. This ensures that all the stakeholders involved in a negotiation iron out their differences before coming to the final sessions. The reverse of this trait is that they will not respond on the spot to a new compromise suggested during the negotiations, but will do so only after having all their stakeholders on board.

This is time-consuming but once a common stand is finally decided amongst them, they stick to it. However, this is not so with the Indian negotiators in a multi-party consortium negotiation, which is easily exploited by the opposite party.

MMTC had to manage a lot of shadow boxing between all players to finally take an agreed stand with Japan about the basket of high and low grade lumps and fines we could spare for Japan at certain prices. Gruelling negotiations took place throughout the year with all the suppliers. Our last meeting in Tokyo in my hotel room would go till 3am in the small hours to hammer out a final agreement amongst us before we met the Japanese the next morning.

It is very difficult to create a new Japanese customer but if you are able to do so because of sustained performance, competitors will find it difficult to dislodge you as the Japanese are conservative buyers and do not like changing suppliers unnecessarily. Commercial negotiators and diplomats will benefit by adjusting their negotiation style to the Japanese conservative character and culture.

In Japan, the spirit of the contract matters more than the letter of the contract. You are expected to deliver as per the spirit of the contract.

The details are discussed by the subject matter experts. When they invite you after the negotiations to meet their very senior officials, do not discuss the details. At that level, they expect you to talk like a diplomat in very broad terms.

Despite differences in the cultures and background of people, they are all human beings having the same feelings and emotions as you and I have. Your body language tells a person of the other nationality whether they consider you a reliable business partner. Body language transcends even differences in language.

Talk about giving special attention to differences in cultures while negotiating with the foreigners is a little overstated. It is better to focus on convergence than divergence. I think that the best course for Indian businessmen is to be their natural selves, honest and unselfish when they meet foreign prospects.

Role of our Embassy in Japan

As a normal practice, we met with the Indian ambassador and the concerned commercial diplomats to brief them before and after the annual negotiations in Tokyo. Best of social courtesy was accorded to us by the ambassador and others in their offices and homes. For the rest of the time, however, we were on our own. Our diplomats could not have joined in negotiations.

However, our commercial diplomats can do the following: keep regular social contact with senior officials of the JSM and the concerned government officials to know their buying intentions, watch activities of our competitors, assess supply and demand, follow activities and strategy in Europe, anticipate likely price they might pay, which competitor they are trying to break to bring down the price, and changes in the stance and policy of their government, etc. They can convey their assessment to MMTC, just as the Japanese trading companies do for the JSMs. After all, Iron ore is the major export of India to Japan. A similar strategy could be adopted by other embassies for other major exports or imports of India.

Basics of Negotiations

Let me now share with you the lessons and guidelines I have deduced from my experience of negotiations:

- Your objective must be framed in the context of your ground realities.
- Your perception of the objective of the opposite party seen in the context of their ground realities.
- How far can you compromise keeping in view your main objective? Write down in a few words what is the minimum you want to achieve in case of a compromise beyond which you will be ready to walk out.
- How far do you think the opposite party will be ready to compromise keeping in mind their main objective? Write down in a few words what is the maximum the opposite party would be ready to concede, beyond which it would be ready to walk out.
- What can be the acceptable compromise whereby both the parties gain and proclaim victory to their respective constituencies? Out of box thinking can help in developing such alternatives to create value.
- Offer a face saving device to the opposite party for the compromise, keeping in mind the psyche of the constituency they have to satisfy. Have your face saving device ready to satisfy your own constituency.
- Preparation for the negotiations should start by being the devil's advocate and working out all the arguments the opposite party can bring up to make a formidable

case against you. This is like preparation of the brief of the lawyer of the opposite party.

- Then prepare your own case in such a way that it can be a brief for your own lawyer providing him with all the sound arguments why claims of the opposite party (as given in the brief of the lawyer of the opposite party) are not justifiable or fair. This is the best preparation that you can do before your negotiations commence.
- During negotiations, start by laying on the table your full claim with justification and request for the ideal outcome you would like to achieve. No compromise should be offered at this stage. The opposite party is likely to do the same. If you start with a compromise, you will miss the opportunity of achieving the best.
- As the negotiation progresses, compromises may have to be considered. Ultimately, most agreements involve a compromise but one must ensure that the compromise is in the right direction and moves you closer to your main objective. But if you offer a compromise right in the beginning, you miss the chance of achieving the ideal outcome. Of course, you cannot open all your cards at one go; you have to do it one by one, depending on similar response from the other party.
- Adopt a comfortable posture in your seat and put the other party at ease.
- Humour helps. During the iron ore negotiations with Japan, it was humour that helped us to ease the situation originating from the previous year's tense negotiations. The message of their lifting the full quota of high grade Bailadila ores needed by them, while lifting a much smaller quantity of our low grade ores needed by us, was also conveyed through a joke about a drunkard who over-consumed the brandy and under-consumed the medicine, recommended by the doctor. The joke did the

rounds of all the seven JSM right up to their Managing Directors and helped to create a very friendly atmosphere for negotiations with Japan for the next five years of my tenure. It also sent a very sensitive message about their under lifting of our low grade ores to Japan in a light and pleasing manner, which was enjoyed even by their top brass. From then on, their lifting of low grade ores was, by and large, as per agreed schedule.

- The other thing that really helps to put the other party at ease is to genuinely try to understand their concerns and accommodate them to the extent possible, without sacrificing your main objective. A right balance between the accommodation to the concerns of the other party and a firmness to watch your own interests is the key.
- Try to understand the deep motives of the opposite party by getting into their skin. Forget your laborious preparation and be ready to learn during the negotiations. Listen carefully and watch the body language of the opposite party. Try to address their concerns. Empathy is very important. But do tell them your concerns. If you have been accommodating, the other party is likely to reciprocate. But if you are ready to yield too much too soon and too easily, they are likely to take undue advantage. You need the right balance of accommodation and firmness to achieve your objective.
- Translate for the other party the apparent advantages they are ceding to you in the negotiations into their own benefits. It is difficult but not impossible. For instance, if the opposite party agrees to concede higher price for the product you are selling, tell them how the upgraded quality and service you will give in return shall more than compensate them for the disadvantage of their paying higher price to you.

- Respect and treat the other party at an equal level.
- Be fair to the other party; they too are likely to respond. Bring in some objective and external standard of the industry to provide a common measure of fairness acceptable to both the parties, as done by Japan during the iron ore negotiations.
- Never try to outsmart the other party; you may win once but you will lose a friend permanently.
- Good negotiators always incorporate the execution of the decisions of negotiations in the agreement itself; they ensure not to concede anything which cannot be implemented at either side. Most of all, they follow through to ensure that the agreement is fully implemented on both the sides.
- They ensure to sell the agreement arrived at to their home constituency and leave enough on the table for the other side to sell the agreement to their constituency.

Organisational Negotiation Competence

When many persons in an organisation are adept at negotiations, the organisation itself becomes proficient in this art. However, good negotiators have to leave because of retirement, and change of job or assignment. The skills of negotiations get destroyed or transferred in the process. Therefore, there has to be a method to store in a knowledge bank the negotiation experiences, skills and learning. These can then be easily retrieved by the new negotiators, and made applicable in similar situations to avoid inventing the wheel again.

Every negotiation has to be viewed as a process and not as an individual event. The process can be divided into stages and we can learn to become progressively better at each stage like: pre-negotiation, preparation, the actual negotiation, concluding the deals, and its acceptance by the stakeholders of the negotiating parties, learning from negotiations and storing in a knowledge bank and their easy retrieval.

We can also become better at all other steps mentioned above under the caption *Basics of Negotiations.* These steps would enable the organisations and individuals to become better negotiators.

A negotiation is an opportunity to forge a new relationship and partnership and not merely a good agreement. It is not a tug of war where one party wins and the other loses, except perhaps in a simple distributive deal where one may not have to deal with the same party again like the sale of a house; both parties must win for the agreement to be durable. Try to increase the size of the cake so that both can have more. This is important and easier where long term relations matter and you want to create life-time customers, like the JSM cultivated by MMTC. In fact, most deals should be negotiated in this manner.

Much of what I have discussed above applies to all kinds of negotiations, whether they are commercial, diplomatic or of any other variety. Basic principles mentioned above remain the same as they are based on robust common sense, mutual respect and human nature.

I have looked at the role of the embassies from the perspective of an exporter, importer and investor. My personal experience is mixed. I came across some diplomats who took extraordinary interest in promoting commercial negotiations. Some even went to the extent of demanding the attention of the Indian company and even taking their officers to task if they failed to respond promptly. However, this was more of an exception than a rule. By and large, we carried a feeling that we should not bother the embassies in our commercial matters.

Even the firms need to know what they can expect from the commercial staff of the embassies. The Ministry of External

Affairs can devise ways to educate the business enterprises on optimum use of our commercial diplomats. Three-way mutual interaction between the firms, embassies and Ministry of External Affairs can go a long way in promoting commercial diplomacy for trade and investments.

I suggest that the Japanese trading companies are good role models for our commercial diplomats.

Export Promotion

6 Exports of Frozen Meat and Tea from India to Egypt

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Ambassador to Egypt (2005-2009)

Egypt has been a traditional trade partner of India. The following essay narrates our recent experiences with two food export products. The story of meat exports to this market parallels experience in other markets, underscoring the role of proactive local actions, and equally important, measures at home to ensure that India builds up a brand identity, not allowing unscrupulous traders seeking one-shot gain to spoil the credibility and image of Indian exports.

Background

The project involved the resumption of exports of frozen buffalo meat from India to Egypt, after this was banned from October 2002 onwards. Our target was to persuade the health and veterinary authorities of the Government of Egypt to lift the ban. The market conditions were not at all favourable, since the competitor countries had managed to establish a near-monopoly for meat imports into Egypt.

After Indian meat came to be banned in Egypt in October 2002, exports resumed in a trickle in 2005 and 2006 and then went on to become the largest Indian export item to Egypt in 2007, capturing as much as 80 percent of the local market. This case study offers useful lessons on how an embassy, working closely with the local and home government agencies and the private sector, can outmaneuver vested local interests representing competing countries, in seemingly intractable opposition.

Egypt started importing frozen Indian buffalo meat in 1998, albeit in small quantities. By 2002, Egypt's imports of meat from India had reached 30,000 tonnes (US$54mn in value terms), constituting 24 percent of Egyptian meat imports and 20 percent of India's total exports of buffalo meat worldwide. An entrenched lobby representing the meat exporters of Country X perceived that Indian meat exports, cheaper by about half, threatened to undercut their dominant status in the Egyptian market.

In October 2002, following the seizure of a consignment of Indian frozen buffalo meat exported by an Indian company, an orchestrated media campaign targeting Indian meat was launched by vested interests. It was buttressed with the allegations that the seized consignment was contaminated with Sarcosystis and that 100 percent of the buffalos in Asia were infected. The Egyptian government banned the import of frozen buffalo meat from India for one year. As it turned out, Indian meat was shut out from the Egyptian market till the second half of 2006.

The Challenge and Goals

The immediate challenge was to re-establish our export credibility in terms of quality standards. In the medium-term, the challenge was to overcome the near-dominant position enjoyed by one competitor country. The Embassy's goals were to get the suspension on import of Indian meat lifted, to get the Egyptian authorities to visit India and certify designated abattoirs. It was realised that rather than angry protests a quieter, patient approach with the government authorities in Egypt was likely to ensure results. Alongside, a publicity campaign was necessary to rebut allegations and remove doubts in the public perception about the hygienic and health standards of Indian meat imports.

The Mission's Actions

The Mission's response was at three levels: the local media and through it the Egyptian consumer; the host authorities in Egypt; and the home authorities/agencies in India. The cooperation of the home authorities, mainly the Agricultural Products Export Development Authority (APEDA) and the Ministry of Agriculture, was enlisted to mount the Embassy's publicity campaign to dispel misperceptions about Indian meat.

The Media: We engaged the local media through press conferences and press releases that were designed both to disseminate information and rebut allegations. The Embassy utilised many occasions for media-projection and sensitising the Egyptian public to the fact that India was already exporting meat to more than 50 countries, many of them in the Gulf and West Asia. Price-competitiveness was an obvious 'plus' in the campaign for it enabled the Mission to make the point indirectly that the local meat importers and the foreign country concerned were acting in concert to protect their interests and resorting to unfair practices to prevent Egyptian consumers from receiving healthy, high quality, and cheaper Indian meat. When a few local journalists continued to dispute the facts, the Embassy took up these reports with the senior editorial staff of the concerned newspapers, with detailed facts and figures. This sometimes had the effect of alerting editors to the bias displayed by some of their journalists, who were then restrained.

We worked to develop a local lobby in favour of Indian meat, and the press began to carry stories questioning the discriminatory conditions faced by Indian meat, noting that India was exporting meat to other countries in rather similar conditions. Around March 2006, the press began to speak of the 'meat mafia' of a foreign country, who were intent on maintaining a monopoly in the market. The situation also changed as that country was no longer in a position to supply meat in large quantities, as earlier, at competitive prices.

The Government: The first involved sustained interaction with local government authorities was held in 2003, primarily to acquaint them with information on the Indian supply infrastructure, the abattoirs, the government controls and standards, and the general relating to Indian meat exports. Besides the meetings held at operational levels, the Ambassador met with senior functionaries, including the Minister of Agriculture, the Minister of Trade & Industry and finally the Prime Minister. After considerable lobbying, the Prime Minister of Egypt tasked a high level inter-ministerial delegation to visit India. The delegation travelled to India on August 16-23, 2003, inspected three abattoirs in three states, and met with the Chairman of the Lok Sabha (Lower House of the Indian Parliament) Committee on Health and Population, and experts from the ministries of Health and Agriculture, and APEDA.

By way of follow-up, the Embassy cultivated and remained engaged with the Egyptian Veterinary Authority experts, and benefited from their advice and suggestions. The Embassy encouraged a visit to Egypt by the Chairman of Indian Meat and Livestock Exporters Association in March 2004 and arranged for him meetings with government officials and the meat traders. We also gave considerable local publicity to this visit.

The Egyptian authorities had still to be coaxed to take the next step in permitting import of Indian meat. After several interventions by the Embassy, a team led by the Head of the Veterinary Quarantine visited three abattoirs in India in September 2005 and reported favourably. This provided the handle for a letter from the Ambassador to the Minister for Agriculture of Egypt in December 2005, urging the issue of the government notification that would permit meat procurement from India.

Following these demarches, the General Authority for Veterinary Services issued a notification in January 2006 that permitted import of meat from India subject to certain stipulations. Although the conditions could be held to be discriminatory (in terms of the age of animals that could be used, a requirement for visits by a team of veterinary doctors to inspect the slaughter and packing of each consignment, etc. which were not required for meat sourced from other countries), the Embassy opted not to press the issue, and to allow the trade to stabilise. It was also felt that stringent conditions would serve a purpose by keeping Indian exporters under scrutiny. Teams of veterinary doctors from Egypt started visiting Indian abattoirs for certifying meat consignments from mid-2006.

Over time, the smooth operation of this process, and the Embassy's continuing monitoring of this issue, succeeded in building up confidence with the local government authorities. In few instances when allegations were made against Indian meat, the government authorities approached the Embassy for information and used this to rebut unfavourable press reports. This developed into a two-way sharing of information. In a recent instance, the local meat mafia circulated a notification from a municipality in Abu Dhabi to the effect that it had banned import of Indian meat. Prompt enquiries revealed that the case related to sheep meat, and that too not to the meat itself but to the smell of a common disinfectant in one of the packing cases. This information was promptly shared with local authorities.

APEDA, the Ministry of Agriculture and other Indian entities concerned extended considerable assistance to the Embassy's campaign. APEDA was advised to institute a special regime of inspections and close monitoring for meat exports to Egypt. Indian meat export companies also maintained constant contact with the Embassy. The Embassy impressed upon the latter the importance of adhering to quality standards and that unhealthy cutthroat competition amongst Indian exporters themselves would be counter-productive.

Outcomes

After being denied the Egyptian market between 2002 and the first half of 2006, Indian meat now dominates the market. Local industry sources estimated the quantum of Indian meat exports to Egypt in 2007-08 at 120,000 tonnes valued at nearly US$250mn. While the previous foreign supplier earlier had a virtual monopoly of the meat market, India now provides about 80 percent of the total. This has made Egypt the largest market for Indian meat, surpassing Malaysia. Given the growth in demand, the market for Indian exporters could easily be worth US$500mn within the next two years. The Embassy, APEDA and Indian meat exporters will have to remain vigilant, to ensure that unscrupulous exporters do not again spoil the market for Indian meat by supplying sub-standard meat. However, with the dominance now achieved by Indian meat, and alternatives being highly expensive and scarce, it is less likely that a single bad consignment from one exporter can anymore result in a blanket ban on all Indian meat.

The experience of increasing Indian's meat exports to Egypt formed a part of the rapid increase in bilateral economic exchanges in the past three years. Bilateral trade is heavily aligned in India's favour if petroleum exports from Egypt were to be excluded. Meat exports form a considerable portion of total exports from India to Egypt.

Lessons

The case demonstrated that an approach informed by perseverance, collaboration, and cooperation with the appropriate entities in both India and the host country pays off eventually. The important opening was provided by the deputation of technical experts to India for assessing facilities and procedures of the slaughter houses, followed by approaches at the political level to obtain a political decision for resumption of meat exports from India. Simultaneously, there was need for creating awareness in the Egyptian public about the quality of Indian meat, price advantage and the fact that Indian meat was already being exported to many countries in the region. APEDA's responsiveness and support deserve special mention in the success of this case.

Tea Exports to Egypt

The experience relating to efforts for resumption of tea exports from India to Egypt during the two-year period 2005-2007 showed how the 'meat experience' was 'transportable' and could be replicated within the same country. It might provide a useful example of how an embassy could identify an opportunity, encourage the key actors to play their part, network with extensive contacts and achieve demonstrable success. The target was the tea-drinking public of Egypt, with an annual tea consumption of 65-70 million kg (close to one kg per capita). The import of Indian tea to Egypt had declined to an insignificant trickle of 54,000 kg in 2004-2005, from the high of the early-80s when Indian tea had accounted for almost

60 percent of Egyptian tea imports. Egypt's adhesion to Common Market for Eastern and Southern Africa (COMESA) in 1998-99 deprived Indian tea of the local market, owing to the high duty rate of 30 percent for tea from non-COMESA countries, compared to duty-free imports from Kenya (a COMESA member). Egypt's July 2004 economic reforms and the reduction of custom duty on tea originating from non-COMESA countries to five percent (part of an overall of custom duty rationalisation) provided an opportunity for Indian exporters to re-establish themselves.

The Dubai Office of the Tea Board of India and the Embassy organised visits by several delegations of tea exporters from India, beginning in September 2005, to meet Egyptian tea importers and distributors. Each visit was utilised to organise a buyer-seller meet, with extensive publicity and a tea-tasting for the public. The Embassy also encouraged the Tea Board of India to participate in exhibitions in Cairo during the period 2005-2007. We campaigned aggressively with the public sector companies, which act as canalising agencies for import of tea and other commodities. It is estimated that about three million kgs of tea was sourced from India for the public distribution system in the second half of 2007.

The Tea Board of India and particularly its Dubai office were quick in contacting Indian companies and conveying and following up on Embassy's messages regarding pricing and quality control. Indian tea companies were advised to start a dialogue and closer interaction with traders in Cairo, as they had little knowledge of Indian tea. They were also urged to overcome the seasonality problem, to be cautious about documentation and invoicing (if these were not in order, valuation became a problem with Egyptian customs, leading to very high duty) and to reduce waste material and moisture content, as Egyptian standards are far more stringent than Indian standards.

The outcome was more than satisfactory and looks sustainable at this point in time. It has already led to a staggering increase in the export of tea from India, from 54,000 kg in 2004-2005 to more than 5 million kg in 2007. We believe that with the success in penetrating the public distribution system, such quantities can be sustained. The increased tea exports from India to Egypt provided a handsome addition to the widening trade exchanges between the two countries, as tea and frozen meat have made a welcome return.

There were valuable lessons learnt from the experience. To begin with, although the reduction in custom duties from 30 to 5 percent was advantageous, this did not automatically translate into tea exports from India; nor was the drought in Kenya a major factor. Our success came through sustained efforts, in which the Tea Board and its Dubai Office collaborated fully with the Embassy. Sustained cultivation of the public sector distribution companies in Egypt responsible for import of tea was another factor. Seeking intervention at the political level, at the appropriate time, also helped in the process.

7 Project Granite at the New International Airport in Israel

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The Project

The project involved the supply of granite for the new international airport terminal in Israel. The target was the State of Israel, specifically the company formulated to oversee the construction of the new airport. In the execution of the project, the Embassy of India in Israel worked closely with the Indian suppliers, Chemicals and Allied Products Export Promotion Council of India (CAPEXCIL), the Israeli importer and the Israel-Asia Chamber of Commerce. This project involved entry into a relatively new but highly developed market as India had established diplomatic relations with Israel a scant seven years ago, and where India's economic capabilities had not been fully demonstrated.

Background

The Embassy of India in Israel saw a great deal of opportunity in the construction of a new international airport between the cities of Tel Aviv and Jerusalem. The new airport was being constructed to replace the existing Ben Gurion International Airport at Lod due to capacity constraints in view of the increased number of international flights to and from Israel.

Planning for the construction of the airport began before 1999, while actual construction commenced from 1999, and was completed around 2005. Tenders for a number of works were floated by the state owned company (referred to here as 'airport company') responsible for the project. The Embassy arranged to have all of these circulated among apex chambers of commerce and industry and the relevant export promotion councils in India. While there was interest expressed by some organisations and companies in some contracts, the one that seemed to hold most potential for significant Indian involvement related to the supply of granite slabs and tiles for the entire indoor floor surface of the airport. This contract alone was worth tens of millions of dollars.

Initial Spadework

Before the tender for the supply of granite was floated, the Ambassador, accompanied by the Commercial Counsellor of the Mission, paid a courtesy call on the Chairman and senior project management of the 'airport company'. India's interest in the supply of material and expertise for the mega project was conveyed. Some of the areas identified were electrical fittings, wiring, lighting, air-conditioning ducts, etc. However, the company management seemed to be particularly interested in obtaining granite from India. The Ambassador offered to facilitate contact between this company and the Indian granite producers, through the CAPEXCIL.

As a result, the Embassy facilitated a visit by the architect and project managers of the Israeli company to India, through CAPEXCIL. The architect was very impressed with a particular shade of granite, a unique dark gold colour that showed depth and character, found exclusively in some quarries in Karnataka, which the architect visited. He proposed to the airport project board that this specific type of granite be utilised for the entire covered floor space in the airport. This was approved by the board, which saw the advantage of having such a unique shade of granite flooring for the new high tech international airport of Israel. A tender was then floated for the supply of this specific type of granite in the massive quantities required.

Challenges

The decision to use Indian granite in effect left out the Italian granite suppliers who had enjoyed a monopoly over the Israeli granite market, which they had zealously guarded. In reality, much of Italian supplied granite was actually of Indian origin, usually imported through an Italian company, and in some cases processed in Italy through machine-intensive methods. Consequently, before the tender was floated, the Italian granite firms in Israel working to secure the contract carried out furious lobbying. Some of them resorted to allegations about the lack of reliability of Indian producers and exporters, over on-time supply and lack of quality control.

This needed to be countered, which was carried out at different levels. The Ambassador met Minister of Trade & Industry and sensitised her about the negative lobbying against the airport granite contract going to an Indian company, also informing her about the range of Indian granite exports, both rough and polished, to different parts of the world. The issue was also pursued at a higher political level, with Deputy Prime Minister & Foreign Minister who learnt of the risk to an impending contract based on open tender that was likely to go for the first time to an Indian company. It was appreciated that the procurement of material for a high profile project from India would not only send a strong signal of reciprocity, but would be deemed as an informal offset for India's sizable imports from Israel. The Israel-Asia Chamber of Commerce and other industry associations that had worked closely with us were also mobilised to counter allegations about the lack of reliability of Indian exports by citing successful cases of commercial cooperation with India.

The strategy worked and the airport company took a decision to go in for India granite, but in deference to domestic concerns awarded the contract to an Israeli firm, M/s. Boulos, already engaged in granite imports and processing. M/s. Boulos undertook to supply the required quantities of processed granite in slab or tile form to match the schedule of construction. M/s Boulos would import raw granite blocks straight from the producer at the quarry in Karnataka and process the granite in his factory in Israel before delivery on site. What helped this arrangement was that M/s. Boulos had a good rapport with the producer of the required type of granite in Karnataka. Moreover, he could handle any complications at the Israeli end which the Indian producer or exporter might not have been able to handle.

Soon the first consignment of several blocks of raw granite was shipped to Israel. M/s. Boulos had the raw granite taken from Haifa Port to his warehouse in the Galilee area and processed through what appeared to be a highly mechanised procedure. The Embassy kept in close touch with the airport company, M/s. Boulos and the Indian producer. The Commercial Counsellor also visited M/s. Boulos' factory to see the processing and supply chain firsthand. Despite the rigours of keeping supply in tune with construction schedule at the airport and the need for quality, M/s. Boulos was able to meet its contractual obligations.

Setbacks and Resolution

In this manner, over half of the huge requirement, covering a period of a year-and-a-half was met. However, problems arose once again. The quality overseers of the project raised allegations of quality fluctuations in the supply of polished granite. One of the main complaints was inconsistency in the colour of polished granite tiles. The Embassy was notified, and an inspection of some of the latest consignments with M/s. Boulos revealed minor variations in the shade and opaqueness of the polished granite. The Indian producer and M/s. Boulos claimed that this was to be expected given the magnitude of the order and the natural variations that occur in stone in the same quarry and area. They explained that no quarry could provide exactly the same shade of granite for such a large quantity. It became clear that the Italian lobby was working again to undermine the supply from India.

As a result of the report on inconsistency, the airport company was obliged to seek alternative sources of supply beyond M/s. Boulos. Surprisingly, other suppliers were approached to make good the shortfall through similar shades and products, not necessarily from India. Once again our diplomatic machinery had to crank into high gear. This time it became more difficult to meet the management of the airport company. They were uncomfortable with reports in the press about the lack of reliability of Indian supply and wanted to avoid controversy.

The Commercial Counsellor was, however, successful in using his political contacts and this led to a meeting for the Ambassador with the Minister of Trade & Industry. The Ambassador explained the irrationality of the allegations of inconsistency of supply, as also the quality and the extent of variation. Other sources were also tapped to salvage the situation. Once again, the situation was retrieved. As a compromise, some consignments were rejected. M/s. Boulus paid some punitive contractual dues for non-timely supply. Part of the contract was also farmed out to one or two other suppliers, including those who supplied Indian origin granite processed in Italy, and who would use the same raw granite blocks from India to supply processed slabs and tiles for the airport project. But in the end, Indian granite adorned the floors of the esthetically pleasing ultra-modern new international airport of Israel.

Outcome

The end result of the exercise was not only India's award of a prestigious multi-million dollar contract for a major project for the first time in Israel but the establishment of its reputation to fulfill its supply commitments. It also paved the way for the direct export of Indian granite, both raw and processed, to Israel.

As this was a national project, the intervention of the government involved was critical. In our learning curve, the handling of this project taught us that commercial diplomacy need not be executed exclusively on formal lines but could benefit from a flexible approach involving the combination of formal and informal approaches. It also helped to mobilise business associations and key economic interlocutors to reinforce our claims of capability and delivery. It proved that persistence pays. Finally, we learnt that for diplomatic representations engaged in trade and investment promotion, keeping the macro picture in mind, i.e. the larger interests of Indian industry and its economic image, is paramount.

8 Accessing US Footwear Market: Participation in World Shoe Association Fairs

V S SESHADRI
Ambassador to Myanmar
Minister (Commerce), Washington DC (2003-2006)

Participation in trade fairs is an important and cost-effective way to gain entry into the US market. Specialised trade shows cover most products, be it furniture or apparel or home furnishings or sea food. Some are local or regional in scope, with participation limited to a few neighbouring states. Others are national in scope and attract international participation. The twice-yearly exposition by the World Shoe Association (WSA) in Las Vegas is the largest footwear exhibition in the world, with over 30,000 participants at the four day event, and footwear displayed in 2 million sq. meters of space.

For a first time exhibitor, WSA is an instant window into the US market place, though sizable business deals are struck only after the second or third participation, after contacts are firmly established. WSA fair is also a place to network and keep up with trade and fashion trends.

The following account narrates India's participation in the period from 2004-2006, when we improved our display, in terms of publicity, and the quality of display. This involved interacting with key organisations in the US footwear business, such as the National Footwear Retailers Association (NFRA), the Footwear Distributors and Retailers Association (FDRA) and the WSA management. Also covered are the issues faced, including the reluctance of some major exporters, particularly those supplying to branded stores in the US. This was educative for everyone involved including the Council of Leather Exports (CLE), the International Trade Promotion Organisation (ITPO), and the exporters, besides the Commerce Wing of the Embassy.

WSA Fair: February 2004

At the WSA Fair in February, 2004 our participation was very fragmented. There were four booths in the main venue, the Sands Convention Centre Hall under the ITPO coordination. In a separate hall, another 11exporters were exhibiting, with the CLE as the coordinator. In addition, three renowned exporters had their own stalls, far removed from the ITPO or CLE displays. A few others, who had developed contacts of their own, successfully held displays in their hotel rooms (adjacent to the WSA venue), getting select buyers with prior appointments. That also enabled them to keep their designs away from prying competitors' eyes.

Such participation, I felt, did not add to the India's brand image. The exhibitors seemed unhappy at the orders received and the contacts established. What was positive about our display, which in 2004 largely comprised men's shoes, was that the space allotted was in the hall where branded names were displayed.

As for the size of the market, US imported US$15.6bn of footwear in 2003 with China alone contributing US$10.56bn

(68 percent, much of which comprised exports by US companies with production facilities in China). Italy was a distant second (US$1.1bn) while India ranked only tenth with exports of US$109.8mn and a share of just 0.74 percent. The countries steadily expanding their market shares were China and Vietnam; India's export growth in 2003 was 14.1 percent. On the other hand, the shares of Italy, Spain and Portugal as well as Brazil, Indonesia, Thailand and Mexico were declining.

Following the fair, I conveyed the following observations to the Ministry of Commerce, CLE and ITPO:

- Our exporters did not consider themselves able to successfully compete on prices with China, which had an overwhelming presence. According to some industry experts, Indian shoe items (men's leather uppers and with leather, plastic or rubber soles), which had been fairly well received in the European market, were suited for the middle segment in US, where value addition and workmanship would be key factors. To some extent, this would mean competing with and displacing some European exports to the US, which also faced problems over the rising Euro and prohibitive manufacturing costs. This was an opportunity that we needed to pursue aggressively.
- Some exporters were selling to local companies for sale under their brand name, or by marketing under the Indian names. Both meant meeting the stringent local requirements in terms of standards, delivery schedule, etc. It was essential to imprint the Indian image in the buyer's mind for these channels to become alive and rewarding.
- CLE's marketing plan ('Focus US' programme) which had started two years earlier, had generated some results; of the 15 Indian companies taken up initially, three or four appeared to have become self-reliant (particularly those displaying in hotel rooms).

- Many participants, both under the ITPO and CLE, felt that the number of visitors was insufficient. Some felt that participation under CLE and ITPO was not the best way. CLE had to decide if a common 'Indian' location for both ITPO and the CLE would help. A robust Indian presence should help build a new image.
- The India pavilion should be attractive, larger, with better design, spotlights on the products, and better shelf display. Buyer-friendly arrangements were needed for holding discussions. This would involve higher expenditure, but it was a worthwhile investment.
- Apart from contacting buyers individually, as had been done by the consultants of CLE, some advance publicity was necessary. We could learn from the Portuguese, the Italians and the Spanish, who advertised in the trade publications, and brought out colourful brochures.
- It would also be useful to invite the editors of these publications to India, for them to see the Indian production centres, coinciding with the Indian Leather Fair in Chennai in January or in the Leather Fair held in New Delhi.

WSA Fair: August 2004

18 companies participated in a joint CLE and ITPO India pavilion with 2500 sq. ft. of display space at the August Fair that year. Certain other Indian companies continued with their independent stalls. Prior to the Fair, two mailers were sent out with colourful fliers giving participant profiles and product details, to all the major retailers, distributors, and shoe stores in the US. This became a regular feature for all fairs.

Following this event we offered the following observations:

- Compared to the February 2004 WSA this was a substantial improvement; the layout of the Indian pavilion, the design, the lighting and the display, were all better.

- Of the 18 participants, ten were first-timers. While they found the visitors' response inadequate, repeat participants received good visitors and some registered orders. The product variety was better, with some displaying ladies footwear, in addition to men's shoes, sandals and safety shoes, our mainstay.
- The Chinese, with a 70 percent market share, had more than 150 stalls in their national pavilion apart from companies participating independently. Developing countries such as Brazil (6.5 percent market share), Indonesia (4 percent), Thailand (1.8 percent) and Vietnam (3 percent), had a significantly greater presence.
- We needed to examine the reasons for a five percent decline in shoe uppers in the first half of 2004, and at the same time, vigorously promote our footwear exports. It was important to find a suitable consultant.

WSA Fair: February 2005

Our participation further improved. Our in-fair publicity was much better. CLE also offered a website featuring the Indian WSA participants and brought out a colourful brochure giving profiles of participants companies, and photographs of merchandise. This became a regular feature in all the subsequent fairs. A separate programme for small retailers was held, with our consultant's help. An important development that took place was the visit of FDRA representatives and the consultant to the India Leather Fair in Chennai in January 2005. This enabled them to have a better appreciation of the Indian leather industry and its potential.

Our assessment was as follows:

- The India Pavilion was significantly better this time, with good publicity.

- Our participation was more-broad based with two major exporters joining in.
- Our presentation for small retailers was well-attended, with major trade association personalities joining us. The retailers generally appreciated the quality of footwear but the orders were relatively small. We felt that some consolidation of orders was needed. Indian companies needed warehousing facilities or agents to supply to retailers on a piecemeal basis.
- Local experts felt that the objective at that stage was to create greater awareness of Indian products. The footwear community in the US was closely networked, and if the word went around about Indian products and quality, this would generate a lot of interest and demand.

WSA Fair: August 2005

14 of our exhibitors were repeat participants, with four new entrants. Major exporters like Liberty, Metro, and Tatas continued in the India pavilion. Product-wise, what was noteworthy this time, was an increase in the ladies and casual footwear, against the earlier preponderance of men's shoes.

A key issue that arose was the location of the stall. The CLE representative, some exhibitors, and I met the Chief Operating Officer of WSA, who showed some understanding for our concern. It appeared that some branded exhibitors, noting our emerging presence, were behind a move to shift us to a less attractive location.

We offered the following suggestions after the event:

- Our presentation was quite good as was the publicity, which included placing an advertisement at the back cover page of the fair guidebook. CLE published a two-page paid advertorial in the WSA issue of Footwear News, the most popular footwear trade publication in the US.

- The location of the pavilion became a drawback.
- Enquiries in respect of ladies footwear were promising. The export of footwear from India for the first six months of 2005 also showed a 23.15 percent rise, as against a 14.3 percent rise in 2004. Our continued participation at WSA in a regular manner with continual improvements in presentation and advertisement were no doubt responsible.
- A high official in FDRA told us that the possibility of India as an alternative source of supply to China came up for discussion. The rise in price of Chinese footwear and the revaluation of the Chinese currency (quite limited at that time) were factors influencing the thinking of the buyers. FDRA decided to ask India to make a presentation at the annual leadership conference that was held every year in April in Washington DC. FDRA, covered close to 75 percent of the US footwear trade.
- Some exhibitors proposed that since some of our exporters were now focusing exclusively on ladies footwear, it was advisable to move at least a part of the Indian pavilion to another location. We checked with the US experts and were advised that it is important to present India as a brand, and make buyers better aware of our capabilities. It was best to focus on getting a good location in the main Sands Convention Centre for the next few fairs and work on improving presentation and publicity.

WSA Fair: August 2006

In August 2006, our participation declined to only 14 exhibitors, but the positive aspect was that 13 were repeat participants. I will not refer in detail to this show since many observations were similar and the location problem remained.

An important development took place before the August 2006 fair; a high level CLE delegation made a presentation on May 04, 2006 to the FDRA in Washington DC, to some of the best-known names in the business. We arranged separate dinner and breakfast meetings for the CLE delegation with FDRA and WSA management. The object was to resolve the location issue. Those who attended the FDRA presentation, said that they were pleasantly surprised that India had a wide range of quality footwear, with supplies to so many branded stores, something, they implied, that was not reflected in the India pavilion in WSA fairs.

The WSA Fair in August 2006 was the last one I attended. We made the following suggestions after the fair:

- At the August 2006 Fair, all our booths were housed, for the first time, in Level-1 of Sands Expo. The fear among our exporters that going to Level-1 might deprive us of a strategic location was not borne out; the location was at the very entrance and almost all exporters were satisfied with the visitors' response. Our close liaison with the WSA management had clearly helped.
- Our own participation however, was not as strong as before, and out of the 12 participants, as many as eight were new. This could be because of the shift to Level-1. Three major Indian companies did not join the Indian pavilion and had their own individual booths in Level-2.
- Despite our discussion with the delegation led by the Chairman, CLE in Washington DC in May 2006, many of the bigger Indian companies exporting to the US market continued to stay away from the India pavilion, either on the ground that they already had enough orders, or because they felt their participation may not be favoured by the branded US buyers.
- Among the 12 companies that participated, a preponderant number displayed sandals and casual

footwear rather than men's and women's shoes. This appeared to convey a different image about the product mix that India can supply.

- Despite the above developments, our new marketing consultant appeared to have done a good job, since the visitors' response was quite good. The modes of display, lighting, etc., were also of a high standard.
- Keeping in view that our exports of footwear to the US rose by 11.69 percent in 2005 and by 21.22 percent during the first five months of 2006, sustained marketing would bring even more gains. It was important to consolidate and build on the growing opportunities in the US.
- At a meeting with the marketing consultant, where the Executive Director of CLE was also present, we agreed to draw up an open-ended list of 40-50 willing Indian exporters to the US who could be part of a strategic marketing plan for the next two-three year period. The identified exporters could make a commitment to a pre-agreed strategy which involved participation in future editions of WSA fairs. The goal was to ensure that at each edition of WSA we would have a minimum of 20 to 25 exhibitors. A consistent strong presence in WSA was essential to present an enduring image.

Conclusion

The broad conclusion from our marketing efforts over a three-year period through the WSA fairs brings out the following:

- The importance of trade fair participation for accessing the US market: that would also apply to other countries such as Germany and France, which also have a strong trade fair tradition;

- Need for effective pre-fair and in-fair publicity, and the importance of investing in this on a long-term basis;
- The importance of a strategic location for the country pavilion: it does happen that established business sees new entrants as a threat, and one has to work with local agencies to overcome this perception. This is done through liaison with fair organisers and other influential figures and organisations that can help;
- Elegant and innovative shelf displays, with attractive lighting and presentation: This is an old and persisting problem; and
- The constant challenge of ensuring that the country pavilion had a certain minimum number of exhibitors each time and they presented quality products and range.

A medium-term plan covering about 50 exporters would be a key move, because entering a major market needs sustained effort, and companies that are willing to invest in time and effort need both advice and mentorship. This is clearly an area where industry bodies such as CLE and our diplomatic missions have a role to play.

Projecting and building the image of India as a reputed brand underpin all the above actions. Gains on one front produce benefits in other areas, in the shape of a virtuous circle.

9 Upholding the Rule of Law

AMAR SINHA
Joint Secretary, Ministry of Commerce & Industry and in-charge of WTO and other trade issues

The episode occurred in December 2002 in an ASEAN member state. The involved parties were a Software Company from India, herein referred to as IC, and a local Bank , referred to as LC.

As the world increasingly globalises, one of the challenges increasingly confronted by the practitioners of diplomacy is how to ensure implementation of the contract in letter and spirit and contribute to the upholding of the rule of law, a *sine qua non* for successful globalisation. The reported episode posed a serious challenge to the Embassy, demanding quick and concerted action, mobilisation of local public opinion, as well as the need for reaching out to non-state partners. A simple commercial dispute had turned into a diplomatic issue due to non-respect of the contract, use of non-corporate and unethical means and, above all, due to blatant misuse of power and influence by the local company that had powerful local patrons.

Once the identity of the CEO of the local company and his antecedents became know, it was clear that efforts would only succeed if a multi-pronged strategy was adopted and this involved rallying several forces quickly, including the

Government of India (GoI), the industry associations, the media and the Indian community in the country. The mission had to ensure that it presented its case forcefully and cogently to the local authorities, including the law enforcement agencies, without in any case appearing judgmental or taking sides on the commercial dispute. Thus, the efforts were focused on neutralising the illegal police action taken at the behest of the influential local company and ensuring early release from police custody of the Indian company's CEO and Vice President. The news of the 'arrest' of the CEO of a top Indian software company led to an uproar in the media and the industry circles and the spotlight was on the mission and swift and adroit action was required. This incident has several lessons for the mission as well as the Indian industry. It is expected that as Indian service providers venture out into newer markets and gain prominence, such incidents would occur with greater frequency. Unlike supply of goods, provision of services is not easily quantifiable and thus could be source of greater commercial disputes.

In November 2000, IC had entered into a contract, by signing a letter of intent with the LC, for providing 'bank ware' product and software services and an MoU between the parties was signed in 2001 and the final agreements executed in July and August 2002. As the project progressed through initial phases, some delays crept in the project delivery. IC held that the main reason for delays were frequent demands from the LC on new requirements, without a proper analysis of what impact it had on business process, and also a lack of clear understanding of the final product desired by the LC. The genesis of the dispute lay in the fact that the project implementation had started soon after signing the MoU, even before the final agreements were in place, and not all requests for change were documented. Work progressed on the basis of good faith. However, the LC, blaming the Indian service provider for delays, decided to unilaterally terminate the contract.

In order to resolve the dispute through negotiations, the CEO of IC decided to travel in person to the headquarters of the LC on December 13, 2002. A day long meeting remained inconclusive and the LC rejected all reasonable offers and demanded a compensation of US$10mn, and the Indian executives were informed that they would not be allowed to leave the boardroom till this payment was made. It was clear use of strong-arm tactics employed by the local company, emboldened by its close working relations with the local military. The compensation/ransom being demanded was nearly 10 times the contract value of US$1.3mn. The LC was taking the law in its own hands, ignoring its contract that clearly specified that all disputes would be settled only through arbitration in a neighbouring country.

However, the LC was not willing to accept any reasonable solution, including the Indian company's offer to annul the contract and refund all payments received on that account. IC was willing to write off its losses.

Late in the evening, just before office closing time, the Cd'A at the Indian Embassy was alerted of the plight of the Indian executive through a phone call received from one of the IC's executives, who had managed to slip out of the boardroom and call his headquarters in India as well as the Indian Embassy. The guards had not noticed his mobile phone. He informed the Embassy of their captivity, 12 hours of inconclusive talks and also gave his location, requesting urgent assistance. He informed the Embassy that along with him the IC's CEO was also held hostage. Time was at a premium, as it was a Friday evening, and thus the Indian Cd'A rushed the Consular Assistant to the headquarters of the LC so that he could meet the Indian executives and ascertain facts.

Simultaneously, some of the local leaders of the community were contacted to get a background of the LC. It then became clear that the IC had not conducted proper due and diligence on the background of their clients and for reasons of commercial confidentiality (since it was the first IT contract in this country) had not even kept the Indian Embassy informed of the deal. The mission was unaware of the fact that Indian executives had been working on this deal for over six months. It was also clear that IC was not aware of the antecedents of its local partner. They had unknowingly entered into a contract with a company that was headed by a person with an unsavory local reputation. This, to a large extent, explained the tactics utilised by the LC.

The Indian Consular official was not only denied permission to meet any of the Indian entrepreneurs but also pushed and jostled and asked to leave the premises under physical threats. The Cd'A called the LC and got through to the CEO who was requested to free Indian executives and pursue dispute settlement through legal means. The CEO was not willing to listen and asked the Mission to keep off their business. This left the Mission with no choice but to approach the local authorities for assistance in having the Indians released. The Consular Assistant went to the nearest police station and sought their assistance. One police official accompanied him back to the LC headquarters, but the police official immediately changed his tune once he was met by the LC CEO.

The Mission then had no option but to lodge a formal complaint against the LC for misbehaviour, use of physical force and intimidation against the Consular Officer. Realising that further detention was untenable, the LC also lodged a counter police complaint against IC. Rather than ensuring the release of the Indians held as hostages, the LC's complaint was used by the local police as a basis for taking the Indian executives into custody for interrogation. They were put under police remand for 21 days, as per the local law.

The Mission apprised the Division Head and territorial Secretary in MEA of the situation and sought permission to lodge a strong protest with the local government at the highest level. Reports were also sent to the Ministry of Information Technology and NASSCOM in India. Senior members of the Indian community, having access to the highest quarters, were briefed along with the local and foreign media based in the capital. The attitude of the local police was negative, even though they expressed helplessness in private. The police was going by the false account of the events filed by the LC that blamed the Indian Consular Officer for being rude with the CEO of the LC.

The MEA (and the Ministry of Information Technology) monitored the situation regularly and authorised the Cd'A to take all possible measures to have the executives released. Nothing much could be done over the weekend, except arranging proper food and telephone facility to the Indians in police lock up. They also consulted local lawyers. The situation had not changed till Monday and the local foreign office was not particularly responsive. It was clear that no one was willing to take on the local mafia.

It was decided that the Indian Foreign Minister would make a call to his local counterpart and express his disappointment at the police action and request for his intervention for early release of the executives. The Mission co-ordinated this conversation and only then there were some signs of local authorities moving. The next day, the local Chief of Protocol requested an urgent meeting with the Cd'A. Without prior intimation, he also invited the CEO of the local company and his lawyer for a meeting with the Cd'A. This meeting took place in the Ministry of Foreign Affairs. The CEO kept insisting that IC owed them money which it had to refund, along with damages accrued due to delays. The Cd'A argued that the CEO cannot be a judge in this issue, as he was an involved party, nor could he unilaterally determine the quantum of damages. He was asked to settle the dispute through legal means. It was made clear to him that his methods were illegal and India sought immediate release of its citizens who have been wrongfully taken into custody. This demand was reiterated with the Chief of Protocol.

The local government, actively engaged in attracting FDI, was particularly sensitive to reports in the foreign media and was feeling the heat due to daily frontline reports appearing in influential regional and international newspapers highlighting the highhanded action of the police and the lack of the rule of law. Reports also negatively commented on the investment climate of the country concerned. The Indian media also gave extensive coverage to this unfolding drama. When asked about the basis for the arrest, the local police authorities would argue that this was not an arrest, but only preventive custody for interrogation. The conscientious police officers expressed helplessness and awaited 'orders from the top'.

Finally, in view of the adverse media publicity and growing pressure from GoI and the influential Indian community and the fact that there were no tenable grounds for police lockup in a purely commercial matter, the local government issued written orders to the law enforcement agencies for compliance. Realising that further custody was untenable, the police authorities sought bribes, but these feelers were ignored. However, to satisfy the demand of the police, the Embassy, with the approval of the MEA, also took the rare step of providing a sovereign guarantee on behalf of GoI to produce the concerned executives as and when required for further investigations. This ensured the release within seven days. Additional pressure had to be used to have the passports released from the police, which had been kept back illegally. Sensing an opportunity to extract money, several intermediaries, including local attorneys, surfaced, offering various compromise solutions at a hefty fee.

The Indian executives finally left for India after ten days. They were unwilling to stay in a hotel, and MEA permitted them to stay in the Cd'A's residence while they waited for their passport and arrangements were made for their safe travel back to India. Eventually, an arbitration proceeding in Singapore was started by the LC on January 23, 2003. This was contested by the Indian company and eventually a mutual settlement was arrived at between the parties in August 2004.

Some of the significant lessons learnt by the Mission as well as the Indian company, which are applicable to other similar cases, can be enumerated as under:

- Public-Private Partnership: There is need for missions to be accessible and trusting of Indian businesses, without taking sides in such cases. While skirting the commercial dispute, missions need to ensure that the legitimate rights of Indian businesses are upheld.
- India's Soft Power: The country in question had close political relations with India and India and Indians were held in high esteem. This episode challenged this image and was a test case for India's influence in the country to ensure that rogue elements within the establishment were curbed from taking the law into their own hands. The outcome was highly satisfactory. The incident, through false accusations levied against an IT company, had the potential of marring the growing reputation of India's IT industry, which was just entering the local market.
- Speed, Strategy, Collaborations: The Indian Mission in Jakarta acted with speed and the MEA backed its recommendations fully. The entire government machinery kicked into action, along with the industry associations. Communications were open and quick and

local hurdles assessed correctly. The media and Indian community support and back channels to the highest office formed an essential part of the successful collaborative strategy. Missions cannot be effective acting in isolation or only through government channels. The Mission acted in concert with the IC's crisis handling team, which, in turn, was rallying support from the industry associations – NASSCOM, CII and FICCI. The media was kept fully briefed. Multiple channels of communications with local government proved effective. The rare decision of providing 'sovereign guarantee' was a clincher, but it can only be used extremely selectively and when core economic interests are undermined.

- Lessons for Companies: It is important to institute a risk assessment, involving due diligence, of customers, particularly in new markets, in consultation with the Indian missions, which should be the first step. Links should be built with Indian communities abroad. This would result in clearly understanding country risks and customer risks. Missions and Indian associations should be treated as essential allies and should have back up support for dispute resolution and carry out normal functions of the company, even when the CEO is incapacitated. Good corporate media relations and strategy are essential. Importantly, companies need to shed excessive fear of competition while entering into the same market, which remains at the root of excessive confidentiality, even from the Indian missions. Usually, the market is large enough for several players, depending on their core competencies.

10 Promotion of Indian Fashion

Apoorva Srivastava
First Secretary (Press Information Culture & Education), Kathmandu
Second Secretary (Commercial & Political), Paris (2003-2006)

Paris was my first posting and would always remain close to my heart. I went there as a Language Trainee and later worked on the Political and Commercial desk for three years. I had heard a lot about French culture, especially their panache for food, fashion and films (in which India is equally strong, even if we do not market ourselves in the way we should be doing). I thought that apart from doing regular commercial functions of the Embassy, I would at least work towards promoting Indian fashion, food and film to the real connoisseurs – the French. I realised that though Indian food and Bollywood films are quite popular among the French, nobody knew about the contemporary Indian fashion scene.

After my research for a few days, I was appalled to learn that none of the Indian designers have ever shown their collection in Paris. Of course, there was Ritu Beri, whose label was bought and showcased by France Luxury Group, Jean Louis Scherrer, in 2000. But, this was an individual effort, backed by her mentor Francois Lesage, master creator and embroiderer in France. Again, due to her own efforts and contacts, Ritu Beri showcased her collection in Paris a couple of times, though not in formal fashion weeks. Later, she was able to present her fashion creations at *'la semaine de la haute couture'* in Paris in 2006.

Contacts in Paris

While I was researching the fashion industry and its working in Paris, I came across a model agent and event organiser named Mariel Gamboa. She wanted to organise a fair in Paris for European fashion designers and design houses where craftsmen from Asia and Central Europe would showcase their skills. The design houses would then outsource their work to them. It was an excellent idea, which matched our needs for better market access. I helped Mariel in contacting the right people in India. In the event, that fair never took place, because of sponsorship problems, but Mariel gave me an insider's insight into the French Fashion industry and helped us in making the right contacts. One clear positive side effect of these contacts was the fashion show passes I received, which were used to build connections with a range of people, including Indians connected with the industry and other potential allies.

I met Didier Grumbach, President of the French Fashion Design Council *(Federation Francaise de la Couture Du Prêt-a-Porter des Couturiers et des Createurs de Mode)*. They organise the Paris Fashion Week, as the apex body of the French Fashion Industry. Though Grumbach received me very cordially, yet he was forthright in declaring that he had not heard of a single Indian designer, let alone seeing his/her collection. He was not even aware that India had her own Fashion Week. He was candid in saying that while designers from other countries make a beeline to meet him, I was the first Indian – and that too from the Embassy and in no way related to the Fashion Industry – who actually sought appointment from him. I briefed him about the Fashion Design Council of India (FDCI), fashion weeks held in India and designers who had participated in other prominent fashion weeks in New York, London and Milan. He was open to the idea of Indian designers participating in Paris Fashion Week, but was very sceptical of the quality of designs.

Like many Europeans, his notion of India was of a land of *maharajas,* snake charmers and *sadhus* (not again, I thought!). He was convinced that the clothes designed by Indian designers would also be the reflection of that same ethos. I tried to dispel his misconceptions by narrating a picture of modern India. This was followed up by sending him material on India's Fashion Industry.

I then met the main buyers from big stores like Galleries Lafayette, Le Bon Marche, Printemps, Bazar de l'Hôtel de Ville, Colette, etc., and some leading fashion journalists. Thankfully, a few of the buyers and journalists were aware of the Indian fashion scene. In fact, Colette and Galleries Lafayette had sourced some clothes from a few Indian designers. All these meetings were possible due to Didier Grumbach, Mariel Gamboa and the fact that I represented the Indian Embassy. It should be added that preparing this contact list required considerable research and social entertainment at home, cultivating Mariel and several people whom she recommended. Indian cuisine played a facilitator role in this enjoyable diplomatic outreach.

Contacts in India

In parallel with the above actions, we wrote to FDCI, the apex body of fashion in India. The Embassy received a prompt and enthusiastic response, along with brochures and DVDs on the India Fashion Week from Rathi Vinay Jha, the dynamic Director General of FDCI. I passed all the material to Didier Grumbach and the others I met. Meanwhile, Rathi Vinay Jha informed us that she would be visiting Paris in February 2006 to promote the FDCI in France and requested us to fix her appointments.

In the event, I accompanied her to her appointments. Her meeting with Didier Grumbach was very successful; together we were able to convince him to visit the next edition of the Wills Lifestyle India Fashion Week in New Delhi. By that time, he had seen the videos of previous fashion weeks and was more or less *au fait* with the Indian Fashion scene. Rathi Jha also met lead buyers and fashion journalists; a good half of them agreed to visit India for the Fashion Week.

French Connection

Didier Grumbach visited India for the India Fashion Week in New Delhi, in April 2006. Needless to say, he was impressed with the collection of few designers. He invited six designers to join the prestigious *Festival International des Arts de la Mode et de la Photographie* (international fashion and photography festival), at Hyeres, in the south of France in April 2006. They were selected by him, with the help of Maria Luisa (owner and buyer of one of the most reputed stores in Paris – the Maria Luisa chain). Their designs were showcased (through Film) at the 21st edition of the Festival of Hyeres in Southern France in April 2006. The Director General of FDCI, along with the six chosen designers, attended the Festival. Impressed by the Indian designers, Didier Grumbach organised a special Indian evening, again for the first time, at the Festival. The organisers, in consultation with the Embassy, made the logistic arrangements for the Indian evening. The cognoscenti of the fashion industry received very well the collection presented by the Indian designers.

In less than six months, Didier Grumbach was a transformed man, both in his knowledge of Indian fashion and his enthusiasm. He came up with a suggestion of inviting the winners of the '*Festival International des Arts de la Mode* *et de la Photographie 2006'* to New Delhi to participate in the Wills Lifestyle India Fashion Week in September 2006. At his suggestion, the two winners of the competition Estelle Hanania (France) and Jaap Scheeren (the Netherlands) were assigned to prepare an India Fashion photo report at the India Fashion Week. This again helped the FDCI to provide a platform for its member designers to project their creativity to a global audience.

By now, the association between the French Fashion Industry and the FDCI was more or less on autopilot, needing little intervention from the Embassy. As I was the point-person for both the French and Indian organisations, I helped with logistics, visa facilitation and visit programmes. Just before leaving Paris in December 2006, I helped with the arrangements for the visit of Didier Grumbach for the India Fashion Week due to be held in March 2007. It was at this Fashion Week that he invited eminent designers, Manish Arora, Anamika Khanna and Rajesh Pratap Singh, to show at the Paris Fashion Week that was scheduled for October 2007. This was the first time Indian designers were invited to present fashion attire under their own labels; this was a considerable achievement.

Since then, it is good to learn from the FDCI and the media about the expanding Indian presence in the Fashion Industry in France. Recently, I read that 15 Indian Fashion designers have been selected to exhibit their collections at the esteemed Tranoi show at Paris in October 2008. Tranoi is a trade show where the major international buyers of designer wear meet. Interestingly, the Founder-Director of the Tranoi Fashion Trade Fair, until 2003, was the same Mariel Gamboa who helped us in making all the right contacts in the French Fashion Industry; life comes to full circle it seems.

SAARC Fashion Show

After Paris, I joined the Headquarters as Under Secretary in the SAARC Division in December 2006. The South Asian Association for Regional Cooperation (SAARC) is an association of eight countries (Afghanistan, Bangladesh, Bhutan, India, Nepal, Maldives, Pakistan and Sri Lanka). India hosted the 14th SAARC Summit in April 2007 and assumed the Chairmanship of the SAARC. The Ministry of External Affairs decided to organise a SAARC Cultural Festival during this period, as one of the joint activities for our regional group. Given the rich textile tradition of the South Asian region, the cultural festival conceived by us included an exhibition on the theme 'Textiles Traditions of South Asia', besides a sales outlet for the South Asian handicrafts and textiles and a SAARC Fashion Show.

Again, Rathi Vinay Jha became our enthusiastic supporter. We decided to invite two designers from each SAARC country to our fashion show. Part of my task was to identify the design councils in the SAARC countries, through research and advice from our missions in these countries. We found that only three countries had design councils. Elsewhere, prominent fashion designers existed in their countries, but they were the products of their individual brilliance and efforts. Our FDCI had regular contacts with the fashion councils only in Pakistan and Nepal. Our next task was to identify designers who used traditional crafts and techniques to design their outfits. This was not so difficult, as these countries had just a few designers. Since this was a first-time event, the hurdles to be overcome were considerable, but we were helped by several agencies, especially our embassies in different capitals.

The SAARC Fashion Show, entitled 'Threads of Unity', funded by the MEA, took place in New Delhi on December 07, 2007, inaugurated by the Minister of Tourism and Culture, Ambika Soni. For the first time, the event brought together renowned designers from each SAARC country, presenting indigenous crafts, embroideries and techniques for their products. Designers from Afghanistan, Bhutan and Maldives received such kind of exposure for the first time in their history. The show received overwhelming response from all the SAARC countries. Several SAARC designers urged us to provide such a platform on an annual basis.

We also discussed the formation of a South Asian Design Council to promote fashion within and outside the SAARC countries. My personal view is that official agencies should provide the kick-start in these matters, help in networking with the relevant people and, perhaps, fund the first event. Thereafter, further development should be left to the agencies and actors directly involved in the industry or services – this is the only sustainable way.

Organising both these events – from conceptualisation to implementation – was a great learning experience. I received much guidance and support from my seniors: Ambassador TCA Rangachari in Paris and Joint Secretary (SAARC), Preeti Saran, and Kheya Bhattacharya in Delhi. They gave me free hand and guided me whenever needed. One important difference in the experiences was that while in Paris we were trying to access the key world market for the Indian designers, in SAARC we were actually building a platform in India, for access for the fashion designers from our small neighbours.

11 Economic Diplomacy in the Gulf Region and Elsewhere

M P M Menon
Ambassador to UAE (1994-1998)
Ambassador to Brazil (1999-2002)

The economic diplomacy in the Gulf is quite different from other parts of the world. The experiences I had would demonstrate that they are unique. The United Arab Emirates (UAE) has remained one of the first three major destinations of Indian exports all over the world. Currently according to latest trade statistics we export more to the UAE than the US.

When I was appointed as Ambassador to the UAE, I was instructed by the Foreign Secretary that I should reach there by a particular date. The main reason was that the post had been lying vacant for seven months. The Chairman of the Indian Trade Promotion Organisation had urged the Ministry of External Affairs to send the new Ambassador immediately. An exclusive Indian trade fair was to be held in Dubai at that time. It required special efforts on the part of the Indian mission to get the Crown Prince of Dubai who is the present Ruler of Dubai and the Defence Minister of UAE. As soon as I reached Abu Dhabi, I got in touch with the royal family of Dubai in order to request the Crown Prince to inaugurate the Fair. Since I had not presented my credentials to the Ruler of the UAE, I had several problems in achieving this task. However, the ruling family agreed to this request.

After this some protocol issues came up over the initial plan for a joint inauguration with our Commerce Minister who had come from India especially for this purpose. Fortunately our Commerce Minister showed good understanding of the local scene, and the exhibition was inaugurated by the Crown Prince. That exhibition remains the only major Indian Exhibition opened by the then Crown Prince of Dubai, His Highness Sheikh Mohamed bin Rashid al Maktoum; he is the present Ruler of Dubai.

India has a prominent presence in Dubai. There are more than 100 Indian families that have large business activities in the country. One of the major duties of every Indian Ambassador is to keep the Indian business families united. Dubai is often criticised as being the place from where smuggling to India takes place. Once I accompanied a Confederation of Indian Industry (CII) delegation when they called on the Chairman of Emirates Airlines, who is an uncle of the present Ruler of Dubai. The Chairman of Emirates Airlines explained to the delegation that whether they sell 10 gm of gold or 10 kg of gold as far as they are concerned it was sale of gold. He also added that it was for the foreign aircraft to decide whether the gold should be carried in the cockpit of the aircraft or the space marked for baggage. They did not find anything objectionable in that.

Dubai has a major role to play in India's exports to not only the UAE but to other Gulf countries, Central Asian republics, Pakistan and some of East European countries. Many of the private negotiations for the deals are done in Dubai. As far as Pakistan is concerned, the bulk of their imports from India pass through Dubai. These goods are first imported to UAE and then re-exported to Pakistan. As such, when trade fairs are planned we have to take into account these special factors also. During my tenure in the UAE, two important Indian trade fairs were held. The first one in 1994 was as soon as I arrived in the UAE. The second one still stands as the biggest Indian trade fair held not only in the Gulf but the entire West Asia. This trade fair was held in December 1996. It covered an area of 10,000 square meters.

To get the participating companies in this trade fair, we did not depend entirely on India Trade Promotion Organisation (ITPO). Personal letters were sent to the CEOs of the biggest 500 companies of India. As a result of this around 300 companies participated in the fair. We had invited Indian automobile firms, including the major construction machinery enterprise Bharat Earth Movers Limited (BEML), and let me expand on that example. We had requested BEML to send their construction equipment for display in the pavilion. But, at the last minute, BEML informed us that they could not send their big machinery. The absence of heavy machinery in the Indian exhibition would have detracted from the correct image of industrial India.

To overcome this problem, I asked one of the biggest Indian businessmen in Abu Dhabi for help. He had a large stock of bulldozers, scrapers, and motor graders of BEML working in his establishment in Abu Dhabi. We persuaded him to get these machines cleaned and painted (so that they looked new) and transported to Dubai, which is 160 km from Abu Dhabi. He heeded our request and implemented it in full spirit, enabling us to project Industrial India in an effective manner. This exhibition helped India to double its exports to the UAE in the next few years.

One of the major problems we faced in promoting Indian exports was claims by the importing firms of the UAE against Indian companies. Before going to UAE, I had served as Consul General in Toronto, and one incident at the time stands out in memory. I had accompanied the Chairman of our official trade and exhibition agency, ITPO, Mahesh Prasad, when he met the President of Canadian Importers Association. Mahesh Prasad was expecting complaints against Indian companies during that meeting. Much to his surprise, Mahesh Prasad was told that India was one of the few Asian countries against which they had fewest complaints. Some of the same companies when exporting to the UAE tried a different approach. Perhaps they thought that the importers in the Gulf would not be as strict as in the North America. In the UAE, some unscrupulous exporters even sent empty packages. This created a problem for the reputation of all Indian exporters.

I had to handle an important issue as soon as I arrived in the UAE. Reaching Abu Dhabi on July 20, 1994 I had to wait for two months to present credentials since the President of the UAE was in Switzerland for his summer vacation. It was during that time there were press reports of deaths because of 'plague' in Gujarat. The UAE banned all flights to India, which affected more than 150 flights per week between India and the UAE. The UAE also refused to accept letters and parcels from India. Shipping services between both countries were also banned. This brought Indo-UAE trade to a halt, as also the movement of people, bringing business between the two countries to a standstill. I decided to bring this serious crisis to the attention of the President at my credentials ceremony.

The Chief of Protocol told me that as four other ambassadors were to present their credentials the same day, I could only get five minutes and that too should cover only pleasantries and no serious issues. But I was determined not to miss this opportunity. As soon as I entered the ceremonial hall, I said to the President that apart from usual pleasantries, I had to convey a very important matter to him concerned the very root of the Indo-UAE relations and which affected the 1.2 million strong Indian community in the UAE. I said to the

President that there was an outbreak of disease in one of the states of India, but this did not require the ban of flights and break of communication links including postal services, between the countries.

That had brought immense inconvenience to the entire Indian community. I added that as that was the first opportunity to meet the President I had to act contrary to the advice given to me. I added that normally in such circumstances it might be the US or the European countries that might impose restrictions on communications. But in this case they had not done so. It pained the Indian community to see that the UAE had imposed such a ban. I requested the President to look into this issue and restore communication between the two countries. President Sheikh Zayed listened to me carefully and told me that he would take a decision and convey to me shortly.

When I came back, to the embassy, I phoned important journalists and gave them information on my demarche. They told me that they could not publish this news unless the palace issued a statement. I told them that it was for them to decide. Next day, all the newspapers, both English and Arabic came out with what I had told the President. The US and British ambassadors after reading the reports told me that I ran the risk of being declared *persona non grata*. I told them that I would be happy to go back defending my country. After one week the Ruler of Dubai conveyed to me that the communication between two countries would resume that day. This positive and decisive step taken by the UAE government ended a crisis which had dragged on for almost two months.

I recall another unique situation where an Indian private carrier transporting Iranian dates was seized by US Navy ships, in UAE waters. At that time there was sanction against exports from Iraq. The US Navy had accused the Indian ship of visiting Iraqi port and loading dates from there, in defiance of sanctions. The ship's bill of lading was from Bandar Abbas in Iran. The

US Ambassador came to a meeting and told me that they had satellite photographs of the ship visiting Iraq. The Ambassador also told me that they could also show the photo to our Embassy in Washington.

It was the only time the US Ambassador visited my office and spent more than 90 minutes with me. I made him speak to our Foreign Secretary. The US Navy had handed over the ship to the UAE authorities with a strong complaint against the ship of violating the sanctions. The UAE Foreign Secretary called me and asked our version of the story. The UAE authorities told me that they would investigate the case in detail and inform us their decision. We were not at all hopeful of a favourable decision for us. After two weeks, the UAE Foreign Secretary informed us that they had rejected the US complaint much to our surprise.

One big problem concerning exports to the UAE was with regard to pharmaceuticals. The UAE authorities imposed restrictions on Indian pharmaceutical companies. Only those Indian pharmaceutical companies that were registered in the US or the EU plus one of the Arab countries were allowed to export to the UAE. There were prolonged negotiations between both the governments on this issue. Companies such as Ranbaxy found it easier to overcome these restrictions since they had started exports to US and EU by that time. The Embassy had to help the smaller companies that found it difficult to meet these requirements

During my tenure as Ambassador to Bahrain I had handled an interesting case that affected the Indian business community. Bahrain had over 100,000 Indians at that time. The Indian business community was upset when the Emir of Bahrain issued a decree stating that every foreign company should have a Bahraini partner to do business from a particular date. Their main worry was that the Bahraini partner would only invest certain amount, and after that he would only share the profit, making no further investment. The business community consisted of Thattai Bhatia community who migrated from Sindh, the Bohra community and the Gujarati community. They took up the case with me separately. I offered to arrange a meeting for them with the Commerce Minister, but they should go together representing the Indian business community. The law was to take effect after a year.

They went and discussed the issue with the Commerce Minister. But nothing happened for six months. Thereafter I called on Emir of Bahrain and discussed this issue. I also pointed out that there were some members of the Indian business community who have been doing business for four generations. I requested that the law should not be unfair to them, since they had contributed to the economic progress of Bahrain for 200 years. The Emir told me that he would consider my request and give a reply in one month. After a month the Emir called me and said that he had repealed the law. Even the Pakistani business community came and thanked me for this.

When I assumed the charge of Ambassador in Brazil I learnt that India's exports to Brazil were not only below those of China, Japan and South Korea, but were also less than the exports of Malaysia, Thailand and Indonesia. India did not figure at all among countries that had strong economic relations with Brazil. We identified two specific fields to be promoted, namely information technology (IT) and pharmaceuticals. We invited the Minister of Health of Brazil to visit India. There was opposition to the visit, especially instigated by multinational pharmaceutical companies. They put stories in the media that Brazil was going to get substandard medicines from India.

In spite of all this the Minister did visit India. He agreed to import pharmaceuticals from India, but only after clearing each pharmaceutical firm, subjecting them to tests by the Brazilian technical team. By the time I left there were more than 30 pharmaceutical firms of India exporting to Brazil. Indian firms like Ranbaxy started repacking them in Brazil with Portuguese labels. When the first batch of Indian medicines were launched in Brazil, I was present with the Minister on the podium. The Minister was the government party candidate for the next President. He wanted to demonstrate to the population that he was facilitating cheap medicines for the poor population. Multinational companies (MNCs) were charging them enormous price for daily medicines till then. The Minister asked the Ranbaxy representative the cost price and only allowed 15 percent profit for fixing the price in Brazil.

In 2001, we organised the biggest Indian trade fair in Latin America in Sao Paulo. When we started organising the fair we were told by everyone including ITPO that we would not get more than 100 Indian companies to participate in the fair. I wrote to the CEOs of 500 biggest Indian companies, requesting them to participate. I told them that I would personally be at the pavilion during the entire duration of the fair and would try to get them clients. As a result, more than 260 companies participated. This included pharmaceutical firms as well as IT firms, besides those dealing with consumer goods. The Indian trade fair covered an area of 5000 sq. metres. This was then the biggest Indian exhibition held in the whole of Latin America. It provided the foundation for increasing Indian exports from less than US$200mn to US$600mn in a short period. We had overtaken Indonesia, Malaysia and Thailand from the Asian region.

The visit of the Brazilian Health Minister to India was followed up with the visits of many governors of Brazilian states which paved the way for bilateral cooperation in pharmaceutical production and IT services. Our IT Minister had also visited Brazil and this was followed up by Indian IT firms that started playing a role in the Brazilian market. The leading Indian enterprise, TCS, made major headway in this respect. The President of Brazil told our IT Minister that he would advise all the governors of Brazil to learn from the progress made by India in the field of IT and should try to emulate India. As a result of these efforts, Brazilian Commerce Minister made a statement that six countries identified for expansion of economic cooperation for Brazil would be US, UK, Germany, Japan, China and India. Three years earlier India did not figure at all in Brazil's economic priorities.

My experience in Poland is also perhaps relevant, as an instance of early economic diplomacy. From 1974 to 1977, I was the First Secretary (Commercial) at the Indian Embassy in Warsaw. Those days we had 'Rupee trade agreements' with the countries of Eastern Europe, i.e. a form of barter trade. It meant that at the end of every calendar year, we used to conduct negotiations between the two countries to fix the items with quantities for export and import. We used to bargain for large import of fertilisers and copper. We also imported machine tools and exported hand tools. Poland, like the other East European countries, was interested in import of bulk tea. We were keen to export package tea, which represented higher value addition for us. In the Poznan International Trade Fair, I used the argument that unless Poland imported package tea from us we would not release any quota of bulk tea.

Similarly, if Poland did not take our hand tools we would not import their textile machinery or machine tools. Once we used the argument that if Poland did not accept the items we wanted to export, we would consider placing their export companies on our blacklist.

One year, a new Indian textile company sought participation in the Poznan International Trade Fair. I gave them space in our pavilion. They wanted to export rayon textiles to Poland. My Ambassador cautioned me for giving space in our pavilion to an unknown company. My belief was that we would be adding a new item of export to Poland and should therefore welcome this company. They obtained their first order of ₹50mn worth of rayon (about US$2mn at the time). Next year, that increased to ₹100mn and in the following year it rose to ₹250mn. Years later, this company, known as VIMAL, became Reliance Textiles – India's largest commercial enterprise.

Investments and Economic Aid

12

Investing in the Pharmaceutical Industry in Brazil

S SWAMINATHAN
Ambassador of India, Iceland
Deputy Chief of Mission, Indian Embassy, Brasilia (2002-2006)
Consul General of India, Sao Paulo (2006-2008)

Brazil is a large importer of pharmaceutical products, including generics, finished formulations, bulk drugs and active pharmaceutical ingredients (APIs). The Brazilian pharma market is estimated at around US$12bn, of which imports account for over US$5bn. The pharma sector in Brazil thus was a market ripe for Indian investment. The opportunity was first utilised by Cellofarm, the wholly-owned subsidiary of Strides Arcolab of India, which saw the immense potential for Indian pharma products in Brazil. They realised that their best strategy would be to set up manufacturing facilities in Brazil, which led to their decision to set up a production facility in Brazil. Strides Arcolab, listed both on the Bombay Stock Exchange and the National Stock Exchange of India, is one of India's major exporters of branded generic pharmaceutical products. Strides have 14 manufacturing plants spread across Asia, Europe and Latin America.

Their goal was to manufacture sterile injections and antibiotic orals. This project was planned in the City of

Campos dos Goytacazes in the State of Rio de Janeiro. Cellofarm Ltd., which is 100 percent owned by Strides Arcolab Ltd. of India, had planned this project.

The idea of constructing this facility in Brazil was the following:

- To set up an exclusive Carbapenem (a high-end antibiotic) sterile facility that would serve as a global manufacturing site for both Strides and Cellofarm. As per Brazil Ministry of Health (MoH) regulations, Carbapenem manufacturing has to take place in a separate facility and Strides India, which did not have an exclusive penem facility, decided to put this project up in Brazil, which also constitutes a huge captive market for carbapenem products.
- It was also decided to put up a facility for production of penicillin sterile and oral facility, as the capacity of Strides Arcolab Ltd. was fully occupied for more regulated markets.

The project was led by the CEO of Cellofarm, Madhusudhan. I was involved in supporting this project from its inception, first as the Deputy Chief of Mission in Brasilia and then as Consul General in Sao Paulo.

The Challenges

The CEO of Cellofarm had briefed the Mission on their company's plans and sought our assistance towards achieving smooth implementation. After a few rounds of preliminary discussions on the various elements of the project, we determined that we would need to tackle three main aspects to achieve success. These were:

- Constructing and validating the facility to international standards;
- Obtaining required permissions and clearances; and
- Financing and tax rebates.

The facility had to be built to international standards, as it would be a global manufacturing site which would meet the requirements of the US Food & Drug Administration (USFDA), Ministry of Health Regulatory Authority (MHRA), UK as well as Ministry of Health, Brazil. For addressing the international guidelines, Cellofarm took the help of Strides India, especially their technical expertise in designing a facility which would meet the above requirements.

A number of machines had to be imported, mainly from India and other countries, for building this facility.

To facilitate the obtaining of clearances, approvals and permissions of concerned authorities, we realised that the support of the Government of Rio de Janeiro and the Municipality of Campos was essential. We, therefore, met with the then Governor of Rio de Janeiro on more than one occasion to seek her assistance. We also had regular interactions with the Mayor of Campos and other senior functionaries. Our sustained efforts, combined with that of Cellofarm, together and separately, were responsible in getting the requisite permissions and approvals for commencement of construction as early as possible.

The project also needed large investments (of over US$30mn). The cost of borrowings in Brazil is unusually high. A different route had to be explored. The Mission, along with Cellofarm, initiated discussions with the development agency of Campos – FUNDECAM – to tap their resources. Our efforts were successful and the Indian company succeeded in obtaining the bulk of financing required for the project at concessional terms. The favourable intervention of the Mayor and his team, at our collective behest, also played a significant part in this achievement.

The Mission was also successful in helping Cellofarm negotiate a significant reduction in the payment of ICMS, a state-level value added tax, which is normally 17 percent in the State of Rio de Janeiro. Through our combined efforts and the tacit support of the Rio Governor, Cellofarm was able to get a significant relaxation and was required to pay only 2.55 percent ICMS. This benefit was made available for a period of 20 years from the date of sanction.

Project Execution

The entire project was executed by the local engineering team, with help from technical experts from Strides India. These technicians came for several short-term visits during the project implementation stage. There were no major setbacks during the implementation, except that there were delays in receiving some machineries.

On the Indian side, the technical and finance support from Strides Arcolab Ltd. and the support throughout the project of the Embassy and the Consulate and, on the Brazilian side, that of FUNDECAM and the Municipality of Campos and the concerned authorities of Rio de Janeiro state deserve special mention for their role in the successful implementation of the project.

The facility was successfully inaugurated in May 2007 by the Ambassador of India, Hardeep Singh Puri, and by the Mayor of Campos dos Goytacazes. "After due validation process, as required by the guidelines of the Brazilian Ministry of Health, we have started selling the production from the facility. The production from this facility enables us (Cellofarm) to be cost-competitive as we will pay reduced import duties, save on ICMS, and also reduce the risk of exchange fluctuation", according to the CEO of Cellofarm.

Impact

The CEO of Cellofarm adds: "We expect to sell around US$40mn just out of the production from this facility in the very first year of its operation. The sales from the production out of this facility would increase our gross margins considerably to make the company more competitive and thereby increase its market share. This also would help in import substitution and save foreign exchange for Brazil besides providing local job opportunities".

It is important to note that a major portion of Cellofarm's investment would be recovered in the first couple of years of production, a measure of their successful penetration of the market.

The execution of the project provided an interesting insight into the cultural differences, be it in terms of working style, food habits, language differences, even socialising habits as well some differences in the regulations of the Ministry of Health of Brazil *vis-à-vis* Indian and other International regulations.

CEO Madhusudhan described it thus:

"The local team will do one job at a time but very methodically and using the proper gadgets applicable. They are not used to doing multiple tasks at the same time in whatever manner to solve a problem".

"Communication takes a longer time than normal due to language issues. One needs to always be very friendly and polite in addressing people, cannot shout at people and one has to be patient in dealing with the local team".

"People at all levels must be treated in friendly and respectful way. Irrespective of the job they do, their dignity of labour needs to be understood and respected".

The main learning experiences for India from the execution of this project are as follows:

- How to leverage Brazilian resources in terms of financing, fiscal benefits and technical resources to complete a project of this size and become cost-competitive in this market.

- Successfully bringing together Indian and Brazilian staff (culturally very different) to complete the project.
- Cellofarm's experience in adapting Indian technical expertise, including machines, to suit Brazilian conditions and achieve the target successfully.

Cellofarm, especially their CEO, has on several occasions shared their experiences as above with other Indian companies, often on our request and independently, and helped Indian companies in their strategy preparation for this market. This has been a valuable input for these companies, who can and use this shared experience towards achieving a successful stint in Brazil.

This project has opened the door for other companies. Pharmaceutical companies like Zydus Cadila and Glenmark have followed the lead of Cellofarm. Zydus Cadila has bought over the Brazilian pharmaceutical company Nikkho. Glenmark has acquired land in Sao Paulo for the construction of a new pharma production plant.

An Indian company in the area of electrical and electrical machineries has successfully concluded funding arrangement with FUNDECAM for establishing a factory in Campos.

FUNDECAM, after their successful maiden project with an Indian company in pharma products, followed by the other covering electrical products, decided to encourage more Indian entrepreneurs prospecting the Brazilian market and get them to look at Campos as their investment destination. They have decided to provide a competitive financing package and help such investors with clearances and approvals. Thus, India-Brazil investments are set to move forward, overcoming both the geographic distance and the past lack of mutual familiarity.

13

Promoting UAE Investments into India: The Role of the Indian Embassy

TALMIZ AHMAD
Ambassador to Saudi Arabia (Riyadh)
Ambassador to Oman (2003-04) and UAE (2007-10)

The oil boom of the 1970s fundamentally transformed the economic, social and cultural environment of the six countries of the Gulf Cooperation Council (GCC) – Saudi Arabia, Kuwait, Bahrain, Qatar, UAE and Oman. At one stroke, these counties, that till then had a mere subsistence existence, now acquired the financial resources to significantly upgrade their infrastructure, put in place a welfare system for their nationals and enable their hydrocarbon and petrochemical sectors to attain world standards. In short, from mere suppliers of cheap oil to fuel the economic growth of the West, these oil producing countries were now able to ensure that substantial oil revenues were ploughed back into their own economies.

Now, nearly 40 years later, the impact of these oil revenues is obvious: the extensive desert wastes of the Arabian Peninsula are dotted with glittering modern cities supported by infrastructure of international standard and a welfare system that would be the envy of the most affluent countries in the world. Multi-billion dollar projects in the refinery and petrochemical sectors, as also in the non-oil sectors, have ensured that these countries are not just exporting crude oil but are also obtaining value-added benefits.

The present value of oil and gas reserves of the GCC is estimated at US$18.3tr, larger than the 2008 gross domestic product (GDP) of the US. Till recently, most of the surplus resources generated in the GCC countries were maintained in Western banks and financial institutions. From time to time, the international media used to carry reports of spectacular purchases of luxury hotels and prestigious properties by these 'Arab' funds.

Now the Gulf situation is once again poised for another dramatic change. A few years ago, the price of oil had been extremely volatile. It went up from US$40 per barrel in 2004 to US$75 in 2006; it crossed US$100 in February 2008, and by the middle of the year it had touched US$140 per barrel. However, soon after that, it was affected by the global economic downturn and, in early 2009 it reached a bottom of US$30 per barrel; after that it started moving upwards and for most of 2009 it stabilised at US$75 per barrel.

The last six years have generated oil revenues that have no precedent in global economic history: it is estimated that as a result of these price increases, before the economic downturn there was an *additional* transfer of US$3tr to oil producers, the largest wealth transfer on record. The GCC states earned US$364bn from oil in 2007 and were projected to earn close to US$1.36tr in oil revenue in 2008 and 2009 (US$636bn in 2008 and US$657bn in 2009). The combined oil income of the GCC countries is expected to reach US$1tr annually by 2030 at current oil prices.

During the period of high oil prices, there was unprecedented activity in regard to purchases of economic assets globally by the 'sovereign wealth funds' of the Gulf countries. Foreign assets purchased by the GCC over six years till 2006, were valued at US$400bn. High profile deals that made news about once or twice a year earlier were then taking place on a weekly basis, so much so that in some quarters alarm bells rang about non-transparent character of these funds and the possible 'strategic' character of the investments being made by the governments of the Gulf countries. The total foreign assets of the GCC countries were estimated at US$2tr in 2008, up 11 percent to from US$1.8tr in 2007, on the back of record oil revenues and economic growth.

The global economic downturn, which commenced in the West from September 2008 onwards, had reverberations across the world, including the UAE. The most dramatic impact was felt in Dubai which was then in the process of developing a world class infrastructure to realise its aspirations to become a global financial centre and a world-standard services provider. A large number of high profile projects have been put on hold, with a good number of professionals and blue-collar workers losing their jobs. The impact in Abu Dhabi was less drastic and, very quickly, the stabilisation of oil prices at US$70-75 per barrel ensured healthy revenues which funded its high profile infrastructure, energy and cultural projects.

There is every expectation in the Gulf that the green shoots of economic recovery will emerge from early 2011, and even Dubai will come out of the present crisis by 2012 and reassert its claims as a global financial centre.

India's Economic Growth

Alongside these changes in the Gulf, the Indian economy too has witnessed some dramatic transformations over the last few years. After a steady low-key growth of about four percent per annum till the early 1990s, India, from the late 1990s, started generating growth rates of about nine percent per annum, primarily due to high growth in the services sector. Indeed, certain sectors of the Indian economy saw growth rates of over 10-12 percent. The Indian economy was also affected by the global downturn, but recovery was swift and growth rates of over six percent were recorded amidst global gloom. Higher growth rates of well over eight percent have been obtained in 2010.

Today, the Indian government is committed to maintaining growth rates of 8-10 percent every year till 2032 through liberalised policies pursued in tandem with robust governmental intervention in support of the weaker strata of the population. Such an approach is seen as the only way to pull millions of people out of the poverty trap, and, year upon year, expand the middle class base so that the Indian potential is fully harnessed and India is able to play its rightful role in the regional and world affairs.

In order to ensure that the projected growth targets are realised, the government has identified two principal areas where significant development is required and ambitious targets have to be met: energy security and infrastructure development. Both of these sectors require substantial investments from abroad. Thus, promotion of investments into India is critical to ensuring the growth rates to which India is committed so that its economic, social and political ambitions are realised.

In regard to energy security, it is clear that to sustain high growth rates year upon year, India will see a massive increase in its energy consumption, with 80-85 percent of its oil requirements being met from foreign sources, even as every effort is made (through import of technology and participation of foreign companies) to develop the domestic potential.

Specifically, Indian's energy security is critically dependent on the development of its power sector: the Planning Commission has proposed that the power capacity of the country, at present estimated at 160,000 MW, should increase 7-8 times by 2032. This will be achieved through a robust effort at national, regional and global levels that will include setting up of multi-billion dollar power projects at home, development of clean coal technologies, new oil and gas exploration and development activity onshore and offshore, and, above all, pursuit of major transnational projects, such as gas pipelines, power transmission lines and long-term LNG contracts that will provide India with the fuel required for its power sector.

With regard to infrastructure requirements, the Planning Commission of India has set out a fairly detailed wish-list. It is envisaged that investment of over US$500bn is required over the next five years for India's infrastructure development, covering railways, roadways, port development, airports, etc. More than half of these investments will have to be met from external sources.

It is in this context that the Indian Embassy in Abu Dhabi identified the UAE, with its large investible surplus of over US$1tr, as a major partner in sustaining India's growth rates through investments in the Indian economy, particularly in the energy and infrastructure sectors. At this time, the UAE too, is looking at diversifying its investment eastwards to the principal countries of Asia, such as India, China, Malaysia and Indonesia. In line with this approach, a number of major UAE corporations in the construction, infrastructure and industrial sectors are already active in India and other Asian countries.

Role of the Indian Embassy

The UAE has a large number of financial institutions and corporations that are in a position to invest in India. Principal among these are: the Abu Dhabi Investment Authority (ADIA), the Abu Dhabi Investment Council (ADIC), the International

Petroleum Investment Company (IPIC), and a host of other private investment bodies. ADIA, with assets of over half a trillion dollars, is the world's largest institutional investor, while IPIC focuses on hydrocarbon and petrochemical projects.

Having invested US$60bn in Asia during the period 2002-2006, the Gulf countries have already signaled their intention to diversify their investments and move towards Asia. About 11 percent of FDI from the Gulf has gone to Asia so far. However, it is expected that by 2020 it could nearly double to 20 percent, while the share of West Asian capital flowing to the West would fall to about 50 percent of the total, from the current share of about 75 percent. ADIA aims to have 8-12 percent of its estimated US$500bn-plus fund invested in the emerging market stocks, with Asia a key destination.

Investments in India can take place in two ways: (i) direct investments in projects through equity participation; and (ii) investment in 'funds', usually mutual funds, that will in turn invest in a broad range of economic activity. The UAE has organisations that are capable of meeting both these requirements, though, as of now, they would prefer to invest in funds.

The Embassy's approach with regard to investment promotion consisted of the following steps. The first step has been to expand the Embassy's knowledge-base in regard to Emirati institutions, financial and corporate, that could be approached with specific proposals. This includes acquiring knowledge of the structure of the organisation and identification of principal senior executives, with their contact details (telephone and e-mail), and their specific areas of interest.

The second step has been the establishment of personal contact with these Emirati organisations at different levels: this is particularly important because business activity in the Gulf is primarily based on personal contact rather than through impersonal correspondence. These personal interactions are utilised to convey India's principal achievements, important success stories and the main areas of interest for future investment.

The Embassy has also befriended organisations and individuals who are investment advisers: since multi-million dollar investments are involved, such advisers play an important role in guiding the Indian company seeking investment with regard to strengths (and weaknesses) of its proposal, how the proposal could be improved, and above all, the organisations and individuals who are likely to be interested in the proposal. The latter is particularly important because the UAE has a large number of 'high net-worth' individuals who are active in the investments field but prefer anonymity for themselves and depend on investment advisers to take care of their investment portfolios.

After this, Indian organisations have been encouraged to visit the UAE with specific proposals either in the shape of projects or funds. Before the visit, a brief note on the proposal is circulated by the Embassy to the organisations identified and appointments are made for the visiting Indian teams.

After the Indian team comes to the UAE, it is provided a detailed briefing by the Ambassador on the economic and investment scenario and informed about the organisations/ individuals that it would be meeting.

It is our experience that UAE organisations prefer to deal with specific proposals which they can evaluate to decide whether they are interested in supporting them or not. The Indian side is told very clearly that it should not expect deals to be finalised after one meeting: since these are major investment proposals going into several hundred millions of dollars, the investing organisations do need time to conduct their own due diligence in respect of the proposal itself as also the parties backing it.

We also emphasise to Indian companies that in their interactions with the Emirati side they should be open and transparent and not indulge in unnecessary hype in respect of their proposals. Since the UAE due diligence is quite intense, transparency in all aspects of the proposal is particularly important. They should also recognise that a large number of organisations from across the world are seeking to interact with these Emirati companies and there is fierce competition for the attention of the senior executives concerned. Hence, the more detailed the proposal and more transparent the approach, the greater is the likelihood of success. It should also be kept in mind that many of these Emirati organisations are relative new-comers when it comes to investing in India and other parts of Asia and, hence, they may have a certain knowledge-gap and an initial caution that would need to be effectively addressed.

In order to complete the investment picture, it is important to note its 'political' dimension. Multi-million dollar investments by companies of one country into projects in another country have an obvious strategic value in that they bind the countries together on long-term basis, giving each side a direct vested interest in the success and prosperity of the other. The strategic value of such investments is further enhanced when they are made in sectors of national importance, such as energy and infrastructure, since they commit the investing country to the long-term national interest of the recipient country. A multiplicity of such investments constitutes the sinews of a 'strategic partnership' which qualitatively transforms the bilateral relationship.

This strategic aspect of bilateral investments has to be kept in mind and, indeed, supported by the Embassy. Multi-million dollar investments do require high-level governmental approval and support, and it is important that the political value of the investment is understood and appreciated at the political level of the country's leadership. This requires that the Ambassador engage closely with ministers and senior officials in the economic ministries and the Foreign Office of his country of accreditation.

Again, the importance of Ministerial-level engagements cannot be over-emphasised. Our various economic ministers and the External Affairs Minister must regularly engage with their counterparts in order to affirm their mutual commitment to the nascent 'strategic partnership'. Such Ministerial engagements should, from time to time, be buttressed by interaction at head-of-state or head-of-government level.

Three Case Studies

Over the last two years, the Embassy has been actively involved in supporting certain specific investment proposals. Three of these are discussed briefly in the following paragraphs as case studies.

The Embassy was approached by a major Indian company which was seeking UAE investment in two multi-billion dollar energy-related projects, a power and a refinery project. The first visit of the officials of the Indian company was exploratory in character. The Embassy arranged appointments for this team over three days in Abu Dhabi and Dubai. The organisations visited by the Indian team were of two types:

- possible investors; and
- investment advisors who conveyed to the Indian team a sense of the prevailing market, evaluated the proposals and also suggested names of certain firms (besides those recommended by the Embassy) which would be interested in two projects.

As a result of this first interaction, the Indian company obtained a fairly good knowledge of the investment scenario in the UAE and was able to review its own proposals to enhance their attractiveness to the UAE side. This prepared the ground for a follow-up visit by the company's representatives to meet some of the parties which had shown special interest as also to engage with certain new parties which had come to the Embassy's attention since the last visit.

The second proposal supported by the Embassy was setting up of a mutual fund proposing to invest in commercial real estate. The organisations that this team met were principally investment organisations, though some corporations in the construction area also showed interest. The team met investment advisers as well, who guided the team on how the proposal could be improved to meet UAE expectations.

The third case study is noted here primarily on account of its novelty; this was a proposal to set up an 'India Art Fund' by a prominent Indian art house. The value of the proposed art fund is fairly modest, just US$250mn, but it was intriguing to the investors whom the team met since it is the first of its kind. The Embassy arranged a number of meetings for the promoters of the fund both in Abu Dhabi and Dubai. These first encounters were a learning experience for both sides: the Indian side educated itself about the investment scenario in the UAE, while the UAE organisations learnt about the functioning of such a fund and, above all, the returns it would generate. We found that, after some early skepticism and caution, the idea of participating in a fund that would open doors not only to a rich culture but also to rich returns was found quite exciting! It would be a rare financier, indeed, who would not be excited by the prospect of participating in the development of an art house, a museum, a film centre and the funding of films and other art-related initiatives.

Besides supporting the teams pursuing specific proposals, the Embassy has ensured that the 'strategic' aspect of the India-UAE connection has not lost sight of. This has been achieved through the visits to the UAE of the Indian Commerce and Industry Minister and the External Affairs Minister. In their interactions with the senior UAE leadership, the Indian ministers had a substantial exchange of views on political and economic issues; both sides identified ways to expand dialogue and understanding and affirmed the commitment of the two countries to give concrete shaping to a 'strategic partnership'.

From the UAE side, besides the visit of Foreign Minister Shaikh Abdullah bin Zayed Al Nahyan, the Embassy facilitated the visit of delegations from two premier Emirati financial institutions directly concerned with investments, i.e. the Dubai International Financial Centre (DIFC) and the ADIA.

Both DIFC and ADIA delegations had extensive interaction with India's financial and business leaders. The ADIA delegation also had high-level dialogue with senior leaders such as Montek Singh Ahluwalia, Deputy Chairman, Planning Commission of India; Jyotiraditya Scindia, Minister of State for Commerce & Industry; Sam Pitroda, Adviser to the Prime Minister on Public Information, Infrastructure and Innovation; and, Sachin Pilot, Minister of State for Communication & Information Technology. The visit of the ADIA delegation is particularly significant since, in early 2009, ADIA invested over US$1bn in the Indian equity market, raising its total investment in India to nearly US$4bn, a move that is recognised as a powerful vote of confidence in India's economy and its medium and long-term prospects.

While the scope for UAE investment in India is very large, the general concern that investing organisations have with regard to the dearth of good investment opportunities in general should not be ignored. The principal interest of investment institutions is in productivity, risk mitigation and returns rather than in prestige. Given the highly competitive environment, it is very important to ensure that the confidence of investment organisations is retained when the project is being implemented. While investment organisations know that problems could emerge from time to time in executing projects and sustaining partnerships, they would be very deeply concerned if a number of investment projects were to go awry on account of local difficulties that had either not been anticipated or which the investors had not been told about earlier. Sustaining long-term relationships with investors is a responsibility that cannot be taken for granted since even a few high profile failures can harm the image of a country as an investment destination.

The active and focussed promotion of investment by the UAE in sectors that are critical for India's economic development is a new and exciting challenge for the Embassy, particularly because we see ourselves as role players in directly contributing to the national interest of our country and promoting a long-term, multi-faceted and mutually beneficial 'strategic partnership' with a country that is very important to India.

14 The TEAM-9 Lines of Credit: Winning Friends and Opening New Markets

NAVDEEP SURI
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Joint Secretary, (West Africa) MEA (2004-2006)

It was December 2004 and I had just taken over as the Head of the West Africa Division in the Ministry of External Affairs (MEA). One of the first visitors that I received was the Ambassador of a prominent Francophone country from West Africa. He drew my attention to the establishment of TEAM 9 as a unique grouping of India and eight select countries from West Africa. A meeting of TEAM 9 Foreign Ministers, including his own, had taken place in Delhi earlier in the year. Our government had announced that it would provide a US$500mn line of credit (LoC) to the Team 9 group and the Ambassador expressed concern that not a penny had so far been disbursed. Indeed, we had not even put together a clear set of guidelines for disbursal.

The Ambassador's grievance was genuine. We enjoyed a distinctly undistinguished record on our LoCs in Africa. In some countries, we had announced a LoC but had tied ourselves in knots in trying to find a suitable vendor for an industrial or agricultural project. The culprit, most often, was the gospel known as 'general financial regulations' (GFR), – that compilation of arcane financial procedures that often required blind submission to the lowest bidder or L1. This quest for the cheapest had stymied many a valiant effort to award a government funded contract for a project in a distant land to the most competent vendor. In other cases, we chose to play it safe and awarded the contract to one of several public sector undertakings (PSUs) that only too often acted as rent seekers and either gave the job to a dubious sub-contractor or executed it themselves without much thought to mundane issues like spares and maintenance. There was a third category of LoCs that the recipient simply did not bother to use because the interest rates and other terms imposed by us were too onerous.

Little wonder, then, that experienced and well informed colleagues at our lunch club described the entire TEAM 9 project as a can of worms best left alone, a somewhat dodgy fund allegedly set up by powerful vested interests in India and in Africa, a potential minefield for an officer who values his integrity.

But, as we entered 2005, the G-4 campaign for reform of the UN Security Council (UNSC) was heating up. India had a strong claim but at the end of the day, it is the votes that matter. And my West Africa division accounted for 23 of them, including countries with which our relationship was at best ephemeral – countries like Mali, Chad and Guinea Bissau which, now, were also members of TEAM 9 and hence notionally linked with us through this alliance. The case for a convergence between political and economic facets of diplomacy could scarcely be more compelling. Could we unlock the LoCs for TEAM 9 in a way that speedily delivered tangible development assistance to our African partners, earned us their goodwill and secured for us their categorical support for our UNSC bid? Would we be able to get Finance Ministry to approve the projects and EXIM Bank to disburse the funds quickly enough for us to enhance our credibility in Africa? Would we walk the talk, sceptical Africans enquired? That was the 500 million dollar question.

The challenge, I realised, was to put in place a new architecture for disbursal of the LoCs, one that would not drag us into the interminable process of vendor selection. A series of meetings with the team at EXIM Bank and a very supportive group at the Department of Economic Affairs in the Ministry of Finance enabled us to frame a radically new set of guidelines for the US$500mn LoC to TEAM 9. At its core, these guidelines proposed:

- The TEAM 9 country would send its project proposals (preferably with a pre-feasibility study and a financial estimate) to MEA
- If the project fell in an area or sector where India enjoys an acknowledged comparative advantage, MEA would recommend full or part financing of the project to the Ministry of Finance
- Finance would examine the project in consultation with MEA and would convey its approval to EXIM Bank
- Since all TEAM 9 members fell within the World Bank's listing of Highly Indebted Poor Countries (HIPC) initiative, our LoC would be on terms similar to those recommended by the World Bank, i.e. a fixed interest rate of 1.75 percent over a 15-year period and with a five year moratorium. The Finance Ministry would bridge the gap between the rate at which India borrowed internationally on the strength of its sovereign rating (usually Libor plus 0 percent or thereabouts) and the concessional lending rate
- MEA would convey approval of the project at a political level to the country and ask EXIM Bank to initiate discussions with the country's Ministry of Finance on a sovereign guarantee for repayment of the LoC

- In parallel, the country would start the process of identifying potential Indian vendors for the project, short listing them and selecting the one that would execute the project. Recognising that some countries may not have the requisite information on qualified companies in a particular sector, the Confederation of Indian Industry (CII) was asked to provide names of reputed companies and other back-up support
- The eventual contract would be between the recipient country and the selected vendor and EXIM Bank would disburse funds to the vendor on the basis of shipment of equipment and progress of the project

Formulation of viable project proposals was a key driver in this process and there was concern that several of the TEAM 9 members would be unable to come up with tangible projects that could be taken up by Indian vendors. This gap, fortunately, was filled with the first India Africa Project Partnerships Conclave that was organised by CII in Delhi in March 2005. The allure of soft funding attracted some 230 government and business delegates from 25 countries including 18 ministers and the heads of 13 financial institutions. This was matched by over 400 Indian business delegates who registered to meet their African counterparts.

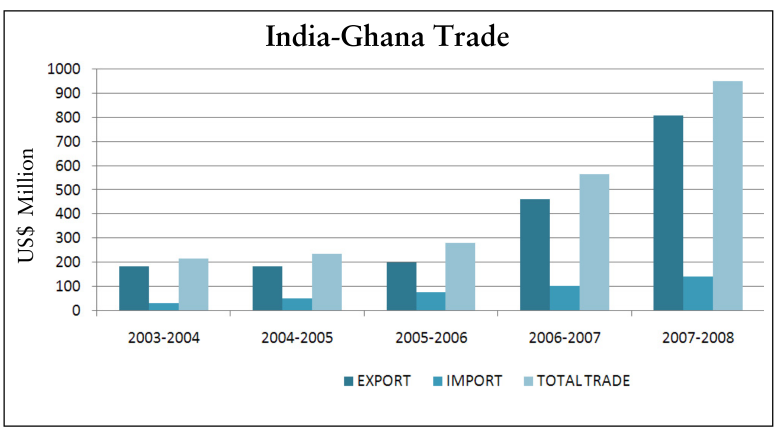
A platform was thus created to showcase the strengths of Indian industry to the African delegates, many of them first time visitors to India and several from West African countries where we did not even have diplomatic missions. Several delegates came with clearly identified projects and very quickly, a bunch of Indian companies including equipment manufacturers and project exporters latched on to them. MoUs were being signed, deals were being stuck and after the Conclave, delegations were being whisked off to Pune or Mumbai or Ahmedabad to visit the manufacturing facilities for food processing equipment, buses, tractors, irrigation pumps and even power transmission equipment. Business was being conducted, and in a hurry.

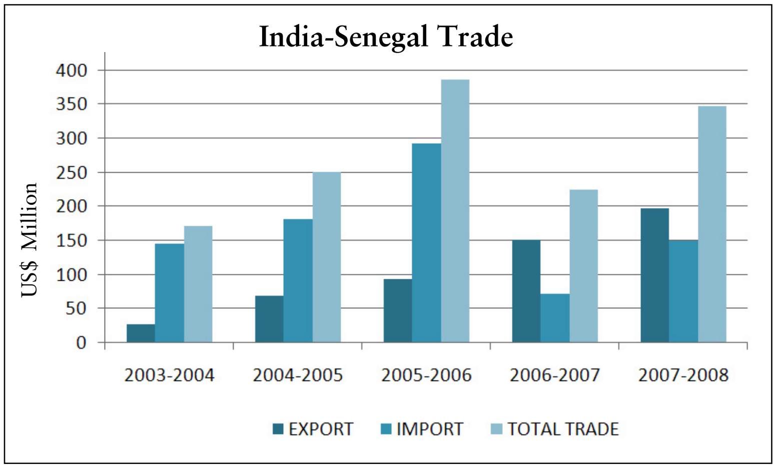
The West Africa desk of the MEA actively partnered with CII in organising the Conclave, providing for air fares or hospitality to some of the delegations and arranging high level meetings for several of them. These meetings, set up by us with the External Affairs Minister or Minister of State (MoS), led to earnest requests for LoCs and were often accompanied by commitments of support for our UNSC bid. Insofar as the TEAM 9 countries were concerned, the funds were available and the onus was now clearly upon us to ensure quick implementation. A series of consultations were organised with the Finance Ministry and EXIM Bank, including one chaired by our MoS to iron out a few bureaucratic obstacles. The guidelines mentioned above were evolved within a matter of weeks after the Conclave. The upcoming African Union Summit, to be held at Sirte in Libya in July 2005 was used as a self-imposed deadline to get clearance for the projects. Our delegation to the Summit was led by the MoS and a separate meeting was set up with the foreign ministers of TEAM 9 countries. Letters of approval for projects to the tune of over US$200mn were handed over to the stunned African foreign ministers, several of whom also arranged for our MoS to meet with their heads of state so that their assurances of support for the G-4 bid at UNSC could be conveyed at the highest level.

The political dimension was being secured, but what about the economic side? One country chose a leading manufacturer of pumps to rehabilitate a major colonial era irrigation project. The company has completed the project, doubling the country's acreage under cultivation, moving it from one crop per year to two, and promising self sufficiency in rice production within five years. The country's president proclaims the project as a model of South-South cooperation and commends it to other heads of state in the Economic Community of West African States (ECOWAS). The Indian company, meanwhile, has established a bridgehead in a key West African state and is now looking at a slew of other irrigation projects in the region.

A second company used the LoC to establish its presence in commercial vehicles, while others have done the same for power transmission lines, tractors, food processing units and even for IT training. During my own visits to various West African capitals, I would often run into an assortment of Indian businessmen at the Air France lounge in CDG Airport in Paris. They were on their way to Ouagadougou or Niamey or Bamako or Abidjan, hoping to secure business against the TEAM 9 LoCs. Overnight, the ice had been broken. West Africa, often seen as too distant, too risky, too French was suddenly the new land of opportunity. Our LoCs had served to catalyse the entry of India's private sector into a new region; by mitigating the initial risk of getting into a new market, we had emboldened them to venture further and deeper. The rest, as they will say in a few years, is history.

Some early results are already beginning to appear. Ghana and Senegal were the two most active participants in the TEAM 9 programme and our exports to these two countries had gone up significantly.





And did everything go according to plan? Of course not! By stating in clear, unambiguous terms that we would have nothing to do with the selection of vendor, we had ensured that the projects did not get snared in our bureaucratic red tape. We had also ensured that our own reputations for integrity stayed intact. But we were talking of fairly large sums of money, and of a slew of aggressive private sector operators hustling to get a piece of the action. The hustling, though, had moved to Abidjan or Accra, to Bamako, Dakar or Ouagadougou. We heard, anecdotally, of fierce turf battles between ministries of foreign affairs, finance and others in several capitals. There were rumours of at least one presidential confidante who had emerged as a powerful intermediary and who was much sought after by a couple of our companies.

In Delhi, however, we remained serenely above the fray. Placing ourselves at arm's length from the selection process was, in hindsight, one of the smartest things that we did. Only once, in the space of two years and for projects worth well over US$200mn, did we feel compelled to intervene. A senior functionary in one of the recipient countries had tied up with a relatively small company to execute a major project. We were seriously concerned that the company did not have the requisite capability. We asked CII to intervene, getting it to arrange presentations by several industry leaders in the same sector. The message went home. The project was eventually awarded to a consortium of three companies.

There were other areas, too, where we could have done better. We could, perhaps, have insisted on more rigorous procedures to ensure that the recipient country followed transparent norms in selecting vendors for projects. But this would have come at the expense of the expeditious disbursement that we needed in the political context. There was also some criticism that instead of routing all LoCs through the recipient countries, we could have tried to provide some funding directly to major Indian companies bidding for large infrastructure or mining projects. This is a valid argument from an economic standpoint and assured funding on soft terms would clearly enhance the competitiveness of our companies' bids. There is, however, the counter argument that doing so may not give us the same leverage at a bilateral level.

A more important critique is the absence of a review mechanism in the process. The programme is now over four years old, several projects have come on stream and the success of several projects and the failure of a few should be easily measurable. It is important that the government engages an independent auditor, not only to evaluate and provide feedback but also to ensure that the few unscrupulous elements are weeded out before they start to threaten the viability of the entire system.

Despite these caveats, the bottom line is that our LoCs in West Africa have been a trend setter for our economic diplomacy in Africa. The overwhelming success of the TEAM 9 programme prompted demands from other countries in the region such as Niger, DRC and Nigeria to be included into an expanded TEAM 9 or to be given the chance to participate in a similar programme. We responded by bringing into play a US$200mn LoC that had been announced under the New Partnership for Africa's Development (NEPAD) initiative and had been languishing. We followed up with a US$250mn LoC to the ECOWAS Bank for Investment and Development. The announcement was made in March 2006 during the visit to Delhi of a high level ECOWAS delegation led by the Foreign Minister of Niger and the head of ECOWAS. Speaking to the press after talks at Hyderabad House, the delegation publicly promised the support of the 15-member regional grouping for our UNSC bid.

The economic dimension, meanwhile, has grown steadily. The 3rd CII-Exim Bank Conclave on India-Africa Project Partnership in March 2006 attracted 28 delegations, including one led by the Vice President of a major country and another featuring both the Foreign Minister and the Minister for Mines. The latter, quite candidly, offered preferential access to oil and uranium blocks if we could meet some of their urgent development needs in the field of agricultural development and urban transport.

This was followed, in May 2006, with the first of a series of regional conclaves. Our MoS led a sizeable CII-organised business delegation to Ghana. Some 500 businessmen, including quite a few from neighbouring countries, showed up for a full day event in Accra that featured a special session on explaining the LoCs to African businesses. A highlight of the visit was the presence of Foreign Ministers or senior representatives of all TEAM 9 members for a meeting with our MoS. In the presence of our Minister and most of his cabinet, the Ghanian President also laid the foundation stone of a brand new presidential office complex that would be built by a leading Indian construction company using our LoCs.

But, those were merely the early, pioneering days. During the last four years, India's relationship with Africa has steadily moved to a different level. The 6th CII Conclave in March 2010 attracted 490 registered African delegates from 38 countries. The guests included the Vice President of Ghana, the Prime Minister of Togo and the foreign ministers of 17 countries. The Conclave itself has become the flagship event on the Indo-African business calendar. Regional conclaves have covered almost every major capital in sub-Saharan Africa, building on the template that was created in Accra in 2006, bringing together government, business and concessional finance to build enduring development partnerships.

The programme has been taken to an entirely different platform following the India-Africa Forum Summit in April 2008 when the Prime Minister promised a US$5.4bn LoC for Africa. Properly implemented, this can provide a major boost to India's trade and investment linkages with Africa, continuing with the TEAM 9 project of winning friends through development-oriented projects and opening new markets in a range of different sectors.

Some TEAM 9 Projects	
Country	**Project**
Burkina Faso	Agricultural projects including acquisition of tractors, harvesters, agro-processing equipment
Burkina Faso	Rural Electrification
Chad	Setting up of cotton yarn plant, Steel billet plant and rolling mill, plant for assembly of agricultural equipment and bicycle plant
Cote d'Ivoire	(i) Mahatma Gandhi IT and Biotechnology Park, (ii) Fisheries Processing Plant and (iii) Coconut fibre Processing Plant
Cote d'Ivoire	Electricity interconnection project between Cote d'Ivoire and Mali
Cote d'Ivoire	Project for renewal of urban transport system in Abidjan (supply of Tata Buses) and for agricultural projects in the field of vegetable oil extraction, fruits and vegetable chips production, production of cocoa, coffee etc.
Equatoria Guinea	Potable water plant project
Gambia	Construction of National Assembly Building Complex
Gambia	Tractor assembly plant project
Ghana	Construction of Presidential Office
Ghana	Rural electrification, agriculture, communication and transportation projects
Ghana	Track materials, tools and equipment, procurement of high capacity mineral wagons and spares, Procurement of covered wagons, Spares of low capacity mineral wagons, flat trucks/buses, and Foundry materials, Information and Communication Technology (ICT) and Good Governance project, and Agro Processing Plant
Mali	Agriculture and food processing projects
Mali	Electricity transmission and distribution project from Cote d'Ivoire to Mali

Country	**Project**
Mali	Rural electrification and setting up of agro machinery and tractor assembly plant in Mali
Senegal	Development of rural SMEs and purchase of agricultural machinery and equipment
Senegal	Irrigation project
Senegal	IT training projects
Senegal	Rural electrification project and Fishing Industry Development Project
Senegal	Supply of buses and spares from India
Senegal & Mali (combined)	Acquisition of railway coaches and locomotives from India

15 ITEC Programme Experience: India and Ethiopia

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Ambassador to Ethiopia (2005-2009)

In the early years of the 21st century, the relationship between India and Ethiopia attained unprecedented heights. The Prime Minister of Ethiopia, Meles Zenawi, called it the golden age of Ethio-India relations. During this period India's engagement with Ethiopia acquired new diversity and depth, which resembled the beginning of a new engagement. The high respect that Ethiopians have for Indian teachers and professors both of whom came in hundreds at different periods of Ethiopia's development, have left an indelible mark in the development of this relationship.

The teachers who came from India travelled to remote parts of Ethiopia in 1940s and 1950s. They were the early pioneers. In 2000-2010, nearly 500 Indian professors came to teach in Ethiopian universities. The Pan-African E-Network Project, whose pilot programme was implemented in Ethiopia, saw a resounding success in the tele-education component where an MBA programme was run by Indira Gandhi National Open University (IGNOU) at the Addis Ababa University. This was expanded by Ethiopia with their own linkages with IITs Delhi and Kanpur to bring courses to nine of their universities using the technology of the E-Network Project.

At the same time Ethiopia was the recipient of some of the largest lines of credit India offered for developing their rural electrification and sugar industries. The commitment of the Government of India to support the economic development of Ethiopia saw a surge in Indian investment, which rose to US$4.5bn by March 2010. Interestingly most of this came from small and medium enterprises (SMEs) from India that foresaw great opportunity in Ethiopia.

Interestingly, one of the threads, which run through the education segment, as also the loans scheme and the investment priorities, is the capacity-building effort which goes into all areas of Indian cooperation with Ethiopia, and other African states. The Indian private sector which is involved in implementing official Indian and privately funded projects and the teaching programmes have all contributed to the development of local skills, generation of employment and transfer of technology which are unique examples of the manner in which India's engagement with Africa, in general, and Ethiopia, in particular, has developed.

Capacity building is the hallmark of the Indian Technical Cooperation (ITEC) programme. This programme was approved through a Cabinet decision and introduced on September 15, 1964; today it covers 158 countries in Asia, Africa, Eastern Europe, Latin America and the Pacific islands states. The budget for these training programmes is approximately US$11.5mn per annum and the overall exposure of the ITEC programme in Africa is over US$1bn.

The ITEC programme has five broad components, viz, training of nominees of partner countries in India; deputation of Indian experts; study tours; small projects and support for disaster relief. The ITEC programme today includes 232 courses held in 42 institutions, which receive 5,500 trainees from 158 countries. The ITEC has become such a powerful brand that in most countries the training positions offered under ITEC are quickly filled up. At the India Africa Forum Summit in April 2008, ITEC positions for Africa were expanded from 1100 to 1600. At the Commonwealth Heads of Government Meeting (CHOGM) of 2010 held in Uganda, a further increase of 250 seats for Commonwealth countries was announced; many of the beneficiaries are in Africa.

The ITEC programme for Ethiopia was initiated in 1969 and it has been found useful by the Government of Ethiopia. They have received experts, and sent candidates for training in India; they have also received supplies of equipment under this programme. Up to 2006, Ethiopia had 25 training positions allocated to it; this was doubled in 2007 following the first ever visit of the Indian External Affairs Minister to Ethiopia in July 2007 and the India Africa Forum Summit (IAFS) in April 2008. Most of the training positions have been utilised in some recent years. The total number of Ethiopians trained in India under the ITEC is nearly 700.

In order to further enhance India-Ethiopia relations, an imaginative use of the ITEC programme was undertaken in Ethiopia. This resulted from initiatives taken by the Indian Embassy, strong support from the Technical Cooperation (TC) Division in the Ministry of External Affairs. These covered the Designers' Training Programme, the Solar Engineers' Training Programme and the Regional Programme. The overall aim was to add variety to the engagement and cover areas and sectors outside direct government control. The innovation introduced by TC Division was to devolve selection, allowing Indian envoys to directly nominate candidates for the ITEC programme, subject to allocated quotas, on the basis of their own assessment.

The Design Initiative: Ethiopia is well known for cotton fabric and traditional design. The Embassy saw a growing opportunity for engaging young fashion designers and exposing them to the dynamic growth of this sector in India. The Pearl Fashion Academy had taken up with the Ministry of Trade and Industry in Ethiopia a project to develop a design institute. At the Embassy's initiative, a design programme was launched in partnership with the Pearl Fashion Academy of India; others involved were DKT Ethiopia, a social marketing organisation; Femseda, an institution of the Ministry of Trade and Industry and a private cultural consultant.

Under this programme, 50 Ethiopian designers were chosen through a public announcement which led to much excitement in Addis Ababa. The Pearl Fashion Academy sent trainers sponsored by Ethiopian Airlines who ran nearly five weeks of classes at Femseda and at the end of the programme – which became a constant source of media attention – a contest was held to demonstrate what the trainees had learnt. At the Republic Day reception in January 2008, a special exhibition of all the designers' work was undertaken and the results were tabulated, based on the marks given by the jury and every guest at the reception that visited the exhibition. The identified winners were supported by the ITEC to undertake a 15-day study tour of India to visit fashion academies, and interact with modern and traditional fashion designers. All of them returned as highly impressed votaries of India's growth in the fashion industry. Several commercial opportunities emerged for the trainees of the programme and a large number of families became friends of India.

The Solar Engineers' Programme: In 2005, the presidents of four of the nine Ethiopian regions visited Tilonia in Rajasthan and went to its famous Barefoot College. Despite an unaccustomed experience of coping with vegetarian food during six weeks they spent there, they remember the visit fondly, as also the Tilonia Declaration which they signed. As a result of that visit, the Barefoot College trained 34 rural people from Ethiopian villages from the remote regions of Afar, Somali, Gambella and Beneshungul-Gumuz. These 34 people came from 17 villages and were trained for six months to become solar engineers. The training was sponsored by the United Nations Development Programme (UNDP), Ethiopia, which also provided the equipment. On their return, most of these people became effective agents of change at the grassroots and brought a solar lantern and light to every hut in their villages. I have seen lives change and suddenly the work days became bigger; night schools and women's cooperatives were opened. These villages were not on the map of the massive power expansion plans in Ethiopia and, therefore, the Barefoot Solar Engineers' Programme was very effective indeed.

When this was reported this to the Ministry, it was an effective Joint Secretary, Head of the Technical Cooperation Division, who also knew about the Barefoot College, with whom we teamed up. Based on the Ethiopian experience we successfully introduced training at the Barefoot College under the ITEC Programme. Now twice each year, nearly 35 women attend six-month long programmes at the Barefoot College and the programme has evolved into training middle-aged women who are inclined to remain committed to their villages and not go away to cities for employment.

In many African countries this is bringing about a gentle social change as in some societies, for instance, in Djibouti, where women never left the village by themselves. The fact that the ITEC programme could be flexible and imaginative and take on a new non-traditional programme, allowed us to reach out at the grassroot level with African countries. This programme was nominated for the BBC's World Challenge and later when equipment supplies in some countries became problematic, the Aid to Africa budget in MEA was used to support this successful programme.

Taking Initiatives to the Interior: In many African countries, the problem lies that there is a centralised Ministry to take care of the offers of ITEC training programmes. Usually it is the Ministry of Foreign Affairs or the Ministry of Education; the dissemination of information to other ministries is slow, if it takes place at all. As a result, the utilisation of ITEC training slots either lacks diversity, or falls short of targets. Most ambassadors make considerable effort to go beyond these constraints; thanks to a relaxation in procedures by TC Division, they are now able to use the programmes in a more effective fashion.

In Ethiopia, we used this flexibility to reach out to the regional or provincial states. On every visit to a regional state, I usually took a business delegation and professors from Addis Ababa, or those teaching at the local universities. This composite delegation always received wide attention and we took every occasion to offer few ITEC training positions to the regional presidents for the use of their officials. As they were government officials, we were not seen to be breaching any rules, and yet we managed to reach a totally new segment of beneficiaries, many of who did not even frequently travel to Addis Ababa.

In most cases, the first nominations were of the regional ministers (called bureau heads) and they became an important part of our ITEC outreach in the years ahead. Subsequently, a greater utilisation of relevant courses for developing the skills of various officials in the regional government came forth and many regional presidents told us that India was the first country to directly address capacity building requirements of regional governments in Ethiopia. This was seen as a fulsome contribution to the development of their federal structure.

For developing countries the ITEC programme is a real manifestation of South-South cooperation. Initially the impact of the ITEC programme was limited but substantive nevertheless as it provided good opportunities for training in India; as a wider engagement with India has been pursued by Ethiopia as a matter of policy they have found the diversified offerings of the ITEC programme to be valuable for their development process. Ethiopia had been using its own funding and international funding to send people to India for varied training programmes including for PhD programmes and to the IITs. This approach of having India as a model for their development process led the Ethiopians to use the ITEC programme to fulsome effect.

Managing Networks and the Regulatory Environment

16 Multilateral Economic Diplomacy – The Brussels Experience

AMAR NATH RAM
Ambassador to the EU and Belgium (1994-1995)

The Brussels post, in many ways, is rather unique; it at once entails multilateral approaches to deal with the now 27-Member European Union (EU), its Executive arm, the European Commission (EC) and the European Parliament (EP), as also on a day to day basis bilateral approaches on a large variety of political and economic issues with the member governments through their ambassadors in Brussels. Political and economic work in Brussels, as elsewhere, overlap and become inseparable. Arguably, politics in EU, as much as anywhere else, drives economics.

The early 1990s, following economic reforms and the opening up of the Indian economy – and the fourth generation India-EC Cooperation Agreement on Partnership and Development signed in 1993 – brought in its wake new opportunities and challenges. It was now more than ever necessary to establish strong self-sustaining institutional arrangements to take India-EU partnership forward in the new evolving context. This was a major task assigned to the Mission.

At the political level, the 'Joint Political Statement' and the new 'Troika' dialogue mechanism provided a forum for annual exchange of views at the Foreign Minister's level on policy issues; at the economic and commercial level the India-EC Joint Commission became an instrument for comprehensive continuing dialogue with EC; for the first time in 1996, EC with inputs from the Mission, adopted a 'communication' on EU-India Enhanced Partnership outlining directions for the future basis and growth of its relations with India. The EU showed greater sensitivity to India's concerns on various issues (references to J&K, for example, were more moderate); it extended full support for India's participation in the Asia-Europe (ASEM) dialogue from which, until recently, India was kept out due largely to reservations on the part of one or two Association of Southeast Asian Nations (ASEAN) countries; the Science and Technology (S&T) Cooperation arrangements gained momentum and India was able to draw greater amounts from ECs allocations. A new dialogue arrangement was put in place to exchange views and information on issues like drugs and its nexus with crime and terror.

Briefly, India-EC dialogue, reflecting our growing and mutually beneficial relations, now acquired greater content, profile, visibility and an institutional basis paving the way for the eventual Summit level dialogue commencing in 2000, a unique recognition of India's growing importance and place in EU's thinking. Since the EP, and the other Brussels based European organisations (i.e. WEU, NATO and ICU), are also covered by our Mission in Brussels, it was necessary to inform and sensitise EP members and others on issues of concern and interest to us.

In 1994, after sustained and systematic interaction, the Mission was able to form a Friends of India Forum in the EP, which with its large and composite membership became a source of support and understanding for India and helped us greatly in promoting our interests and image.

The EP then was aggressively – according to some intrusively – pursuing issues such as human rights, individual freedom, social issues, environment, Jammu & Kashmir, etc., and it was necessary to take pre-emptive and proactive steps to cultivate and inform Members of the European Parliament (MEPs) and other opinion makers. The Friends of India Group became an institutional forum for continuous interaction with MEPs. At the same time, the eminent persons group (EPG) comprising some nobel laureates and other personalities, set up by the Mission in Brussels in 1995 and the India Studies Centre at the Antwerp University, helped lend prestige and intellectual support for India. What then became our multi-faceted dialogue, with a breadth of the issues discussed, eventually resulted in evolving convergences leading to a Joint Action Plan for Strategic Partnership in 2004.

The Mission in Brussels was expected to help shape and give direction to these momentous developments in a proactive manner, so that EU could find it in its own interest to recognise and accept the growing importance of India as a strategic and economic partner.

This was accomplished through concerted efforts to cultivate prominent media representatives, think tanks, intellectuals, cultural personalities and opinion makers through personal contacts, newsletters and briefings. Within the parameters of policy laid down by the Ministry of External Affairs (MEA) and the government, the envoy enjoys a fair degree of autonomy and action freedom, of course on the basis of keeping MEA informed, usually via the territorial division concerned. Envoys do not need to wait for specific approval for actions that conform to policy; this provides freedom to act on opportunities that come up. The interplay of politics and economics requires subtle and sensitive handling of delicate foreign policy issues with professionalism. In my view, the Brussels post should always be headed by a senior Foreign

Service Officer with an excellent track record in both political and economic work.

The EU has been India's largest economic partner accounting for about 25 percent of our total trade in 1995. However, it has also been a market with huge access difficulties and non-tariff barriers (NTBs). The trade basket too was skewed with a few items like textiles, leather goods, gems and jewellery and some primary and intermediate goods accounting for the bulk of our exports. IT, financial and knowledge services were still growing and had a long way to go. Our trade with the EU displayed for long a traditional colonial pattern. This is changing slowly, though the growth in trade has been impressive.

For good reasons, some describe the EU as 'Fortress Europe'. It is difficult, particularly for developing countries, to penetrate this market. Market access difficulties take many subtle forms. We were fortunate that the India Trade Centre (ITC), attached to the Mission, was able to do a lot of ground work through market and product studies, research and analysis and was able to instantly handle commercial enquiries through excellent computer networking with chambers of commerce, export promotion councils, export houses and other organisations.

In 1994, shipments of our growing exports of marine products were suddenly held up at ports in Europe because of EU's stringent health and sanitary standards running into hundreds of pages, which were complex and perhaps not very transparent. It took some efforts to get the waiting shipments released and to get temporary reprieve. Likewise, at about the same time, our exports of some textile items were unable to enter the EU market because of the inability of our exporters to meet EU standards (the prohibited azo dye was apparently used by our exporters in processing). This too required prolonged discussions between the Mission and the authorities to gain a temporary reprieve. The EU eventually agreed to our request to suspend penal action and provide technical assistance and technology to our laboratories.

Textiles have always been a major export item to the EU market. EU's annual restrictive quotas were over-subscribed by Indian exporters, as soon as they were available. The Mission, through a watchful and dexterous exercise, was required to optimally transfer unused quotas under some heads to the fast moving heads, thus enabling our exports of textiles to maintain their flow, with modest annual growth. The problem in 1995 was compounded by EC's decision to 'graduate' India from receiving Generalised System of Preference (GSP) benefits for certain products including textiles and leather. The optimum utilisation of our performance-based annual sugar export quota too was conditional and required intervention.

Thanks to my illustrious predecessor, the late Ambassador K B Lal, India was the first country in 1971 to benefit from EEC's GSP scheme, about the same time as the first generation India-EC Cooperation Agreement was signed in 1973 (in fact, Amb. Lal was the moving force behind both the concept of GSP and the India-EC Cooperation Agreement). India's 'graduation' from GSP in 1995 was meant to raise the wall for Indian textile and leather exports, both rapidly growing items with impressive market share. We succeeded partially in temporarily keeping the GSP scheme alive, knowing full well that India was being phased out from GSP benefits. The EU's growing market integration and preferential arrangements with African, Caribbean and Pacific (ACP) countries under the Lome Convention, with Africa, West Asia, Latin America and others put Indian exports at a disadvantage. The Mission was required to take up, monitor and report on these significant developments affecting India adversely.

It is in this context that India-EC talks on greater economic and commercial cooperation were initiated. The difficulties faced by our exporters, entrepreneurs, financial institutions and professionals to enter and work in the EU countries and set up branches/offices restricted free business interaction and opportunities for India. This was a recurring theme in our conversations with the EU officials. Happily, the situation is better today. The EP and the EU were aggressive in pursuing social causes.

I recall the debate in Europe in the 1990s on some 'social' and 'human rights' issues. India was specially targeted on issues like child labour, gender inequality, violation of human rights etc. Children outside churches and in public squares in Brussels were seen raising charity for the 'hungry' and 'exploited' children of India. The carpet weaving industry was specially targeted as it employed child labour. There was a call to impose penal action against Indian exports of carpets. The Mission had to deal with this sensitive and explosive issue in a delicate manner, diffusing by various means the surcharged situation, particularly in EP. The EC and EP were involved in the dialogue and penal action was avoided, though India was required to take some immediate corrective steps.

Later in 1996, at the Singapore WTO Ministerial Meeting, the whole 'social clause' issue was effectively handled by Indian negotiators. Arguably, these were all, to some extent, manifestations of EU's and the West's disguised protectionist policies, although admittedly some such concerns were also motivated by EU's and EP's genuine commitment to these causes.

The EU remains one of our principal partners and it was the Mission's brief to remove irritants and hurdles and monitor and report on new challenges and opportunities. Indeed, the Mission's annual performance audit was meant to reflect this and to suggest course correction, as required. The revival in

1994 of the bi-annual meetings of Indian Heads of Mission (HoMs) in EU countries was a major factor leading to better coordination of our combined efforts to achieve our objectives.

On all major issues the local role played by our HoMs in EU capitals was invaluable and complemented efforts in Brussels. This again was a local initiative on the part of some of our HoMs, which instantly received MEAs approval. In brief, at the macro level, the Mission saw its major role and responsibility as proactively ensuring and sustaining an EU policy framework in which our economic and commercial interests could be furthered and protected and new opportunities for India identified and created. Though a stickler for rules and regulations, the EC was generally receptive and helpful and welcomed discussing new initiatives and ideas with a reasonably open mind. It was our distinct impression that within policy framework, incremental results could be achieved through local initiatives.

India and the EU had serious disagreements on the then ongoing Uruguay Round and subsequently also continue to have major differences on the Doha Round of multilateral trade negotiations. From the time of Ambassador K B Lal, the Mission in Brussels has always played an important role in ironing out differences and informing the EU and others of India's perspectives and concerns with a view to carrying them with us. This involved liaison with our Mission in Geneva and others. Brussels continues to remain engaged in this work in the context of coordinating with EU on outstanding Doha Round issues.

While in the 1990s, India-EU trade and economic relations faced many market access and other difficulties. The EU, as the largest grant aid provider to India, has generally been understanding and forthcoming. From the beginning, after the successful completion of 'Operation Flood' programme funded by the EC to augment dairy production, the EU since 1993 has been a principal source of financial and technical assistance to our development programmes in social sectors like primary health, education, poverty alleviation, environment and aforestation, among others. The Mission in Brussels was able to channelise this process through discussions with EC and others. The EU's participation in these and other sectors has grown over time and is deeply valued by India. India is also now accessing EU funding for specific projects; separately, NGOs, institutions and individuals are also beneficiaries of EU grants. The Mission acts as a facilitator and coordinator.

The EU bureaucracy, like its Indian counterpart, is difficult to deal with, although at the personal level EC officials are accessible, friendly and helpful. The MEA has always posted the best and most experienced officials to Brussels, making the HoM's task easy. Likewise, our HoMs in EU capitals have been of exceptional calibre and have complemented commendably the work being done in Brussels through bilateral support without which it would not have been possible to deliver results. Brussels is all about excellent team work, coordination, timely pre-emptive action, support from HQs, apart from helping proactively to create and sustain, at the policy level, an institutional structure for our growing partnership in which, at the macro level, new opportunities and the right policy parameter for India had to be ensured. I was privileged to have been a part of this endeavour at a crucial time in India-EU relations.

As President Kalam in his address to the EP said, "Together EU and India can achieve much through cooperation, which arises from the visible common thread of our dreams and problems". This sums up our task and responsibilities in Brussels.

17

India-Sri Lanka FTA – A Case Study

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The framework agreement for India-Sri Lanka Free Trade Agreement (ISLFTA) was signed in 1998 and the accord went into operation in 2000. It provides rich material for a case study, not the least because this is India's first FTA, marking a change in the country's earlier doctrinaire position of placing exclusive reliance on the multilateral trade liberalisation process represented by the WTO.

Sri Lanka began its economic liberalisation in 1977, while India launched its Economic Reforms in 1991. Despite the similarity in the trade policies of the two countries in the nineties, economic links between the two neighbours remained in the doldrums throughout this decade, with India's annual exports to Sri Lanka hovering around US$300-US$500mn and Sri Lanka's exports to India being even lower, at a miniscule US$40-US$60mn. Since 2000, the volume and content of trade has undergone a transformation. Although ISFTA only covers merchandise trade, the accord has produced beneficial consequences in many other areas such as foreign direct investment (FDI) and diplomatic relations.

The FTA accord was signed in December 1998 and attracted little notice in either country. It was not until the start of negotiations, and in particular those relating to the composition of the negative list, that industry and trade groups in the two countries woke up and began lobbying for their interests. In India, the domestic industry felt threatened by the possible imports of cheap tea and textiles; the result was protracted negotiations with the agreement finally coming into effect in March 2000.

India proposed a negative list of 429 items and removal of tariffs on 1351 products. On the balance of items, tariffs were to be reduced in three annual stages (50 percent at the end of year one, 75 percent in year two and 100 percent in the third year). On the three items of critical importance to Sri Lanka — tea, garments and textiles — the access granted by India was hedged by additional 'tariff rate quotas' (TRQs), i.e. preferential tariffs for these items would only apply to specified quotas of imports and other conditions, which became trade inhibitors from the perspective of Sri Lanka, as we see below.

Sri Lanka proposed a negative list of 1180 items and offered immediate tariff removal on 319 items. On balance, it proposed graduated tariff reduction phased over eight years (35 percent at the end of three years, 70 percent at the end of six years and complete elimination after eight years in 2008).

Out of Sri Lanka's sizable negative list of 1180 items, 623 items were actually being imported from India; in contrast, out of India's negative list of 429, Sri Lanka was only exporting 50 items. As for the immediate tariff-free access provided by each country: out of Sri Lanka's offer covering 319 items, India stood to benefit only in respect of three items; out of India's list of 1351 items, Sri Lanka stood to benefit on 68 traded items. Thus, in keeping with India's large size and larger capacity to trade, a suitable adjustment was made in skewing the terms of the ISFTA in favour of Sri Lanka.

Out of the 2907 products exported by India to Sri Lanka in 2000, 21.4 percent were on the negative list and only 0.1 percent benefited from zero tariffs; another 20.6 percent also received preferential treatment. In contrast, out of 380 products exported by Sri Lanka to India, 13.1 percent were on the negative list, 17.9 percent received zero tariff benefits; a large proportion, 57.4 percent received preferential tariff reductions of 50 percent, and a further 11.6 percent received a reduction of 25 percent. Thus, the terms of the PTA, which seemed skewed in favour of Sri Lanka on paper, also got translated into a more favourable trading position for that country in practice.

While the concessions offered by India appeared relatively more generous, it should also be considered that Sri Lanka's foreign trade regime was more liberal than that of India. The imbalance in concessions thus provided a redress in the overall bilateral trade situation. In terms of the trade situation existing in 2000, Indian exports represented nine percent of Sri Lanka's import basket, while Sri Lanka's share in India's import basket was negligible, at below 0.1 percent. Thus, India had a massive Balance of Trade (BOT) advantage over Sri Lanka prior to the negotiation of the ISLFTA; the very prospect of reducing this BOT deficit through the favourable terms of the ISFTA must have been one of the factors that attracted Sri Lanka to the ISLFTA.

The 'rules of origin' (RoO) provision of ISLFTA is set at 35 percent domestic value addition (in contrast, the SAFTA provision is a more demanding 40 percent). But, additionally, ISLFTA lays down a 'change in tariff heading' (CTH) criterion at the 4-digit level (a change in tariff heading criterion at the *n* digit level refers to a rule by which a product with constituents originating from a foreign source is granted preferential tariffs only if that constituent material does not belong to the same heading under the *n* digit level classification), which has been criticised as unduly restrictive; a six-digit level would have better accommodated situations in cases where the four-digit CTH criterion is not met even after product processing and transformation.

Post-ISLFTA, two-way trade has grown sharply, with a proportionately greater gain for Sri Lanka, which has helped to narrow, but not eliminate, the structural bilateral imbalance. Thus, Sri Lanka's exports to India rose from US$58mn in 2000, to US489mn in 2006, a nine-fold gain. Indian exports to Sri Lanka grew from US$600mn in 2000 to US$2173mn in 2006, an almost four-fold gain. It is anticipated that the full benefit of the opening of the Sri Lankan market for India will be felt in 2008, when the full range of tariff concessions become operational.

The mere relative numbers of items on the negative lists of two countries overstate the advantage provided to Sri Lanka through the ISFTA. The key items of import from Sri Lanka, tea and textiles, continue to face non-tariff barriers (NTBs). Besides the TRQs imposed on Sri Lankan tea, import was restricted specifically to the ports of Kochi and Kolkata, both adjacent to Indian tea growing areas and with strong anti-import lobbies – this latter requirement was dropped only in June 2007, after persistent Sri Lankan efforts. Indian state-level sales taxes have been another source of complaint. Further, the RoO and CTH requirements have also worked to the disadvantage of Sri Lanka, to the point that against the permitted quota of 15mn kg of tea, actual exports have been barely 2.7 percent of this limit. In the case of garments, against a limit of 8 million pieces, RoO and port of entry requirements have ensured that import in 2006 was under one percent of the quota. On the other side of the coin, Indian companies dealing in copper products have protested at the flouting of the 35-percent value addition criteria.

An indirect consequence of ISLFTA has been an upswing in Indian investments in Sri Lanka, in part owing to Indian enterprises relocating production of vegetable oil and base metals (especially copper) to that country, to capitalise on the advantage arising from combining trade concessions provided through the ISLFTA with cost advantages that accrue from production in Sri Lanka. In 2000, the cumulative Indian FDI in Sri Lanka was only ₹1.5bn, but, by 2006, this had increased 13 fold to ₹19.4bn, making India the fifth-largest investor in that country.

Currently, some 40 Indian manufacturing projects are in operation, mainly driven by ISLFTA. Similarly, Indian investment in services has also grown, covering software, travel and tourism, health and retail. Between 2000 and 2006, the number of Indian tourists has grown four-fold and it now represents almost 23 percent of the total foreign tourists visiting Sri Lanka. Civil aviation links have also grown sharply, thanks to the 'open skies' agreement implemented by two countries. The number of fee-paying Sri Lankan students in India has also grown and education has become one of the sunrise sectors.

A 'Comprehensive Economic Partnership Agreement' (CEPA) has been under negotiation since 2004, but has made little headway. India would like to see the negative list pruned sharply, whereas 96 percent of Sri Lankan exports now benefit from concessions, as much as 40 percent of Indian exports do not receive any benefit. One may easily imagine that, for Sri Lanka, the failure to gain access for its tea and garments has rankled. Another shortcoming of ISLFTA has been the lack of any dispute settlement mechanism, which has led to a prolonged dispute over the application of some of the provisions.

Did we, under the pressure of domestic lobbies, drive too hard a bargain on tea and textiles? However, one sees this particular issue, ISLFTA has been successful in promoting trade growth and in narrowing – but not eliminating – the trade imbalance. It has also produced remarkable consequences in several other economic sectors that were not covered under this agreement that was restricted to merchandise trade.

The story of the ISLFTA and its outcomes has important implications for trade policy and negotiation of free trade agreements, in general, and the overall policy of both Sri Lanka and India in this regard. More importantly, there are lessons to be learnt which are relevant for the negotiation of a CEPA by these two neighbours.

Sri Lanka is sore about the treatment given to potential tea and textile exports to India. Waiver of state-level taxes is a concession worth providing, given the massive expected investment and other benefits that might flow from the CEPA, which such a step might help facilitate. Similarly, increasing the quotas underlying the TRQs for these items to enhance the quantity of tariff-free Sri Lankan exports might be a viable option which would provide a return by facilitating negotiation of the CEPA. Increasing accessibility of Sri Lankan tea to the ports of Kolkata and Kochi might, however, come across stiffer political obstacles.

The broad lesson that emerges from the history of the ISLFTA is that it is possible for two physically unmatched countries, with a balance of trade that is lopsided in favour of the larger country, to still negotiate a bilateral free trade or preferential trade agreement that results in a 'win-win' outcome for both countries. These provided encouraging cues for any free trade negotiations that India might have with both Bangladesh and Pakistan in the future.

18

The Crafting of the India-Sri Lanka Free Trade Agreement

LEELA K PONAPPA

Former Indian Ambassador, and Deputy National Security Adviser

Joint Secretary & Additional Secretary (BSM) (1998-2001)

Introduction

"India would also be willing to consider bilateral free trade agreements with those countries which are interested in moving faster."

On July 29, 1998, this offer by Prime Minister A B Vajpayee in his statement at the 10th SAARC Summit in Colombo elicited an immediate reply from the podium by the then Sri Lanka President Chandrika Bandaranaike Kumaratunga, that Sri Lanka for one would take up the offer. In August 1998, Sri Lanka's negotiating team led by Dr Lal Jayawardene arrived in New Delhi, for the first of many discussions. The India Sri Lanka Free Trade Agreement (ISFTA) was signed in New Delhi on December 28, 1998. After a year of negotiations about minute and major details ranging from tariffs on specific items to the RoO, an FTA became operational on March 01, 2000.

Behind this bland description was an exciting endeavour that involved intense cooperation among all the Indian players concerned: the Ministry of External Affairs (MEA), the

Ministry of Commerce (MoC), the Ministry of Finance (MoF) and the High Commission of India (HCI) in Colombo, with the Prime Minister's Office (PMO) providing overarching support and direction, and sectoral interests within and outside the government projecting the views of their respective constituents. A similar exercise took place in Sri Lanka but the purpose of this account is to focus on the Indian experience. The author was the Joint Secretary in MEA, heading the territorial division dealing with Bangladesh, Sri Lanka and the Maldives.

The ISFTA could well have not become a reality if any of the Indian protagonists prevailed over the general objective of putting in place an instrument which could genuinely be of mutual benefit to both the countries. Instead, the entire process demonstrated a high level of collaboration as India embarked on this new trajectory with regard to its economic relations with its neighbours. In Sri Lanka, India found a capable and cooperative partner.

The Background

Other than Bhutan and Nepal, with which India had traditionally open trade relationships for several decades, India's foreign trade policies in 1998 were yet to undergo the same degree of liberalisation as the domestic economy since 1991. This was economically frustrating for our smaller neighbours; further, the logic of mutually beneficial regional trade and economic relations was not being fully realised. The Indian market was tantalisingly close and yet too far. India on its part felt that its commitment to the multilateral WTO process precluded fresh regional trading arrangements (RTAs) as a matter of trade policy theology. An earlier attempt at fashioning a RTA through the Bangkok Agreement of 1973, under United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) auspices, had remained long dormant with membership consisting of Bangladesh, India, Laos, South Korea and Sri Lanka.

Through the 1990s, as we liberalised domestically, there was a debate within the government, essentially amongst the ministries of External Affairs, Commerce and Finance, on the subject of reduction or elimination of tariffs for more neighbouring countries in order to strengthen economic relations. The SAARC Preferential Trading Arrangement (SAPTA) process under SAARC was limping along and showed no signs of being able to move faster. There were opinions for and against bilateral free trade in all the ministries and in the absence of any concerted thrust to change matters, the *status quo* prevailed.

In the build up to the 10th SAARC Summit in Colombo, trade liberalisation figured prominently. A major announcement in the PM's statement would be the lifting of India's quantitative restrictions on over 2000 products. Many of us felt this was not enough to realise the actual potential and promise of substantial economic cooperation. The night before the Summit, as the PM's speech received its final touches, a group of senior officials proposed wording which the PM agreed to after consultation with some Cabinet colleagues and advisers.

The Process

Work began soon after the delegation returned to New Delhi. The initial reaction from the Commerce Ministry was negative, but when it became evident that government's policy was clear and its mind made up, the rigorous – and arduous – process of putting in place a new trading arrangement, requiring out-of-the-box thinking, began.

The first few internal meetings identified objectives, principles and issues. The Commerce Ministry undertook the preparation of innumerable drafts and bounced them off MEA, MoF and the HCI in Colombo, while holding consultations with product sectors both within the government (eg, Ministry of Textiles, Ministry of Agriculture) and beyond to assess what was sustainable. MEA and Commerce both worked with HCI Colombo to ascertain progress on the Sri Lankan side. MEA coordinated with PMO and Commerce to ensure that matters stayed on track. It was a delicate exercise in internal and external diplomacy, since we had to ensure that India's interests, which encompassed those of the Indian consumer, Indian business and our national objectives, were taken care of as we aimed to break new ground jointly with a very close neighbour which would have similar interests of its own.

So, there were many internal meetings, phone discussions, faxes, exchanges of data. The Commerce Secretary and his team headed by a Joint Secretary moved into overdrive in considering details of possible reductions on some 5,000 tariff lines, to be reviewed thereafter with Finance.

The Foreign Secretary and his team, also headed by a Joint Secretary, tracked progress in Delhi and Colombo, acting as trouble shooters to resolve tricky situations internally and externally, e.g. in ensuring a balance between sufficiently helpful terms for Sri Lanka and no unwarranted disadvantages for Indian business, as on the RoO which were drafted to be favourable without being indulgent. The customs and tariff experts in the Finance Ministry did detailed work on the revenue implications. The HCI in Colombo and the Commercial Counsellor backstopped all three ministries with quick responses to our often unreasonably urgent requests for specific figures, or on Sri Lanka's views or positions.

The ongoing negotiations with Sri Lanka highlighted the fact that the commitment to free trade required to be combined with prudent and calibrated measures for the domestic market in order to be sustainable.

When matters seemed intractable, policy discussion, generally at the level of Joint Secretary, would move up to the secretaries, ministers and, on more than one occasion, the Prime Minister. One crisis point required a meeting at very short notice (about an hour) in the Foreign Secretary's office. Contrary to the chatter about inter-ministerial rivalries, the Commerce and Finance secretaries showed up and the issue was addressed.

The detailing required to operationalise the Agreement by negotiating the lists in the annexures began soon after the Agreement was signed. Through 1999, one lost count of the number of times we talked to each other, delved into statistics (of, for example, either country's bilateral imports/exports of a particular product *vis-a-vis* its global trade, in order to ascertain the actual scope for growth beyond current levels.) The interaction between MEA, Commerce, Finance and HCI, Colombo was speedy, with joint secretaries and the High Commissioner eventually treating faxes as internal memos, scribbling their information, views or queries by hand and re-faxing them to save time (Government of India's email systems were slightly rudimentary in those days). Internal consultation became a seamless, near to real-time operation, with frequent daily contact to work on the details. HCI was also in regular contact with Sri Lankan counterparts in government and business.

Some sectoral lobbies got into the act soon after the FTA was signed and created issues which could have defeated the very purpose of the Agreement. Political lobbies were possibly also active, given the parties involved in the Centre and the states, notably West Bengal and Kerala. Tea became – or was made – a controversial issue even though the numbers, with regard to respective prices, volumes traded (yes, India imported some tea from Sri Lanka even before the FTA), global exports etc. did not justify the apprehensions expressed. Rubber prices in Kerala were depressed at the time but rumours ran rife, so rubber from Sri Lanka, although more highly priced at the time, was placed in the negative list. The Indian garment industry perceived a threat from Sri Lankan imports, with the specific issue (eg, of acrylic Sri Lankan products making Indian products uncompetitive despite freight costs because Sri Lanka had zero duty on acrylic yarn whereas India had 40 percent) creating a general scare over garment imports.

Bogeys were, thus, being created on both sides and the trade in both countries needed time to adjust to the idea of the possibility of prospering more under an open regime than limitedly under a closed one. It required a major communication exercise with business circles by both governments. The Opposition was also kept informed and broadly welcomed the Agreement while agreeing with the need for caution on some sensitive sectors. Negotiations on the annexures continued right through 1999. Delhi and Colombo handled these negotiations largely at the technical level except when politico-economic issues (tea, textiles, third country inputs into products) required higher level policy interventions. I particularly recall an extended discussion at Nuwara Eliya in March 1999 between President Kumaratunga and External Affairs Minister Jaswant Singh, when some of the concerns regarding Sri Lankan tea imports were thrashed out. With the completion of negotiations in February 2000, the FTA became operational on March 01 that year. The outcome? The figures speak for themselves.

The Objectives

Sri Lanka is a close neighbour with which India has extensive, close and largely friendly relations in virtually every field. India was keen to consolidate these ties in bilateral terms and as part of its effort to develop mutually beneficial economic ties with all its neighbours. The SAARC economic process was frustratingly slow after it eventually began, 10 years after the organisation's establishment. Sri Lanka's articulate, even eloquent diplomats had for years spoken of the benefits of freer trade between the two countries, with not just lower tariffs for Sri Lankan products but joint ventures such as the import of Sri Lankan rubber by India for manufacturing tyres for re-export to Sri Lanka. India's mindset was for years either rigid or suspicious, coloured by issues such as the entry of Tanzanian cloves masquerading as Sri Lankan with a lower tariff or the notion that liberalised imports or generosity on tariff reduction would signify weakness, without considering the larger economic benefits to India through opportunities for an increase in its own exports as well; here, I do not differentiate between South Block, Udyog Bhavan or North Block (the MEA, the Ministry of Commerce and Industry, the MoF respectively).

As India started liberalising post 1991, more open views gathered momentum. Dr Manmohan Singh, as Finance Minister, once expressed unhappiness in mid-1990s to an MEA officer as he felt that MEA was a stumbling block. The officer clarified that there were senior individuals in all the ministries concerned who had a negative approach and were holding up progress, along with others who were trying to push matters forward and needed his support. Having pioneered the process of economic liberalisation in the region, and being somewhat more organised than our other neighbours on issues such as the rule of law, Sri Lanka was an apt and willing partner with which to take an initiative.

India approached the negotiations with an open mind on identifying the best fair measures to enhance and liberalise bilateral trade and increase investments. While seeking to do so in collaboration with Indian business, we were keenly aware of the concerns of sensitive sectors and of the need to make the agreement work on the ground for business in both countries, including the increase and diversification of Sri Lanka's exports to India, while avoiding exploitation of the FTA by unwarranted third country products. Thus, the basis for the RoO was to promote greater manufacturing in Sri Lanka for the Indian market, with consequent employment opportunities and skills development, as well as incentives for fresh investment in Sri Lanka by Indian enterprises, as against merely providing an opening for repackaged third country products.

Issues and Challenges

Several issues arose as the negotiations proceeded. Key among which were:

- *Cutting through turf in GoI* – The negotiating process brought together ministries central to the effort: Commerce, External Affairs, Finance (in alphabetical order!). All three worked long hours together toward the common national objective as against holding on to a more restricted domain perspective.
- *Aiming for an improvement in India's competitiveness* – The temptation to maintain the *status quo* was enormous in the face of some arguments about the potential threat from Sri Lanka's exports. The process, however, provided the MoF an opportunity to review the validity of some of India's own duties, whether excise or customs, within the overall ongoing process of rationalisation.
- *Developing consensus* – The government was keen to ensure wide domestic acceptance of the concept of free trade with key partner countries in the region. The dialogue process with trade, industry, political parties and civil society, both before the signing and the implementation of the FTA, played an important role in generating a broad-based willingness to break new commercial ground despite reservations in some product sectors. In Colombo, the High

Commission had to address similar Sri Lankan concerns about the reality of potential benefits.

- *Listening and educating* – Balancing the interests of Indian consumers and of domestic trade and industry was delicate and challenging. How could we reconcile the promise of a quantum jump in trade and investment while ensuring that Indian producers did not get hurt by imports even while they addressed the challenge to become more competitive? How could we ensure that any growth in India's exports or investment took place seamlessly, in partnership with the Sri Lankan business community and vice versa? There was a constant stream of feedback which called for solutions that were either pragmatic or ingenious. Working with the apex bodies and a plethora of chambers of commerce, industry was assured that it would have time to observe and assess the situation, and adjust to likely trends involving both opportunities and risks, pending which a calibrated set of steps would begin the process of opening doors slowly in sensitive sectors. Thus, emerged the tariff quotas for tea and for readymade garments. Industry was also encouraged to recognise its own strengths and the opportunities that the FTA would open up.

Lessons Learnt

Change within the government is possible when there is clarity of purpose, a willingness to lead at the top and mutual support among all the protagonists. National issues and interests require all participants to work together beyond respective ministerial turfs.

The market needs time to adjust and rise to a challenge. A communication process involving the government and the mission is the key to addressing concerns, removing vague fears and identifying new opportunities. Results start appearing in the second year of operationalisation; the first year is spent in government putting in place the relevant procedures down to the customs person at the points of entry and business making its calculations while identifying products, partners and procedures.

India's market should be available to all its smaller neighbours if we are to develop common stakes in regional prosperity. Peace and stability will follow; perhaps even genuine friendship.

The Indian mission acts as an essential bridge between India and the host country's government and business community. It conveys information and views both ways while safeguarding India's interests within a framework of the convergence of mutual interests with the host country, wherever possible. The mission necessarily represents the totality of the national interest, working with all ministries concerned, while maintaining its unique reporting and administrative relationship with MEA.

MEA has a substantive and coordinating role in the so-called technical domain areas which constitute the turf of other ministries, when other countries are involved. Likewise, other ministries can be engaged to see the larger picture within which their particular domain can play a determining role. Thus, the Finance Ministry's concerns about some revenue loss from tariff reductions did not prevent North Block from appreciating the larger national gains through expanded trade.

Conclusion

At the time of its negotiation, the ISLFTA was an only child; today India is negotiating some 17 or 18 FTAs. The achievements of the ISLFTA are taken for granted while naysayers pinpoint problems, borne perhaps of trade malpractices and misuse of facilities, perhaps of institutional lacunae. Problems in any relationship are inevitable; success lies in how the countries deal with them. An FTA signifies a long-term relationship and process, based on mutual commitment with a seriousness of purpose and accepting of the extant realities including asymmetries. The ISLFTA was devised to create opportunities for people in both countries while cognisant of the risks and with room to accommodate each side's concerns, including the possibility of disputes. Above all, it provided a platform for the magic of trade to become a reality, as a result of which, for example, Sri Lankan porcelain in the shops of Khan Market, New Delhi is today taken for granted.

19 Strategic Dialogue: Track II Diplomacy

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Independent India, 1947-84, witnessed a new phenomenon in government-industry relations – a movement from a trust-based pre-independence situation to a regulation and control-based mistrust situation. This was a period when Indian society tended to view business and industry as exploiters, rather than value-adders.

The year 1985 was the beginning of the U-turn and Change. Rajiv Gandhi, the then Prime Minister (PM), took a huge decision that a delegation from Confederation of Indian Industry (CII, then called AIEI) should accompany him on his first-ever State visit to Union of Soviet Socialist Republics (USSR). An 18-member delegation went and participated with the PM in a variety of events and also met the PM in the Kremlin for a report-back and review meeting. This closer connectivity followed with Ratan Tata being appointed to chair Air India, Rahul Bajaj to chair Indian Airlines and in several other initiatives. The Economic Agenda for India was also a subject of constant consultation in the late 80s and one of the last meetings with Rajiv Gandhi (then out of government) was in March 1991 at V Krishnamurthy's residence in Pandara road. An economic blueprint was made ready for the new government to take office in May 1991.

The evolution of this relationship between government and industry was a process which really never looked back. In the five years of P V Narasimha Rao's Prime Ministership, CII accompanied the PM on several occasions, most prominently to Singapore and Vietnam in September 1994, heralding the start of the Look East Policy of India. Consultations were constant and continuous, both on domestic policy and international cooperation.

Later, this was extended to participation in bilateral joint commission meetings, eminent persons groups, meetings with visiting heads of Government to India, etc. A study of the matrix of government-industry working together will reveal how far the coordination and cooperation has travelled since the mid-80s. The only drawback has been the inability of the officialdom to apparently distinguish between sustainable strategic effort and opportunism.

Another facet of building the India Brand and Image was the Indian Engineering Trade Fair (IETF) which was started in 1975 by CII, informally supported by the Government of India. Industry initiatives to project and promote Indian Industry were actively supported by the government. This two-way traffic of cooperation built up gradually, each helping to rebuild trust in that Industry, equally, had national interest very much in mind and was willing to stretch to sustain its partnership with the government in its international relationship building.

The Brand Building of India was especially carried through by CII, in partnership with the World Economic Forum (WEF) in India, in Davos and at WEF conferences around the world. This 25-year old institutional partnership is unique. CII is the only such partner of WEF.

But, whilst almost all these activities are/were focused on economy, industry and business, there is one particular Industry Initiative which is all-encompassing in its coverage. These are strategic dialogues or 'Track II Diplomacy' mechanisms which CII initiated in 2002 with US and, later, extended to Japan, Singapore, Israel, Malaysia, France/EU and China. In this work, CII was supported by the Aspen Institute India. The US-Dialogue was initiated under the leadership of Henry Kissinger and Ratan Tata.

The Strategic Dialogue covers all aspects of the bilateral relationship – defence, security, terrorism, politics, economy, trade/investment, technology (including nuclear and space), energy/environment, health, education, regional issues, etc. Whatever is relevant is included, not necessarily in the agenda of every meeting. So, the first issue to note is that the Dialogue is comprehensive in its coverage.

Second, the membership is mixed: former ambassadors/service officers, media leaders, think-tankers, business, NGOs, scientists, MPs, etc. The Chair is usually a former ambassador – Naresh Chandra (US), Shankar Bajpai (Israel) and Sati Lambah (Singapore and Malaysia). Business leaders include Jamshyd Godrej, Gautam Thapar, Syamal Gupta, Atul Punj and Harpal Singh. The media includes T N Ninan, C Rajamohan, Sanjaya Baru, Pramit Pal Chowdhury and Indrani Bagchi. The government is normally represented as observer who also provides information and clarification, as required. This composite participation brings knowledge and experience to the table from various angles.

One very important component of participation is at the political level. Members of Parliament from India's political parties participate actively as session chairs and/or speakers and this has added enormous value to the Dialogue.

These dialogues are off-the-record. There are presenters on each topic from either side – no speeches! Maximum focus is on brevity and more on discussions and usually last 1½ days, followed by calls on government leaders, starting with the Prime Minister and including the Foreign Minister and other ministers and the National Security Adviser, as is relevant to the discussions in that meeting.

An effort is made to hold the meetings alternatively in each country, preferably away from a big city, though this does not always happen, because of the need to meet government leaders.

What has emerged? Taking the Indo-US Dialogue as an example, the coldness and near-hostility of 2002 has progressed to a much greater mutual understanding and respect. Agreements as well as disagreements are part and parcel of the process. Offence is not easily given or taken. Barriers have broken down. Mutual understanding has happened. Individual friendships have developed. In between meetings, there are many informal exchanges as well as specific work is taken up.

The follow-up meetings with the government are quite critical. These serve as briefings for national leaders on key issues and help to influence policy and attitudes. Clearly, governments find this process to be a useful input to frame official policy. It's become a way of finding new ideas and initiatives and to build an inclusive process for international and bilateral relationship building.

The same process has been followed for all dialogues, because it is a winning formula. In each case, there is a counterpart to the CII/Aspen India from the concerned country, e.g. Aspen Strategy Group, US. Their team is clearly bipartisan – plus media, think tanks, business, NGOs, government, etc.

What does the future look like? As India's engagement with the world grows, and relationships need to be forged and consolidated, in an ever-growing interdependent world, strategic dialogues will grow in number and in importance, if handled properly and with care. And, quite critically, different aspects of bilateral relations impinge on each other and cannot be handled in watertight compartments: Economic and Social and Defence and Industry, to give two examples. These connect. These cross. And, this applies across the board to other dimensions of foreign policy and international affairs.

One key factor is India's economy – it is central to this process. Countries are interested in engaging also because of India's growth, nine percent per annum, for the last few years and the future potential of 10 percent per annum for the next 10-15 years, as 600 million people are gradually brought into India's economy and society. Therefore, the size of India, the opportunities for all and the mutuality; all of these serve as the foundation for growing bilateral relationships and strategic dialogues. Strangely, the challenges of India, which are huge – poverty, governance, corruption, human resources capacity building, health stability, employment and self-employment, agricultural reform and productivity – to name just a few – also resonate across the world, developing and developed. These challenges create, in their own way, a commonality and shared agenda to overcome these, learning from each other. Hence, the importance of 'interdependence': it is not only about success, it's also about failures and challenges.

The Strategic Dialogue framework and the agenda bring all these issues to the table; expectations of short-term results would be unrealistic, because understanding takes time to evolve. It is, therefore, not a problem-solving mechanism for immediate crisis situations. The Dialogue process is, however, excellent for medium and long-term solutions to issues of national and international importance.

An example is the Defence Cooperation between India and US, which, in 2002, was a far cry. It was discussed at every meeting and, gradually, a shared understanding developed, which enabled policy makers to receive inputs of quality and move the defence relationship forward, slowly but steadily.

Often, official Dialogue and the Track 2 move in parallel. Sometimes, not necessarily at the same pace!

Another, far more publicised issue has been the nuclear cooperation and entry of India into the IAEA/NSG club. Again, misunderstandings were removed over a period of time and, currently, the global community has developed a positive approach to India's participation in the nuclear power development programmes of the future. It was especially important that nuclear experts were in the Strategic Dialogue to address mutual apprehensions and concerns.

A third example is the WTO and agriculture. The usual criticism of India has been that it is a spoiler, negative, not interested in agreement. This is the propaganda put out. That India has 600 million people living on agriculture, most of them living on US$1 a day, needed to be presented consistently and repeatedly. That import liberalisation of agriculture would destroy the lives of hundreds of millions of people was a fact of life which took time to make others understand.

There are many other similar instances where the Strategic Dialogue has been extraordinarily helpful in building and shaping mutual appreciation, especially of India's positions, e.g., *vis-à-vis* Pakistan, Iran, Iraq, Bangladesh, Myanmar, China, etc. Perceptions about Indian policy are very often rooted in history. Isolationist, negative to developed countries, inflexible, low growth, anti-private sector, over-regulated, protectionist – the Dialogue enables these old perceptions to be addressed.

The region around India is so complex that every Dialogue has a focus on developments in the South Asian region. Issues in each country, especially terrorism, have been a constant agenda. It has helped to build understanding. Another constant agenda issue is China and the bilateral economic engagement – growing – between India and China. The discussion always includes the soft challenges of education, health, HIV/AIDS, water, training, pandemics, disasters (Tsunami), etc. A growing understanding has evolved of mutual efforts and concerns.

It is a tribute to CII and Aspen India that these institutions have taken a broader, longer-term view of their role and have supported the framework of Strategic Dialogue as its contribution to promoting India's national interests and engagement with the world. It just goes to show how a small team of dedicated, efficient people can make a difference on a much wider canvas, building international relationships, supplementing official policy and diplomatic work. What it has shown is that complementarity of effort between the government and non-official institutions can be extremely useful in promoting the concept of interdependence and implementing a long-term process of partnership building in international affairs.

By taking on the unique role and responsibility, over several years, CII has graduated from being an 'Employers Organisation' with narrow, limited business- related aims to becoming a 'Developmental Institution' seeking to participate in, and contribute to, a much wider range of national and international objectives and tasks.

The time has now come to institutionalise strategic dialogues and create a framework which, itself, will evolve over time. CII and the Aspen Institute, India, are, therefore, collaborating to set up the India Strategy Group, which will service the Strategic Dialogue process as well as bring in quality policy and research work into this activity. The India Strategy Group will have dedicated staff as well as visiting fellows, who will provide thought and knowledge leadership. This is the 2011 agenda.

20 Networking with Local Partners: Experience in Silicon Valley, Mauritius and Germany

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Economic diplomacy, as practiced on the ground by the diplomatic and commercial systems of different countries, often passes through three evolutionary phases, *salesmanship*, *networking* and *regulation*.[1] This may not apply to small states, or those that have but one or two main export assets, but it probably holds good for a majority of countries, developing and developed.

The first stage is obvious; it involves helping the exporters from the home country to improve their sales to foreign countries. Embassies and trade offices work with individual home enterprises, business chambers and others. They usually

1 See Rana, 'Economic Diplomacy: The Experience of Developing Countries', Nicholas Bayne, and Stephen Woolcock, *The New Economic Diplomacy: Decision Making and Negotiation in International Economic Relations*, 2nd edition, (Ashgate, London, 2007), pp 201-20

give special emphasis to the export of new products and accessing new markets, be these foreign countries where the home country is relatively absent, or parts of large foreign states where a similar situation obtains. The salesmanship effort includes mobilisation of foreign direct investment (FDI), i.e. reaching out to potential foreign investors, to attract them to the home country.

The second phase of networking involves working with groups of stakeholders at home and abroad, consisting of entities that have obvious, as well as indirect connections, with the advancement of bilateral economic relationships. In the latter category, one might work with banks, regional branches of political parties, universities and media groups – in my experience, in the US and Germany, each of them acted as local hosts for economic promotion events targeted at companies and businessmen. This is described below in detail.

The third phase, regulatory activity, is a product of globalisation, where commercial work extends to establishing, defining and managing the framework within which economic exchanges take place. This also covers air and shipping links, cooperation in financial services and the like, all of which are handled by functional ministries, but involves the Foreign Ministry as well. Notwithstanding the myth of free markets, the management of such economic rules is increasing the focus of bilateral, regional and global discussions among states. While this is primarily handled from the capital of the national system, the Economic Diplomat and the Embassy abroad are significant contributors to this process.

In the experience of many countries, these stages in economic work have represented a natural progression, responding to the shifting global economic environment, which we now call 'globalisation'. As interdependence between countries has grown, so has the institutional response. In practice, as a country migrates to a higher diplomacy phase, the new set of activities is added on the top of the other activity, without shedding the lower stage activity. Thus, the most active practitioners of economic diplomacy handle the concurrent tasks of marketing their country, reaching out to wide home and foreign networks and contributing to the management of the regulatory framework.

These are heavy demands, but they mesh with one another to produce valuable synergy, as also a multiplier effect. Success in export marketing may lead to new opportunities for networking and give better insight also into the regulation issues. This becomes a reaffirmation of the virtuous circle effect. It should not be surprising that in the view of many envoys at bilateral assignments, 50-70 percent of their time is now taken up with economic work.[2]

For a newly independent country, it is possible to move in agile fashion and conduct all the three activities, and thus shorten the learning cycle. This may particularly apply to the transition countries in East and Central Europe, and in Central Asia, which over the past 15 or 18 years have moved from rigid command economies to market capitalism. This gets us far from our theme, but the subject needs deeper study.

Let me describe some real life networking experiences, to describe the ways in which this activity contributes to the advancement of economic objectives in bilateral situations. The examples are drawn from the author's assignments in the US, Mauritius and Germany.

Living on the edge of the Silicon Valley in the late 1980s was exhilarating, during my three years as Consul General in San Francisco (1986-1989). Several entities and individuals became our economic outreach partners. One of them was the representative office of the Bank of India. Taking advantage

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2 This was affirmed by the ambassadors and high commissioners of France, Germany, Singapore and the UK at meetings held at New Delhi by the Confederation of Indian Industry in 2004 and 2005.

of their downtown location in a well-known office complex, they launched a monthly 'economic forum' for discussion on India-related issues, at which prominent Indian entrepreneurs and Americans were invited, to meet visiting Indian personalities; the charismatic industrial icon, Ratan Tata, was one of our speakers, as were visiting delegations of businessmen. The usual format was a talk by a local or visiting speaker, followed by a discussion. This meshed well with the emerging climate of economic optimism, when we recall that in those years, under Prime Minister Rajiv Gandhi, India had initiated tentative reform measures.

That forum had several direct and indirect outcomes. In early 1987, group of young Indian information technology specialists, working in major companies such as Intel, IBM, HP, Xerox, Sun Micro and others, decided to launch a 'Silicon Valley Indian Professionals Association' (SIPA); we responded with enthusiasm when asked if the Consulate General would work with them. In a short time, the monthly meetings of SIPA began to draw audiences of several hundreds and their membership snowballed; attending and speaking at these gatherings became a must-do activity for visiting Indian business delegations.

Working with the young leaders of SIPA broadened my thinking and taught the virtues of open communications, where one had to deal on a level playing field with others, some of them rather critical of the bureaucracy. These technocrats, in turn, took on roles as internal evangelists in their companies, spreading awareness of the emerging opportunities in India. We saw proof of this a little later, as narrated below. Very indirectly, SIPA became a precursor of the highly successful network of venture capitalists and budding entrepreneurs, TiE ('The Indus Entrepreneurs'), founded in 1992, that has 11,000 members and 53 chapters in 12 countries, in virtually all the places where South Asian technology business is located.

In 1986, the very first software development centre in India set up by a foreign enterprise, Texas Instruments at Bangalore, had gone into operation; India's software exports in that year were around US$10mn, resembling a gleam in the eyes of a futurist. We decided that year to organise for the first time a series of 'Software India' conferences, to showcase India's nascent IT capability, before invited audiences of US companies.[3] This proposal was made to Ambassador P K Kaul around February 1987 during his first visit to the West Coast; it gained his enthusiastic support and was accepted by New Delhi. SIPA became our partner of choice, and our brainstorming asset, in the lengthy preparation that we undertook. The first Software India event took place at Palo Alto in September 1987 and the group of about a dozen Indian companies that joined the roadshow travelled thereafter to Seattle, Los Angles, and Dallas (then part of our jurisdiction area), before going on to Chicago, New York and Washington DC. N R Narayana Murthy was one of the early participants, in what became an annual series.

For this Consulate General, UC Berkeley, together with Stanford University, the two world-renowned institutions located in the San Francisco Bay Area, were always the two prime partners for different academia-related activities. In 1988, our multiple friendships at Berkeley were leveraged, for the establishment of a bi-monthly 'India Forum'; Berkeley wanted our help in reaching out to the increasingly wealthy Indian diaspora – and three years later, thanks to the fine work by my successor Satinder Lambah, this led to the establishment of an India chair at this university, and another one at Stanford as well.

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3 As at all software promotional events, especially in the early stages, this meant appealing to several different clusters of companies, such as potential partners for technology co-operation, potential investors in India, including major IT companies, and users of IT services, such as banks, insurances companies and the like.

At these gatherings at UC Berkeley, academics, NRIs and business entrepreneurs were invited to speak; one evening, the CEO of a major chip design company VLSI Technology narrated to the group their Indian experience.[4] They turned their attention to the Indian market in the late 1980s at the urging of their Indian employees. In 1988, taking advantage of our regulations of the time, which permitted foreign companies to gain privileged market access, as NRI entities, if 60 percent of the ownership was in the hands of overseas Indian. They set up a subsidiary in which their Indian technocrats held 60 percent, with the rest in the hands of VLSI. This was an innovative device. Someone asked the CEO what might happen if the shareholding Indians left their company; he replied that they had no problem with that, and that they trusted both their employees and the arrangement.

Of course, not every idea worked. Our Silicon Valley friends urged that Indian companies should consider making strategic investments in high technology start-up enterprises, in the manner in which South Korea and Taiwan had done, with the aim of gaining access to technology and giving an impetus to home production. Based on their advice, we carried out soundings.

Vinod Khosla, one of the founders of Sun Micro and recognised even in 1988 as one of the leading figures in the emerging venture capital industry (Kleiner Perkins Caufield & Byers and now has his multi-billion dollar fund Khosla Ventures), expressed interest in helping us and we learnt that even a relatively small corpus fund of around US$10mn would suffice for several investments at the first and second financing rounds of startups. But, after consultations with our industry leaders and with the Department of Science & Technology, we realised that the idea was ahead of its time for our

4 In 1999, Phillips Electronics acquired VLSI Technology for about US$1bn.

businesses and government entities, in our system, simply could not sustain the kind of risk that such investments would entail, where the success rate is barely two or three in a dozen investments – even if these successes would probably more than wipe out the losses. We learn that in 2010, the Indian Department of Science and Technology is pursuing ideas along similar tracks.

In each of the above cases, our networking reached out to non-obvious local entities and, using them as multipliers, enhanced our credibility and provided us the means to reach out to a larger audience of businessmen and company executives.

At my next assignment, Mauritius (1989-1992), the situation was very different, requiring change in the outreach methods. This island state calls itself a 'rainbow nation', composed as it is of multiple ethnicities. About 70 percent of the total population is of Indian origin (about 51 percent of the total are Hindus and over 20 percent are Muslims, with a clear divide between them); about 25 percent are Creole (descendants of Senegalese and other African ancestors); three percent are of Chinese descent; and about one percent are of French descent, owning about half the sugarcane plantations, besides dominating manufacturing and trade.

In the past, the High Commission had tended to ignore the local Franco-Mauritian companies that dominated business, but it clearly made sense to reach out to them. These companies were the principal local actors and our outreach coincided with their growing awareness of India, as a market and a source of competitive industrial supplies. Trade grew well in consequence and the first of the new Indian investments came in.

This yielded political as well as economic dividend. Soon after arrival in the island state, during my customary call on French Ambassador Phillip Coste – and this courtesy is particularly important in the capitals where the diplomatic corps is small – remarked that while our two countries enjoy close relations, in Mauritius, local interests sometimes view us as rivals and we should counter this. I agreed completely and we thereafter maintained a steady exchange of visits, to discuss issues of mutual interest. In a similar spirit, I found it useful to reach out to the Creole community, mainly through their political leaders, while taking care to communicate intentions to the majority community, who represented our first line of friendship.

The Hindus of Mauritius have traditionally been, for the great part, small farmers, government employees and factory workers. Our networking reached their community leaders and businessmen, to encourage a movement toward entrepreneurship and self-employment. In mid-1991, we persuaded a leading entrepreneurship development organisation in India, sponsored by the major public sector Indian Bank IDBI, to organise a training seminar, aimed especially at the community of Indian origin and the Creoles, run in partnership with the ministry concerned. That was, alas, a one-time action, but was supplemented with conversations with community leaders, urging them to create their own business development groups, to mentor young people to shift into business activities. While these actions had no direct Indian benefit, it did serve to build strong local connections and help us gain credibility.

The other lesson from Mauritius was that it made sense to involve local activists into providing informal advice to the mission, in a structured way, through periodic meetings with selected groups, with meetings conducted on an 'open-ended' basis, in that they were open to anyone interested. We shared information on upcoming events and made the participants feel that they were our local allies. It worked well in preparing for trade exhibitions and in our marketing and investment promotion efforts.

Germany, where I served from May 1992-July 1995, provided a very much larger and more complex canvas.[5] Our local networking included the following activities, not all of which were successful. First, we tried to work with the Indo-German Parliamentary Group, one of about 40 such bilateral groups in the German *Bundestag*, hoping that it might serve a promotional purpose. Its Chairperson, Dr Edith Niehuis, an SPD party member and a very fine individual, made it clear to me that while they did meet a couple of times each year and took a parliamentary delegation to India every two years or so, they were not designed as a proactive or promotional body. She used her speech at a dinner meeting at the Embassy Residence to convey this message in a very direct and open fashion, so that there should be no misunderstanding. We remained good friends and she was of indirect help to us in some of our political lobbying.

Second, during the course of our media outreach activities, we found a couple of regional newspapers willing to host business promotional meetings. Such meetings were held in Düsseldorf and in Stuttgart. That supplemented our contacts with the chambers of commerce in different cities and regions. In like fashion, some banks came forward and hosted business meetings for their client companies.[6]

Third, we found, on occasion, similar interest on the part of regional units of the major political parties in hosting business meetings; I recall well such a meeting held in Mannheim in 1994, through the personal interest of a CDU party member of parliament. In like fashion, some of the state

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5 Details of our economic diplomacy-related activities are narrated at length in my first book; see Rana, *Inside Diplomacy*, Manas Publications: New Delhi, 2000; (revised paperback edition August, 2002).

6 German banks enjoy especially close links with companies; the latter tend to have a 'house bank' that is their chosen partner for a wide range of financial and business activities. The banks too play the role of 'universal banks', more so than in most other Western countries.

governments, especially the tiny city-state of Bremen and the technology leader Baden-Württemberg, were especially friendly in organising business outreach seminars and other programmes.

Fourth, we found the state (or *Lander*) governments especially receptive to business promotion – it had been a similar story in the US. It proved the old adage that some of the most fruitful diplomatic work is conducted outside the capital. By keeping close links with the leaders and senior officials in these states and in the key cities – Berlin, Bremen, Frankfurt, Hamburg, Munich and Stuttgart especially come to mind – we found fertile ground for a continual flow of German business visits to India. In these contacts, some leading members of the Indian community played a valuable role.

A final instance of networking in Germany involved working with major entities dealing with economic cooperation. In 1992, we started with the representatives of Indian companies, inviting them to quarterly meetings in Bonn, then the federal capital. The representatives of different public enterprises and associations were invited, including Air India, the State Bank of India, the Indian Trade Promotion Organisation and the Engineering Export Promotion Council, besides any visiting businessmen who happened to be in town.[7]

We exchanged information on upcoming activities; after a couple of meetings it occurred to us that it made sense to include also the German entities that worked on India, so in early 1993, we began to invite representatives of the Chamber of Commerce DIHT, the Industry Body BDI, the Technical Cooperation Entity GTZ, two major development banks KfW and DEG and the Indo-German Chamber of Commerce (IGCC). They responded with enthusiasm and the group

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7 In those days, we had no representatives of private Indian companies stationed in Germany, but in principle, there would be no reason to exclude them from such groups.

became livelier and productive, providing thorough information exchange on visits of delegations and a range of promotional activities. About a year from the start, towards the end of 1993, representatives of the Federal Economics Ministry asked if they could attend; that added further value to the exercise. In 1994, the Foreign Office's South Asia *referat* (division) joined the group.

Embassies traditionally hold such meetings with local representatives of their home enterprises. The novelty was to include the representatives of German entities, on the simple premise that economic cooperation is a two-way process, involving what is often called 'low diplomacy', because it does not generally involve high secrecy and is predicated on both sides working together. Including the representatives of federal ministries was unorthodox, but paid us rich dividend in goodwill and transparency, to say nothing of getting good ideas on future activities. Traditionalists may argue that Foreign Ministry officials do not go to embassies to conduct substantive discussions, but we encountered no such inhibition from the German Foreign Office.

As for foreign ministries, we have the example of the Canadian Department of Foreign Affairs and International Trade, which selects target countries each year and places them front and centre, in the course of 'forum discussions', where businessmen from Canada and that country, academics, media persons, and officials from that country's embassy are invited for half-day discussions on bilateral themes – economic, social and even political. The aim is to raise the level of awareness and understanding of that country; several sessions are held during the year. This too is a networking method that has great merit and is worthy of emulation. Canada is one of the leading practitioners of innovative public diplomacy and such initiative fits into that broad category.

Some of the above ideas may resonate with practicing diplomats, those at embassies, commercial offices, as also colleagues who work in trade or foreign ministries, handling commercial and economic outreach. The lesson we learnt was that it was possible to try out different forms of networking, provided that the local environment was conducive. One can only judge the result by trying out some of the ideas, after a careful assessment of the risk-to-gain equation.

21 India at the WTO: From Scepticism to Activism

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Introduction

While India was a founder Member of the General Agreement on Tariffs and Trade (GATT) 1947, she was not a very active participant in the early 'Rounds' of trade negotiations. This changed in 1986 when the Uruguay Round of multilateral trade negotiations was launched with much fanfare in the capital city of Uruguay, Punta del Este. India at that Ministerial meeting strongly opposed the inclusion of new subjects such as services, investment and intellectual property rights (IPRs) within the mandate of trade negotiations. It is, however, fair to stay that in the end it was basically Brazil and India which opposed the inclusion of the new 'subjects'. When Brazil was persuaded to drop its opposition to the new subjects, it was just India, which briefly stood in the way of the launch of a new 'Round'. Finally, India relented and thus paved the way for the launch of the Uruguay Round.

Mother of all Rounds

The Uruguay Round of trade negotiations, rightly called the 'mother' of all Rounds, sought to expand the scope of GATT in an exponential fashion. While GATT just dealt with tariffs on goods, the Uruguay Round launched negotiations in areas as diverse as services, IPRs, trade-related investment measures (TRIMs) etc. As if this were not enough, the dispute settlement machinery that was hitherto based on consensus and persuasion was sought to be made mandatory and fully enforceable. The fact that big American corporate interest were behind all this made India highly sceptic about the motives of the 'QUAD' (the quadrilateral GATT members comprising US, EU, Japan and Canada) which drove the Uruguay Round. It is worth bearing in mind that India for the larger part of the Uruguay Round was a relatively closed economy with high tariff levels. After all, economic reforms in India began in right earnest only in the early 1990s.

The Uruguay Round of trade negotiations lasted eight long years from 1986 up until 1994. However, this period can be divided, for the sake of convenience, into two parts. The first period was from 1986-1991 and the second period from 1991-1994. The year 1991 has been picked essentially because towards the end of 1991, the Director General of GATT Arthur Dunkel put forward the Draft Final Act on his own responsibility.

During the period 1986-1991, negotiations in the GATT took place in various negotiating groups. For instance, for IPRs, there was a negotiating group which would be chaired by either the Ambassador of a country or by a high trade official based in the capital. The negotiating dynamics in the GATT (and later on in the WTO) go something like this. A country, say the US, puts forward a proposal usually after consulting other countries which are like minded. Thus, the US would first float the proposal in the QUAD forum. Then, it would try and seek more support from other developed countries. By the time the proposal finds its way to the negotiating group, it would ideally have the support of a reasonable number of countries. If for instance, India, then finds the proposal prejudicial to its interest then she has three options before her:

- Accept it with or without modifications;
- Reject it; and
- Put forward a proposal of her own.

In the Uruguay Round, India often found herself in an unenviable situation. If she rejected the proposal, she often found herself in a small minority and was labelled 'obstructionist'. If she agreed to discuss it, then, it was often interpreted as weakness and a departure from the traditional position of saying 'no' to inclusion of subjects such as IPRs. It is to the credit of Indian trade diplomats that they often provided sound intellectual justification and detailed economic rationale for the positions they took. Thus, India's reasoning for opposing IPRs in the GATT was actually very sound: there was already a forum, i.e. the World Intellectual Property Organisation (WIPO) for dealing with it; and furthermore, IPRs in the strict sense of the term were not even a 'trade' issue. The fundamental basis for India's stance was also the conviction that the Government of India needed to retain in substantial measure the sovereign economic space that is necessary to meet the immense developmental challenges she faced. Besides, India was the only GATT Member (China became a WTO member only in 2001) which was '*sui generis*' – one of a kind, given the population, levels of poverty, inequality etc. All this was justification enough for the positions taken by India earlier on in the GATT.

A word on the decision-making procedure in the GATT (and later on in the WTO): GATT and WTO decisions are based on consensus – consensus being defined as those present in the room not objecting to a decision. There has never been any vote in the GATT/WTO – although there is provision for voting in the rules of WTO. This means that at least from a theoretical point of view, it is possible for a country as small as St. Lucia to block a decision based on consensus. In practice, it is powers such as the US and the EU (and India at times) which prevent a consensus from emerging. Of course, it is impossible for any one WTO Member to block a decision indefinitely which commands an overwhelming majority. Sooner or later, the will of the majority prevails.

The Uruguay Round of multilateral trade negotiations underwent a defining moment in December 1991. At this time, the Director General of GATT Arthur Dunkel, with no explicit mandate or authority, put forward what was called the Draft Final Act (DFA) on his own responsibility. This was essentially a compilation of almost all the negotiations in different groups and termed it a comprehensive representation of the final global package. But more than anything else, it was Dunkel's prescription for amendment of the DFA that was unfair and arbitrary. He stated that if a country wished to see changes in the DFA, it was incumbent on that country to secure a consensus in favour of that change, i.e. convince every WTO Member of the need for amendment. Anyone who is familiar with the WTO negotiating dynamics knows that this is well-nigh impossible.

For instance in late 1992, the author was instructed to float a proposal to seek an amendment of the DFA relating to patentable subject matter. Thus, when we sought to exclude importation as a means of working the patented invention, US immediately opposed it and cast a veto, so that there was not even a discussion on the Indian proposal. Similarly, India sought changes to the Agreement on Textiles & Clothing (ATC) which would have led to faster front-loaded liberalisation than that provided in the DFA, it was opposed by developed GATT members such as the US and the EU.

While it was impossible therefore for India to bring about modifications to the DFA, it was perfectly possible for US and EU to bring about changes to the Agreement on Agriculture (AoA) in November 1992 (also known as the Blair House Accord) which eventually paved the way for the conclusion of the Uruguay Round.

A few remarks on the Uruguay Round that led to the establishment of the WTO:

- The US, at times single-handedly drove the Uruguay Round based on its rational interests;
- The EU was defensive but succeeded in protecting its vital interests in agriculture;
- It is true that India did not achieve all of its original negotiating objectives. But, it managed to limit the 'damage', contribute significantly to the strengthening of rules-based international trade and almost single-handedly achieved concrete results in the area of textiles signalling an end to the pernicious quota regime in ten years; and
- Fundamentally, the Uruguay Round outcome was both unfair and unbalanced. It was a 'bum deal' and this led to a 'trust deficit' between developed countries and developing countries such as India. This was to have an enormous implication for the future of trade negotiations in the WTO.

Failure at Seattle

One might imagine that the success of developed countries in the Uruguay Round will have left them satisfied and the developing countries might have got a breather. Alas, no! As early as the very first Ministerial Conference of the WTO in Singapore in 1996, the developed countries sought a vastlyexpanded agenda for the WTO with new subjects such as Investment, Competition Policy, Trade Facilitation and Transparency in Government Procurement. This was, in retrospect, a negotiating blunder by the developed countries led by the EU. The developing countries had barely stomached the unfair outcome of the Uruguay Round before they were confronted with new subjects proposed for negotiations. This may be attributed either to profound insensitivity to the concerns of some developing countries (such as India) or due to overconfidence that if they (developed countries) could get away with it in the Uruguay Round, they could get away with it again.

The above move by QUAD (led by the EU) led to two developments which were to have profound consequences for the multilateral trading system. One, it aggravated the 'trust deficit' that emanated from the conclusion of the Uruguay Round. The result was scepticism on the part of countries such as India with regard to negotiations in the WTO. Somehow, the impression was gained that the newly established WTO was not designed to take into account the legitimate concerns of developing countries. The second development was that countries such as India decided that rather than saying 'no' to proposals made relentlessly by the QUAD, they would try to be proactive and make proposals of their own.

This led to a series of proposals by India and other developing countries under the rubric of 'Implementation'. The idea was to highlight a whole range of issues that arose when developing countries started implementing the results of the Uruguay Round. 'Implementation' thus had to do with: unanticipated problems and unrealised benefits from some of the agreements; fundamental imbalances and asymmetries in some of the agreements and non-binding nature of the provisions on special and differential treatment. This proactive setting of the negotiating agenda was important because India moved away from merely saying ‘no’ to ‘activism’ in setting the negotiating agenda.

When this author began his second stint in Geneva in 1998, the stage was set for preparations for Seattle Ministerial Conference. In the negotiations leading up to Seattle, there was a basic divergence between the negotiating objectives of the QUAD and their developed country allies and a group of developing countries led by India. The former group considered the Uruguay Round agreements as a ‘settled’ matter and basically rejected the ‘Implementation’ agenda by chairing it was an attempt to ‘re-open’ issues already decided upon. Instead, they argued that the WTO must move on and tackle new issues such as Investment, Competition Policy and according to some countries, even Labour Standards. The group of developing countries, on the other hand, stubbornly insisted on resolution of ‘Implementation’ problems and strongly opposed the inclusion of new subjects in the negotiating agenda. The stage was therefore set for a negotiating impasse.

The irony was that neither the QUAD and their allies nor the WTO Secretariat really gave up their attempts to launch a new Round at Seattle. The US, the host country, did not help matters by their inability to make thorough preparations for the Conference.

Yet another extraordinary thing that happened around 1998 was the coalition of non-governmental organisations (NGOs) that came together with the sole objective of opposing the WTO’s way of working. These NGOs were to play an important role in disrupting the WTO Ministerial Conference at Seattle.

In the run-up to Seattle, the author was closely involved in pursuit of ‘Implementation’ issues for India. The biggest challenge was to muster support from other developing countries and use the 'negotiating space' available in the WTO. We received considerable help from inter-governmental and Third World organisations such as UNCTAD, South Centre and also from NGOs such as OXFAM, Quakers Group and Doctors without Borders. Maintaining close contact and liaising with these organisations was both invigorating and challenging. Invigorating, because they gave enormously important inputs to our negotiating strategies! Challenges, because it posed constraints on time and place! So much so that some of us would meet with them over after-dinner, coffee at 11:00 p.m.

With serious divergence on negotiating positions, the Chairman of the WTO General Council produced a document for Ministers which was 35 pages long with scores of square brackets (signifying lack of agreement). The signs were thus ominous.

To add to the confusion, when we arrived in Seattle, we did not even know the hotel which we were allotted. Meanwhile, the NGOs had gathered on the streets of Seattle to render any meeting virtually impossible. Valuable time was thus lost.

Just when we thought things could not get worse, the US delegation proposed a negotiating group on Labour Standards. If there was one issue which unified all the developing countries, it was Labour Standards. They held the near unanimous view that WTO was not the forum to negotiate Labour Standards and that the proposal was merely ill-disguised protectionism on the part of developed countries.

Meanwhile, the NGO activists resorted to blockade and the police had to resort to teargas. In fact, as an Indian I had never experienced teargas in India and had to experience it first hand in Seattle! When the meetings finally began, they began in small groups. In the GATT and then the WTO, actual negotiations have always taken place among a handful of countries (25 to 35 at most), thus attracting criticism of lack of democracy. Negotiations also happen behind closed doors leading to criticism among the NGOs that decisions were taken in secret.

The fact, however, is that there is no way negotiations can happen among 150 odd WTO members all at once. In Seattle, however, there was complete lack of information with the result that ministers of small African-Caribbean countries did not even know that small group meetings were going on. This led to anger on their part and they staged a 'walk out' on the penultimate day.

In the end, the Conference ended in chaos and there was not even a Ministerial declaration that was agreed upon. Clearly, Seattle was WTO's darkest hour.

Pyrrhic Victory at Doha

The WTO was too important an organisation for the developed countries to be allowed to atrophy and fall into disuse. So, soon after the debacle at Seattle, there was a lot of hand-wringing and soul-searching in the WTO. There were endless discussions on internal/external transparency as well as ways to enhance the participation of least developed countries (LDCs) in the multilateral trading system. Some improvements were indeed agreed upon; but, nothing radical was agreed upon. But, there was a sincere attempt to assist LDCs even though proposals to grant them unconditional market access were not agreed upon either by the US or EU. But the QUAD and their allies made a strategic, if cosmetic, decision – that the new Round would try and incorporate the development concerns of developing and LDCs, hence the name 'Development Round'.

From the point of view of negotiating procedure and organisation of Ministerial conferences, the WTO learnt from the debacle in Seattle. The choice of Doha itself was a source of controversy but the US finally decided in its favour. Doha, ironically enough, would have the advantage that there wouldn't be thousands of NGO activists to disrupt the Ministerial Conference.

But, from a substantive point of view, the QUAD and their allies were not giving up on their expanded negotiating agenda. They still sought inclusion of Investment, Competition Policy, Trade Facilitation etc. in the WTO. The 'Implementation' issues meanwhile languished for want of political will. How then did Doha succeed, where Seattle had failed?

Two possible explanations came to mind. One was the declaration on Trade Related Aspects of Intellectual Property Rights (TRIPs) and Public Health which was agreed upon in Doha, in which the author was closely involved. The other was the events surrounding 9/11 in the World Trade Centre in New York. It is worth considering them one by one.

The TRIPs Agreement of the WTO was one of the most controversial to be concluded as part of the Uruguay Round. Objectively speaking, the Agreement in its original form simply favoured the patent rights holders and merely paid lip service to public health concerns. Also, bear in mind that the US over the years had used its dreaded Special 301 legislation to browbeat several of its trading partners into agreeing to stringent IPR legislation. It was against this background that the AIDS pandemic came into focus in Africa where AIDS patients were literally dying because they could not afford patented AIDS drugs. It was, as one NGO put in brilliantly, patents vs. patients!

The author, who was India's lead TRIPs negotiator at Doha, was involved in one of the most exciting and difficult negotiations of his life. The first step was building core support. Brazil immediately saw the merit of India's proposal that nothing in the TRIPs Agreement shall prevent governments from taking measures to protect public health. It was thus left for me and my Brazilian colleague to chart out a negotiating strategy. We went and addressed the African Group in the WTO and sought their support, which we received. From there, to coordinate closely with them in order to accomplish what we did in Doha was a stupendous achievement for developing countries. Indeed, the negotiations on this issue went down to the wire and tough discussions took place in Doha on November 12, 2001. In that meeting, the US was represented by Robert Zoelleck, the EU by Pascal Lamy, Brazil by Celso Amorim and India by the Author. Sitting and negotiating with such senior ministers was an experience of a lifetime. The main lesson that I learnt was that timing of the compromise is critical and also that the best can sometimes be the enemy of the good. Given all of the others were plenipotentiaries they had full powers to negotiate. When the negotiations concluded, I was the only negotiator who had to agree '*ad referendum*'. In the end, I heaved a sigh of relief when the Indian Commerce Minister and senior officials congratulated me on a job well done!

The '*force majeure*' event that enabled the launch of a Round at Doha, however, was the 9/11 events in New York. Following those events, it was important for everyone to send a signal that the global economy was alive and kicking. At the end of the day, this even created so much pressure especially on smaller countries that many of them could not have opposed the launch of a Round.

India, as in her wont, stood alone till the end. The reasons were not far to seek. Notwithstanding the lack of consensus, the Chairman of the Conference said that negotiations would be launched in the areas of Investment and Competition Policy at the next Ministerial Conference. This was plainly unacceptable to India. India then single-handedly blocked consensus on November 13, 2001 amidst stunned silence. It was then that discussions on compromise led to change in the language of the Ministerial Declaration with the use of the term 'explicit consensus', which is different from consensus in the sense that the latter merely signifies in the WTO someone present and not objecting to a decision being taken.

In the final analysis, the Doha Round was launched because everyone got the promise of something from it.

Postscript

If the Doha Round of multilateral trade negotiations has not been successfully concluded even after nine long years, it essentially means that the political will is simply not there. The situation is complicated by the fact that countries like India took on onerous obligations in the Uruguay Round and if they do not get substantial benefits from the Doha Round, then, it would be difficult for them to accept. The global power structure has also undergone a shift and power has shifted to the East from the West. Furthermore, China is now a full-fledged WTO member and will no doubt pursue her own interests. The WTO, meanwhile, has grown to 153 member countries. All this makes multilateral trade negotiations in the WTO more complex than ever before.

Today's Challenges

22 Latin America – Energising India

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Consul General in Brazil (2000-2003)
Ambassador to Venezuela (2003-2006)
Ambassador to Colombia (2007-2010)

Latin America has remained at the periphery of Indian political and economic strategy, having presented no significant challenges, received marginal Indian migration (mainly in the Caribbean/Atlantic), and, depending on the country, having limited or no historic or cultural connections with India.

In this century, however, economic exchanges, particularly in the energy sector have been significant. The South American continent, which in the Ministry of External Affairs is clubbed with Central America and the Caribbean, is rich in oil and gas, with probable, and even proven, estimates of reserves rising every year.

Recognising the need for a coordinated and concentrated effort in this area, the Ministry of External Affairs in 2007 set up the Energy Security Division, which is responsible for coordinating India´s energy diplomacy all over the world in close coordination with the Ministry of Petroleum and Natural Gas and Indian oil companies.

Indian diplomacy has been very active in Latin America in the energy sector. The past decade has been studded with high level visits:

- India's Petroleum Minister visited Brazil in 2001 to discuss collaboration in hydrocarbons and alternative fuels (in both areas Brazilian companies have been collaborating extensively with India)
- President Chavez visited India in 2005 and signed a bilateral agreement between Venezuela's State giant Petroleos de Venezuela S.A (PdVSA) and India's ONGC Videsh Limited (OVL)
- India's Petroleum Minister visited Venezuela in April 2008 to finalise the first joint venture between PdVSA and OVL
- Ecuadors Foreign Minister visited India in 2006 during which a bilateral MoU was signed between PETROECUADOR and India´s OVL
- Colombia's Energy Minister visited Delhi in September 2008 to sign a bilateral MoU on Cooperation in Energy

In Venezuela, whose hydrocarbon reserves rival – and as per latest estimates of the US Geological Survey exceed – those of Saudi Arabia, Indian energy diplomacy had a slow start, mainly on account of political, and consequent juridical developments in the hydrocarbon sector. Nevertheless, on April 08, 2008 in the presence of the Petroleum Minister of India in Caracas, OVL signed a joint venture agreement with the Venezuelan PdVSA, acquiring a 40 percent stake in the San Cristobal oil field in the heavy oil belt of Venezuela. The field is currently understood to be producing over 30,000 barrels per day (bpd), which will be taken up to 40,000 bpd, with an investment of approximately US$355mn.

OVL had been asked by the Venezuelan government, in 2004, to carry out a study to quantify and certify oil reserves in the gigantic Orinoco (river) belt which is understood to store 235 billion barrels of heavy oil. OVL was assigned the Junin block and has completed the second phase of its study. OVL´s heavy oil extraction and beneficiation technology is highly regarded by PdVSA and prospects for a second joint venture are bright.

Indian diplomacy played an especially vital role in Venezuela when President Chavez took a political decision to form a joint venture for the San Cristobal field with OVL during his State Visit to India in March 2005. Diplomatic intervention also played a role in establishing an enduring contact between Reliance Industries Limited and the Venezuela's PdVSA, which could translate into exploration and even downstream prospects for this company.

In Brazil, OVL acquired a 15 percent stake in a field in the Campos basin, approximately 120 kms offshore in the south eastern coast of Brazil in April 2006. OVL's expertise in deep water oil drilling was recognised by joint venture partners Petrobras of Brazil and Shell who intend to exploit wells from 1400 meters to 2500 meters depth. OVL has also obtained concessions for two offshsore blocks as operator and is collaborating with Petrobras in yet two more through its wholly owned subsidiary ONGC Campos Ltd.

In Cuba, OVL acquired a 30 percent participating interest in six deep water exploration blocks in May 2006, spread over almost 12000 sq. km. in Cuba's exclusive economic zone with estimated reserves in excess of four billion barrels. In September 2006, OVL entered into a production sharing control as operator with CUPET, Cuba's state oil company, for two offshore exploration blocks, understood to have considerable hydrocarbon reserves.

In Trinidad, the OVL joint venture with Mittal Investments (OMEL), is understood to have run into trouble largely on account of OVL's collaborator Mittals backing out of the collaboration for its own reasons.

In Colombia, in consortium with China's Sinopec, with a participating interest by Colombian State company, Ecopetrol, OVL acquired a 50 percent interest in Mansarovar Energy Colombia Ltd (MECL) which operated a cluster of oilfields in central Colombia, producing 10,000 barrels per day. The production had been hiked up to 32,000 tpd by December 2009.

OVL successfully bid for significant shares in three offshore gas fields, tendered by the Colombian government, in consortium with Petrobras and Ecopetrol, and two on-shore heavy oil fields in the Llanos basin in eastern Colombia. OVL's overall investment till date in Colombia amounts to over US$600mn.

In December 2009, Reliance Industries Limited signed up to commence exploration of two offshore oilfields off the Colombian Pacific coast, with an estimated investment of US$50mn, in collaboration with Ecopetrol.

In Ecuador, the Embassy of India in Bogota had to make strenuous efforts to reactivate the MoU signed in 2006 between OVL and Petroecuador and with the conclusion of the requisite Confidentiality Agreement, OVL seems set to commence business in Ecuador, provided the terms for foreign oil firms are not too severe.

Reliance is understood to have acquired four hydrocarbon blocks in Peru. Jindal, another Indian conglomerate, has also been granted concessions in Peru, while it has discovered gas in southern Bolivia, where it is exploiting large iron ore deposits.

Despite the distance, Reliance has been importing oil from Brazil from the year 2000 in exchange for supply of diesel. The contracts have been sporadic but the interest abides. Reliance finalised a contract for supply of Venezuelan heavy crude in 2006 and is understood to have purchased from Venezuela over US$1.6bn in 2009. India´s Essar purchased another US$625mn worth the same year. During his visit to India in March 2005, President Chavez expressed his determination to diversify sale of Venezuela's oil from the US to China and India. Apart from sales to Reliance and Essar, Venezuela may also strike term contracts with State oil companies of India for supply of crude. Reliance has also started purchasing Colombian crude since 2009 – (6 million barrels – a figure expected to increase in 2010). Essar is also expected to contract Colombian crude oil supplies starting 2010.

Energy Security earlier focused on the possibility of concluding term contracts at fixed, reasonable rates, a prospect increasingly difficult given the recent and foreseeable volatility in crude prices. Today, the focus is on participation in exploration and exploitation. OVL, despite being a public sector enterprise, has shown remarkable versatility and efficiency in a highly competitive environment. It has secured billions of barrels of reserves which it can safely exploit over the next two decades.

Another dimension of India's energy partnership with Latin America lies in alternative fuels. Although collaboration in solar, wind and nuclear energy (supply of uranium, etc.) is yet to come on the drawing board, joint ventures and even import of ethanol and bio-diesel from Brazil are a reality, including transfer of technology, set in motion with the visit of the Indian Minister of Petroleum to Brazil in 2001. The considerable landmass available in Latin America for cultivation of sugarcane, *jatropha* and other sources of alternative fuels, offer exciting possibilities in the future.

Latin America is also a rich source of coal. Several private Indian companies are exploring possibilities in this area, although their interest primarily is in coking coal. The economics of shipping coal to India also have to be worked out before this sector can be added to hydrocarbons as an area of interest.

Recognising the need for integration of E&P activities, transportation to markets and downstream activities in the energy business, the Ministry of External Affairs and embassies in the region have been increasingly active in coordinating and focusing India's strengths to present proposals for railway lines for transportation of coal in Colombia, for instance, pipelines in Venezuela and even shipping contracts for transportation of crude to India.

23

Connecting People, Strengthening Ties: SAARC Car Rally 2007

N Srinivasan
Company Director and Adviser
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Economic Diplomacy can take many forms and shapes, with the variables ranging from the size of the project, to the number of partners and stakeholders involved, the range of elements in the programme and the specificity of the objective. When an initiative of Economic Diplomacy represents an amalgam of all these facets and more, and when its scale is huge and the players many, the project becomes a 'one of its kind'.

The SAARC Car Rally of 2007 was a unique effort falling into this 'genre' of a multi-dimensional, multi-faceted, multi-objective project.

For us in the Confederation of Indian Industry (CII), it was a special privilege to have been invited to partner the Ministry of External Affairs, Government of India, and the member countries of SAARC (under the aegis of the Secretariat of South Asian Association for Regional Cooperation) to execute this challenging and exciting project.

The genesis to the SAARC Car Rally was India's long-standing desire to reach out to its neighbours and create an environment conducive to greater political, business, and people-to-people contact. It was in this spirit that the Prime Minister of India, Manmohan Singh, announced at the 13th SAARC Summit in Dhaka in November 2005: 'India offers to hold a South Asian Car Rally. This would run up to our next Summit. It would symbolise vividly our regional identity and also draw attention to the urgent need to improve our SAARC transport infrastructure'. This proposal of India received the enthusiastic approval of the other leaders of the SAARC member nations. Thus, began the implementation of a massive project involving eight countries, with India as the lead organiser.

The Project

The first-ever SAARC Car Rally was flagged off from Cox's Bazar in Bangladesh on March 14, 2007 and concluded in Male, Maldives on April 14, 2007. The scale of the rally was impressive. 8200 kms were negotiated in 31 days with 30 Tata Safari sports utility vehicles (SUVs) carrying 127 participants from all SAARC countries. While the vehicles covered Bangladesh, Bhutan, Nepal, India and Pakistan in one continuous stretch facilitated by the land connectivity, they had to be transported from Mumbai to Sri Lanka by an Indian Navy ship for the Sri Lankan leg. Over 75 rally participants were then flown to Male from Colombo to participate in the Closing Ceremony.

A project of this magnitude called for a detailed 'route survey' which was carried out by a core team led by the Director – SAARC, Ministry of External Affairs and comprising representatives from CII, ex-rallyists and enthusiasts from 'Auto Car India' – a reputed business magazine dedicated to the automobile industry. Each member-state of SAARC also deputed its representatives to join the survey in their respective countries. The route survey, understandably, did not cover Maldives and Afghanistan as the vehicles did not touch these countries. Tata Motors provided a vehicle for this route survey in the Indian sector. Detailed road books were prepared on the basis of the route survey and approved by all the SAARC countries. The level of detail covered estimated arrival and departure times, the distance between different locations and the duration of halts; photographs of landmarks along the route were also printed in the books.

For the actual rally itself, each participating country deputed two teams – a participant team comprising rally enthusiasts, eminent personalities and government officials; and a media team. The age profile of the participants ranged from 20-67 years. All were enthusiastically engaged in this massive exercise.

The rally was not a competitive event. Instead, the cars travelled in a convoy in the sequence of the assigned numbers and covered, on an average, 400 kms a day. Each country hosted a flag-off ceremony and receptions in select towns en route. Most importantly, each country provided accommodation, meals, fuel, adequate security and medical support to the rallyists.

One interesting sidelight – a team from Afghanistan joined the Rally on April 03, 2007, the day Afghanistan joined SAARC as its 8th member.

Connecting People

One of the principal objectives of the Rally was to bring the peoples of the SAARC member-countries together in a bond of friendship and harmony. On every leg of the Rally, the local population turned up in large numbers to cheer the rallyists and interact with them at the halting points. The sheer spectacle of 30 vehicles with the SAARC Car Rally logo and other decorative items drew warm applause from the citizens. In turn, the rallyists were touched by the warmth of the reception and the friendship and hospitality offered to them. Thus, a very significant objective of the Car Rally appeared to have been achieved.

The Business Angle

The SAARC Car Rally had a very important trade and business objective. Coinciding with the Rally, key business events were organised on a sector-specific basis in each of the SAARC nations covered by the Rally. The Ministry of External Affairs, the Indian High Commission in these countries, CII and its counterpart organisations in the SAARC nations supported the business events.

The list of the business conferences organised during the Rally is given below:

- Promotion of Trade and Economic Cooperation in SAARC: Dhaka, Bangladesh, March 14, 2007
- ICT for Sustainable and Inclusive Development in SAARC: Thimpu, Bhutan, March 19, 2007
- Energy Efficiency and Clean Development Mechanism: Kathmandu, Nepal, March 24, 2007
- Importance of small and medium enterprise (SME) Development in SAARC Countries: Lahore, Pakistan, March 29, 2007
- South Asia CEOs Roundtable: New Delhi, India, April 02, 2007
- Promotion of Intra-SAARC tourism: Colombo, Sri Lanka, April 09, 2007
- Fishing and Fish Processing in SAARC: Male, Maldives April 12, 2007

Thus, it can be seen that there was a strong economic and business component to the entire project. Proceedings of various seminars have been published for follow-up action by the respective governments and industry institutions. The highlight, of course, was the CEOs conference on the eve of the SAARC Summit in New Delhi. The recommendations covered issues like narrowing down the negative lists in the South Asia Free Trade Area (SAFTA) to move quickly towards a free trade regime and also include trade in services under SAFTA; exploring the feasibility of special economic zones (SEZs) in each South Asian country; setting up a South Asia Development Fund to specially help weaker countries; cooperation in energy; and strengthening of physical connectivity and transport infrastructure between member nations of SAARC.

A Touch of Culture

In each of the points of halt, cultural programmes were organised by the host country to welcome the Rally participants and entertain the invitees. It made a huge difference to the entire Rally project, highlighting the cultural affinity amongst the member nations.

Bringing Political Leaders Together

In every country on the rally route, the government leaders and senior officials were more than happy to participate in the reception, flagging off and cultural ceremonies. They also addressed the business conferences. The 'big ticket' item was, of course, the ceremonial flagging off – by all Heads of Government of SAARC – at Vigyan Bhawan in New Delhi on April 03, 2007. Clearly, the SAARC Rally helped 'rally' the political leadership of the SAARC nations in a show of solidarity, cooperation and harmony.

The Outcome

The Rally was a huge success in promoting its objectives of connecting people and strengthening ties between the peoples of SAARC nations. It highlighted the need to reconnect the SAARC countries by improving regional transport, road infrastructure and connectivity. In its own way, the Rally turned the spotlight on the opportunities for intra-SAARC tourism as it brought into bold relief the scenic beauty, arts and crafts, culinary delights and rich cultural tradition of the member States. In terms of business, it has set the tone by highlighting the many opportunities that still need exploitation. Also, the sector-specific recommendations will go a long way in enhancing intra-SAARC trade in these areas. Most important, by highlighting the cultural similarities in the member States, the Rally helped promote South Asia as a brand by focusing on the Regional rather than individual identity.

For India, the SAARC Car Rally was particularly advantageous. It helped generate greater awareness of Indian brands in the SAARC countries. As the Rallyists from SAARC countries moved through 11 Indian states and one Union Territory, it exposed them to India's geographical diversity, culture, arts, crafts, local traditions, the modern face of Indian industry and the hospitality and warmth of the local people.

One concrete measurable outcome was the presentation to the member nations of SAARC of the sector specific recommendations for cooperation.

It has been gratifying for India and CII to have received glowing comments from the political and business leaders of the SAARC member nations, on the success of the Rally.

The Organisation

A project of the magnitude just described called for – and happily received – support and cooperation from a variety of stakeholders. The Ministry of External Affairs was the key organiser along with the SAARC Secretariat, with CII being the implementer and partner in the project. The Indian Missions in the SAARC countries provided all-round support in the physical conduct of the Rally itself and in facilitating the business seminars and government participation in these. As illustration, the Indian High Commission in Bangladesh provided the following support:

- The High Commissioner participated in, and addressed, the business conference in Dhaka
- They facilitated a meetings of the CII delegation with the Adviser-in-Charge, Ministries of Planning, Commerce, Finance, Ports and Telecommunication of Bangladesh
- Participation in the CII meeting with the Chittagong Chamber of Commerce and Industry
- Logistics support for the CII delegation in Bangladesh
- Arranging one-to-one business meetings with local industry leaders
- Getting speakers for conferences, not only in Bangladesh, but in other SAARC nations

The multi-crore budget called for, and received, support from the India Brand Equity Foundation (IBEF); sponsors like Tata Motors who provided the SUVs, Indian Oil, ONGC and other organisations. At the professional level – in automotive terms – we had Auto Car, Automobile Association of India. Apollo Hospitals provided the back-up medical support.

The SAARC member countries generously provided local hospitality in their respective geographies.

Media and Publicity

For a project of this multi-nation magnitude, it was important to have a strong media plan. Here again, the Ministry of External Affairs was a willing and useful partner to CII. Detailing involved each participating country deputing an official media team; private media accompanying the Rally; CII State offices involving local media representatives in covering the Rally in India; and Auto Car deputing a professional photographer and a writer to cover the Rally. An official website for the Rally provided the platform for sustained publicity and, finally, media briefings and press conferences were held by the participating nations themselves.

Looking Back

In many ways, the first-ever SAARC Car Rally was a remarkable success. But for the efforts and outcome to bear fruit, follow up with the individual country governments and industry bodies is essential. Second, participation by private media in covering the Rally could have been better. Third, an effort like this cannot be one off. It has to be repeated periodically. Perhaps, it should be repeated once in three years. The public-private partnership (PPP) model employed in the project was effective and beneficial. The Indian Missions did a fine job in this effort. Finally, from the Indian perspective, the SAARC Car Rally has been an effort well worth the while.

The Car Rally concept is replicable to other regions and countries in the neighborhood where India wants to better its economic relationship.

In conclusion, Economic Diplomacy in the form of a Car Rally, with its associated events, is a model that, I believe, holds huge potential in the future as well. After all, what can better a 'spectacular' event like a Car Rally traversing different countries, touching many cities and all this, complemented by serious business events and interaction?

24 Hydropower Diplomacy in Nepal

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India's cooperation with Nepal in water resources has the potential to: transform Nepal's economy; provide power, irrigation and flood control to northern India; deepen bilateral economic ties; mitigate Nepal's trade deficit with India; and strengthen political relations between the two countries.

Nepal's hydropower potential is taken as 83000 MW; about 44000 MW is considered economically feasible. A detailed survey is likely to reveal a higher potential. Yet, Nepal's hydropower capacity is barely 600 MW; it is a net importer of power from India; and there has been no meaningful cross-border project since the Kosi and Gandak irrigation projects that were implemented in the 1950s and 1960s.

This is despite the fact that Nepal and India share an open border and enjoy exceptionally close economic ties. Nearly 70 percent of Nepal's exports go to India; over 60 percent of its imports come from India; and over 40 percent of foreign direct investment (FDI) in Nepal comes from India.

Lack of progress in power cooperation with Nepal could be attributed to many factors:

- Overwhelming attention in the past to 'water sharing', with power being treated as a by-product. Water sharing is a politically sensitive and emotional issue anywhere; in the context of India and Nepal, asymmetry of size and resources, the centrality of water in Nepal's politics, vast differences in the views of the two sides on the basis of sharing, and an enduring perception in Nepal of an unequal and unfair deal in the Kosi Treaty and Gandak Agreement have stymied progress.
- An exclusive focus in the past on large multipurpose projects, which involve complex questions of costs and benefits, metrics of trans-boundary benefits and compensations, and environmental and social impacts.
- As a corollary, the earlier dialogue was exclusively in the government-government domain, which was shadowed by delays and mistrust and driven by political compulsions, rather than economic calculations.
- Due to absence of power markets and an enabling regulatory framework and institutional structure, there were no alternative channels for cooperation.

As a confidence-building measure, the Government of Nepal offered, in 2002, the extremely attractive run-of-river 300 MW (scaleable to 480 MW) Upper Karnali hydroelectric project to be developed jointly by the National Hydro Power Corporaton (NHPC) and the Nepal Electricity Authority (NEA) for export of power to India. The project failed to make any headway due to prolonged instability in Nepal and the political sensitivities associated with government-government negotiations, against the above background.

The Government of India virtually froze dialogue with Nepal on water resources following King Gyanendra's royal coup in February 2005, since any decision taken by that regime would have lacked political support in Nepal, a move that was widely appreciated in Nepal. After the democratic government was reinstated in April 2006, governments in both countries decided to resume engagement in water resources.

The Embassy shifted its strategy to focus on power and place cooperation in a commercial framework, using the methodology of public-private partnerships.

The essential elements of the strategy were:

- Water was differentiated from power. The primary focus shifted to stimulating cooperation on run-of-river power projects, which do not involve the complexities of multipurpose projects; power was treated as a single product rather than the multiple, inter-linked issues of power, irrigation and flood control.
- Change the framework of co-operation from water resources, with its troubled history, to the commercial domain, with power to be treated as a commercial product. The argument was that 70 percent of Nepal's manufactured exports are to India; this included agricultural products, which, too, were derived from natural resources; however, there were no inhibitions about this trade, because there was general belief that market mechanism allocated benefit in fair manner to both exporter and importer. This principle could also apply to power trade.
- Encouraging the Government of Nepal to develop projects, including the long-stalled Upper Karnali Project, through the independent power project (IPP) route, because (a) it minimises or eliminates the sensitivities of government-government negotiations; (b) global players would participate in the project; (c) the Government of Nepal would have greater control over the process and terms of project allocation and development; and (d) the process would be more transparent and should maximise benefit for Nepal.

- Accelerating efforts to establish high capacity cross-border power transmission networks between India and Nepal.
- Generating interest and confidence in Indian industry and financial institutions to invest in Nepal and networking the industry stakeholders in both countries.
- Encouraging Indian investors to look at investments for meeting Nepal's own power needs, in addition to exports to India.

The evolution of power markets, an enabling regulatory framework in both countries and emergence of IPPs and related institutions created an opportunity to pursue this approach. In Nepal, a small, but vibrant, sector of independent power producers has emerged since the 1990s. Nepal's own power deficit and Bhutan's success with power export to India has shaped the thinking of Nepal's decision-making elite. India and Bhutan have entered into a series of power projects (Chukha I and II, Tala) which already earn over 50 percent of that country's GDP and several more projects are under execution.

The approach was expected to:

- Avoid the problems inherent in the approach in the past and reduce the politicisation of bilateral engagement.
- Create a more transparent and commercially viable framework of cooperation.
- Leverage the industry's expertise, financial strength, flexibility and capacity for quick implementation.
- Expand the constituency of support in Nepal for co-operation in this sector, by creating stakeholders in Nepal's business sector.
- Generate support in Nepal by enabling Nepal to extract the best terms from each project.

After the democratic government took office in April 2006, the embassy proposed holding an industry-driven meeting in

Nepal on power sector cooperation. The Power Trading Corporation India Ltd and the Independent Power Producers Association of Nepal took up the offer and hosted the first POWER SUMMIT 2006 in Kathmandu in September 2006. Organised with great professionalism and on an unprecedented scale, the two-day event saw over 50 participants from Indian power and financial sectors and nearly 200 participants from Nepal. On the Indian side, several enterprises specialising in infrastructure issues, including IL&FS Infrastructure Development Corporation and private sector firms, supported the event. From Nepal, the three national chambers of commerce and the Nepal-India Chamber of Commerce and Industry supported the event, creating a broad-based coalition of supporters for bilateral co-operation.

Nepal's Deputy Prime Minister, Finance Minister and Water Resources Minister and numerous speakers from Nepal's business sector called for immediate commencement of cooperation in the power sector.

Ambassador Shiv Shanker Mukherjee (the then Indian Ambassador to Nepal) noted: 'We need to ponder why commercial exchanges in other sectors are considered mutually beneficial and in the power sector a zero-sum game...'

'Our engagement must also evolve to keep pace with changing environment and emerging opportunities. We must make the channels of cooperation more broad based and allow those who are in the business of power, in Nepal and India, to take the lead in this process.'

'The time has also come for us to create a new paradigm of mutually beneficial partnership in the power sector, which will have a transformational impact on the lives of millions of people in both countries.'

The meeting produced a more positive climate of opinion in Nepal for Indian engagement in this sector; generated awareness and interest among Indian investors; networked stakeholders in both countries; and demonstrated the nature of economic benefits that Nepal could derive by attracting investments in the power sector. Over ten Indian companies registered interest in the development of various projects in Nepal.

The Summit had other immediate benefits:

- By bringing in potential Indian financers, it imparted momentum to the implementation of a 750-MW power project licensed to a Nepali-Australian venture, with partial funding from China, for export of power to India.
- Two Indian developers were granted licences for small to medium sized projects.
- A Nepali licence holder of a 250 MW project, who had no funding or partner for several years, negotiated a joint development agreement with an Indian investor and got the approval from the Government of Nepal quickly.
- A new approach to creating cross-border transmission highways was generated. It was decided that a joint venture company, incorporated in both countries, involving IL&FS and Nepal Electricity Authority, would build, own and operate at least three transmission lines and operate it on commercial principles under the overall technical and regulatory oversight of the regulators in the two countries. The viability gap funding on the Nepal side was to be met by a soft loan from the Government of India.

The positive momentum generated by the Summit and the sustained call from the Nepal's business sector and power sectors for issue of project licences led the Government of Nepal to call a global tender for three power projects for export of power to India. These projects – Upper Karnali (300 MW), Buddhi Gandaki (600 MW) and Arun III (402 MW) – were among the most attractive in Nepal and had attracted a number of international developers and had high political profile in

Nepal. The announcement was greeted not with criticism, as in the past, but by public expectation that the process would be transparent and accord maximum benefits to Nepal.

Fourteen companies, including eleven from India, responded to the notice for expression of interest for Upper Karnali, two for Buddhi Gandaki and nine for Arun III.

The Government of Nepal was engaged in this process for the first time and it had its share of controversies about the process, the selection criteria and whether the Parliament had to approve the projects by a two-third vote. Nepal's Parliamentary Committee on Natural Resources examined the evaluation report and agreed that the Constitutional provision of a full Parliamentary vote did not apply for these projects. There was broad political support for quick implementation of these projects.

In less than a year, by late 2007, even as Nepal was absorbed in a challenging political transition, the Government awarded Upper Karnali and Arun III to two Indian developers, having rejected the two bids for the third project on technical grounds.

In both cases, Nepal was able to extract free equity and free power well in excess of the legal requirement. It would also have the right to take over the projects after 30 years.

The industry in both countries is now well networked; there is a strong understanding of regulatory framework, market conditions and project opportunities. The supporting services sector – including the insurance, banking, financial services, engineering and consulting sectors – in the two countries have joined the process. As a sequel to Power Summit I, Power Summit II was held in September 2007, in which the Nepal Bankers Association also joined as a co-host. The Embassy has been encouraging Indian institutions to support the creation of a financial institution in Nepal for financing power projects for Nepal's domestic use. The idea took concrete shape at Power Summit II.

Tangible progress and visible benefits are the surest means for accelerating the momentum of cooperation. Indian ventures will be under high public scrutiny. It would be imperative that they implement the projects with the highest standards of professionalism, quality, ethics and political and social consciousness. Choice of partners and strategies will be vital for success and for expanding engagement. The embassy will have to continue advising the investors on these issues.

Since such projects involve large investments, long commitments and a wide range of risks, the Embassy will have to play a role in protecting the legitimate interests of the investors.

The Government of India could engage in other facilitating tasks:

- Facilitate speedy implementation of the cross-border transmission highway project.
- Include construction of roads to the sites of export-oriented projects in the assistance programme for roads in Nepal.
- Offer to facilitate/support establishment of generating capacity for Nepal's domestic consumption.
- Give assistance for river basin study to identify and study potential sites for medium to large size run-of-river projects and to carry out pre-development work.
- Offer training programmes and visits to Indian project sites to officials in Nepal.
- Continue facilitating seminars and workshops from time to time, through chambers and other institution.

Editor's Note: The internal political developments in Nepal since 2008 and deterioration in security situation facing the power projects have led to delays and uncertainties in their implementation.

25 Promoting Brand India in South Africa

RAJIV BHATIA
Former Indian Ambassador
High Commissioner to South Africa (2006-2009)

The Backdrop

A combination of factors – migration of Indians from mid-19th century, legacy of Mahatma Gandhi, historical links between African National Congress (ANC) and Indian National Congress and independent India's strong support for the struggle against apartheid – ensured that, in the past, when it came to relations with South Africa, India's approach was essentially political. Trade and diplomatic links that had flourished during the British Raj were severed, as India became the first country to impose comprehensive sanctions against the apartheid regime in 1946. In this backdrop, 1994 was the historic milestone when a new South Africa emerged, ridding itself of its racial past and riding on a powerful wave of democracy and African renaissance.

Within a short period of three years, India and South Africa were able to launch a 'strategic partnership' that would develop a strong economic dimension. The Red Fort Declaration, signed at the conclusion of President Nelson Mandela's state visit in 1997, recognised the future potential in stating: 'The economies of South Africa and India have certain comparative advantages, complementarities and resources which can be optimally used to promote economic development through co-operation.' The following decade witnessed economic cooperation growing for mutual benefit.

During my tenure as India's High Commissioner in Pretoria, a special focus was placed on diversifying and deepening the economic relationship with South Africa. This was due to two objective realities: first, the recognition that, without a strong economic pillar, 'strategic partnership' would have very little substance; and second, bold forays by India Inc in Africa deserved a well thought out strategy of support by the Government of India's representatives on the ground. Besides, South African economy displayed, like Indian economy, features of both a developed and a developing country at the same time. South Africa was thus in a position to forge co-operation with a fair mixture of 'give' and 'take'. It was left to us, through proactive economic diplomacy, to try to expand the relationship to its maximum potential.

What follows is a brief – and hopefully an objective – account of our teamwork in the field, pertaining to commercial and economic work – at both the macro and micro-levels. Its overarching goal was to promote Brand India.

Macro-level

India's diplomatic and consular representation in South Africa has been quite unique and well endowed, a factor that moulded our approach. In our four offices, High Commission in Pretoria, Consulates General in Johannesburg and Durban and de facto Consulate General in Cape Town, we had a dozen officers of representational grade. Barring two of them, every officer was engaged in promotion of economic relations, albeit to a varying degree (as he had to handle other responsibilities as well). The senior layer of the High Commissioner's team, namely, the three Consuls General and Deputy High

Commissioner, devoted a lion's share of time and energy to economic work. A specifically marked geographical approach was followed, under which each Consul General was responsible for his or her area, while the Consul General in Johannesburg had a special responsibility in recognition of Gauteng's massive contribution to SA's GDP.

An important feature of our working was our working together, with a conscious focus on co-ordination. The operational framework entailed that each team member knew what the broad strategy was and what his specific role was in its execution. In short, we operated from a common brief. This was especially secured through the High Commissioner's quarterly meetings. They helped in achieving our goals and giving to each member a sense of ownership of collective action.

Of the hundreds of visitors that we received from India or South African people whose visits we arranged to India, the largest segment pertained to business. They undertook visits to participate in various promotional activities aimed at stepping up trade, investment, technology transfer and technical cooperation. Amidst all this hyperactivity, we were clear about a fundamental fact: our economic stakes, in the teeth of rising competition with other countries, would be protected and expanded only if we succeeded in promoting Brand India, not just a specific sub-sector or two.

With the above perspective in view, several *innovative steps* were taken to project contemporary India with all its strengths – but in a realistic and pragmatic manner. We felt that a calibrated approach would enhance the credibility of Brand India. A brief reference, as below, to some of the important measures should be of wider interest.

- As a high-octane trade and investment promotion programme was rolled out, it was noticed that a large number of complaints from India Inc against South

Africa's restrictive visa regime had become a major constraint. As we moved into 2007, the situation became quite difficult. On the one hand, the two governments were projecting interest in deepening economic links, yet, on the other hand, one side was busy being very choosy in issuing business visas and work permits. Conventional demarches were unable to bring about satisfactory results. Following consultations, a co-ordinated strategy was devised covering the business, diplomatic and political levels in order to convince Pretoria that issuing more business visas would help in the growth of business relations. After the meeting of India-South Africa Joint Commission in February 2008, the number of complaints started going down, much to everyone's relief.

- By early 2007, India Inc's interest in South African market and South Africa's role as 'the gateway to Africa' was on a steady rise. This was best reflected in the presence of over 40 Indian companies through their offices in Johannesburg and other parts of the country. The challenge, however, was to find a way to interact with them institutionally and utilise them as a viable instrument for expanding India's footprint in South Africa. From this need emerged the idea of establishing the India Business Forum (IBF). It was led by the Head of Tata Group in southern Africa and its secretariat was provided by the Confederation of Indian Industry (CII). In due time, the IBF emerged as a useful platform for arranging members' interactions with visiting Indian dignitaries such as the Deputy Chairman of the Planning Commission, the Minister of State for External Affairs and the External Affairs Minister. It began giving useful inputs for G-to-G exchanges, highlighting the areas where action was required at governmental level to remove trade barriers, etc. The IBF functioned well, but, for achieving greater success, it needed more activism by its members. Nevertheless, it inspired South African companies operating in India to emulate the model and establish the South African Business Forum (SABF) in Mumbai.

- Through a prudent use of tools of public diplomacy, our team endeavoured to reach out to important segments of the target constituency: business and industry chambers at national, provincial and city levels; universities; think tanks; and the media. An effective tool was to utilise speaking opportunities at appropriate institutions. Dialogues conducted on such occasions invariably included references to the rich heritage of India-South Africa relations, but our main focus was less on the past and more on the present and future, on the forward-looking character of the relationship and its potential in bilateral, regional and continental context.
- Cultural diplomacy, albeit with a new twist, was also deployed to promote business. From 2007 onwards, an annual cultural festival under the banner of 'Shared History – The Indian Experience' was launched. It was holistic in range covering art, music, dance, theatre, literature, exhibitions, Yoga, films and cuisine; it brought some of the most famous artistes from India; and it was run on a successful Public-Private Partnership model. Financial support by Indian and South African companies for an essentially commercial project was the key to the festival's success. A careful choice of artistes, venues, timings and local partners, backed by planning, publicity and professional excellence, ensured that India's contemporary cultural offerings reached the South African mainstream more extensively than ever before.

- The on-going development of India-Brazil-South Africa (IBSA) Dialogue Forum provided a conducive environment for expansion of trade and investment links. Two of IBSA's summits, held in South Africa (2007) and India (2008) and a meeting of IBSA Trilateral Commission in South Africa (2008), were occasions for extensive interactions at business level too. The fundamental message that came out consistently from these meetings was that the governments needed to do more to facilitate an easier and stepped-up flow of goods, services and people within the IBSA region. It was work in progress.
- Capacity building was identified as a priority area for bilateral cooperation, where a perfect match existed between India's capabilities and South Africa's needs. Possibilities in this field were explored and tangible cooperation was promoted through both conventional and non-conventional means. Indian Technical and Economic Cooperation (ITEC) programme offered an increased number of training fellowships to South Africans. The programme was popularised through a regular celebration of 'ITEC Day' in Durban, arranged in collaboration with prestigious local institutions. CII became an active partner, arranging industry-related training opportunities to South African youth, as part of South Africa's larger programme to bridge its skills deficit. NIIT secured a major breakthrough in July 2008 with its ambitious agreement with the Government of KwaZulu Natal (KZN) to impart skills training in ICT domains to 10,000 youth within a period of five years. Separately, under bilateral and IBSA agreements, new opportunities were created as a result of sustained dialogue involving our Department of Personnel and Training and its South African counterpart.

Micro-level

Usually, Indian embassies are happy promoting India's exports and seeing their efforts translated in numbers that indicate expansion of bilateral trade, with the balance favourable to India. Our team was no exception, but it was found that, during much of our time, India's imports from South Africa increased more rapidly than its exports to South Africa. This was primarily due to India's appetite for high-end items – diamonds and gold (although the latter, in fact, was not even included in normal merchandise trade) and our conscious quest for South African coal in order to sustain energy security in the long term.

For the latter goal, our Mission was inundated with requests to source coal from South Africa, as the demand by our power sector surged in recent years. This motivated our team to undertake detailed studies of the coal sector, its ownership and production patterns and infrastructural issues. These studies established that immense potential was waiting to be exploited, but Indian companies had to be prepared to bring in new investments and help the country in implementing its policies on Black Economic Empowerment (BEE), employment-creation, beneficiation and value addition. South Africa was also willing to employ its world-class technology within India in order to help us increase our coal mining and recovery. Promotional measures and outreach programme, backed by market forces, led to a dramatic increase in South Africa's coal exports to India in recent years. By early 2010, India, together with China, was lifting 2.4 million tonnes of coal a month, amounting to about 50 percent of South Africa's monthly export of 4.9 million tonnes.

Another positive development was the entry into India of Sasol, South Africa's premier energy and petro-chemicals company, a world leader in Coal-to-Liquid (CTL) technology. For the proposed CTL plant, Sasol planned to use Fischer

Tropsch technology, which converts syngas, extracted from coal, into oil that can be refined further to produce required products such as diesel, LPG and other lubricants. By early 2009, Sasol was well on its way to execute the first stage of the US$10bn project with its eventual aim to produce 80,000 barrels per day by 2018. In the Tata Group, they found an excellent 50:50 joint venture partner. The duo was successful in persuading the Government of India to amend existing regulations through a formal 'notification' that CTL was an allowed end-user for captive mining and that Sasol-Tata combine was permitted to conduct necessary studies and later more detailed evaluations. It also succeeded in winning allocation of a coal block in Talcher in Orissa.

This encouraging outcome emerged from a two-year long story of behind-the-scene activity. Political and corporate leaders played a helpful role; the SA mission in Delhi was supportive; and our team, especially in Pretoria and Johannesburg, made a notable contribution through a combination of close monitoring, friendly networking and active facilitation.

Conclusion

What the foregoing demonstrates is that in a situation where two countries are in a 'strategic partnership', it is of utmost importance that a broader and multi-dimensional approach is adopted rather than a mere conventional promotion of trade and investment linkages, important though the latter is for its own worth.

In the specific case of India and South Africa, how promoting Brand India impacted on the magnitude of bilateral economic relations, at a time when the recent international economic crisis generated its own negative repercussions, should be a subject of separate study. The fact remains that bilateral trade currently valued at about US$7.5bn and the two-way flow of investment estimated to be of the order of US$2.5bn are indicators of success. As a consequence, the recently agreed target of US$12bn by 2012 for bilateral trade reflects the two countries' growing confidence in their ability to move forward faster now.

That more needs to be done in order to achieve even better results is obvious. The two most critical requirements are the need to create public awareness and support for expansion of bilateral relations and to sustain a high degree of synergy involving diplomatic representation, business community, political leadership as well as bureaucracy at home and in the host country. The last-mentioned pillar in this paradigm may prove to be the most challenging!

26 An Industry-Government Partnership for 2020

SOM MITTAL
President, NASSCOM

"NASSCOM[1] puts the heaviest foot down on software piracy".

The image of NASSCOM former President, Dewang Mehta on an elephant crushing pirated CDs in the busy market of Nehru Place in Delhi (the hub of piracy) is hard to forget. And while this could be viewed as a gimmick, it is reflective of the journey of the Indian information technology industry that has emerged as the leading global sourcing destination, despite many odds. It was a strong message given at a time when the industry was just starting its journey.

The beginning of a new decade always raises a debate on will be there be new industries that will emerge as game changers and while we look for these answers, an industry that has powered the previous decade for India is the information technology sector. I am very optimistic that this sector will not only continue to grow, but has the potential to be the game changer in the new decade also.

Having spent a significant part of my career in this industry, I do feel there are some unique features which have powered this industry – the collaborative role of industry through

1 An association that serves the interests of IT services companies.

NASSCOM and the government-industry partnership. Of course, the legendary entrepreneurs in this sector have played a stellar role in defining the values, culture and innovative capabilities of this sector.

The IT-BPO (information technology and business process outsourcing) industry has played a significant role in transforming India's image from a slow moving bureaucratic economy to a land of innovative entrepreneurs and a global player in providing world class technology solutions and business services. The industry has helped India transform from a rural and agriculture-based economy to a knowledge-based services economy. The services sector today contributes to over 60 percent of Indian GDP and the per capita GDP contribution of employees in this sector is about 80 times that of a person employed in the agriculture sector.

I cannot think of any other industry that has grown from US$3bn in 1998 to over US$70bn in 2010 – emerging as the largest employer in the organised private sector, creating 45 percent of incremental urban jobs and providing direct livelihood to over 2.2 million people and indirect employment to an additional 8 million people. In this journey, the industry has created opportunities, aspirations and global mindsets for the youth in the country.

India in the 90s was equated with low cost and low quality and the industry recognised that if it needed to work with global partners, world class quality is the need of the day. Thus, began the journey to achieve the best quality certifications globally. Interestingly, the Motorola center in India was the first to achieve CMM Level 5 and India quickly had more CMM level 5 companies than any country; with even global customers at a lower level of certification.[2] Quality became the hallmark of the industry and is even today a distinguishing value proposition for India.

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2 'Capability Maturity Model' – Level 5 is the highest classification in the IT industry.

Building an aspirational vision and delivering on that is another unique trait for this sector. NASSCOM partnered with McKinsey & Co in 1998 to draw out a vision for the next ten years – build a US$50bn export sector by 2008, employ 2 million people and contribute to 4 percent of India's GDP. Most people then believed that these were tall numbers that were not unlikely to be achieved – however, the industry demonstrated that despite two global downturns it could realise this vision.

There is a perception that this industry has grown in spite of the government, however, the reality is that there exists a deep partnership which has enabled our industry to grow. Creating a facilitatory business environment, focusing on talent development and helping the industry address opportunities and challenges have been the key areas that have helped us.

Given the global nature of this industry and the focus on skilled talent movement across borders, the role of the Indian missions has also evolved over time. From just supporting delegation visits, Indian missions today are engaged across facilitating business partnerships; image building, representing India on NTBs and protectionism to taking leadership on issues like balance of trade.

While the Y2K era was a boon for the Indian technology industry enabling customers to move work offshore, marketing this industry to global customers located across continents has been no easy challenge.[3] NASSCOM partnered with the Indian missions overseas to organise 'Software India' seminars, participated in trade shows like CeBIT, Comdex (held respectively in Germany and in the US), and put together special marketing supplements in Forbes, Fortune etc. While this did create awareness, the highlight was the inclusion of Bangalore in the iternary of visiting heads of state from key

3 Y2K was seen as a problem in the year 2000 for computers – it was also called the 'Millennium bug' issue.

countries. As global presidents/prime ministers visited Bangalore with its sprawling and state-of-the-art IT campuses, it quickly got the tag of India's Silicon Valley and many global multinationals chose this city to build their India base.

The journey of course had its own share of hurdles and setbacks. The arrest and detention of an industry CEO at Indonesia and later at Netherlands brought to fold a new challenge, wherein the government through its missions demonstrated its belief in the industry and ensured these incidents were amicably resolved.

In recent months, the issue of protectionism has taken centre stage in key markets and the Indian Heads of missions and their teams are fully engaged with local politicians, businesses, associations to communicate the possible negative impact such trends can create and provide platforms for discussions, facts and perspectives. The team at Washington is monitoring legislative bills being introduced on a daily basis, analysing their impact and making strong representations. I have been on numerous late night calls with the team and believe they are truly our voice on the Capitol Hill and with the US Administration.

While we deal with the negative sentiments, the industry and missions will need to step up their communication for local administrators and society to view India as a genuine partner helping US companies become more productive and efficient; help them grow business and also be a net contributor to the economy and job creation. It is interesting that apart from hiring in local markets, companies are engaged in long term initiatives like educational development and societal contributions.

Infosys Technologies has funded projects across leading US universities and is actively engaged with science foundations in the US to enable greater focus on Science, Technology, Engineering and Mathematics (STEM) in the country. Wipro Technologies is setting up a US$50mn state-of-the-art data centre in North Carolina wherein all construction and technology assets are sourced locally. TCS has set up a large centre in Ohio and has been organising 'Tata Olympics', a series of IT based challenges designed to create interest in IT careers at an early age, for high school students. While these are great initiatives, it is important that these are aggregated and communicated across stakeholders.

In countries like China and Russia, I have been pleasantly surprised to see our missions focusing on building opportunities for the technology sector to help India equalise the balance of trade that is skewed so much against us. The Embassy in China earlier this year put together a high level business partnership programme that was attended by leading companies from India and relevant heads of the state owned enterprises in China. The focus of the discussion was – how can India address the technology needs of these enterprises. Similarly for Russia, a visit is being planned this year to create business opportunities with government and public sector. Both these markets are traditionally viewed as 'difficult' for the industry and leadership through the missions may enable this to truly happen. In other developing economies as well, the missions are taking a role to build opportunities for the industry, collate focused reports and proactively work with NASSCOM to create bilateral opportunities.

As we look ahead, there are some global mega trends that will redefine the future. Demographics, rise of Asia, technology enabled collaboration and innovation will hitherto present new opportunities for countries and industries.

India is expected to play a much more strategic role globally, both driven by its domestic demand as well as the knowledge power that it can generate. The information technology industry in partnership with the government can enable this strategic role both for emerging markets as well as the developed world.

NASSCOM's future vision outlines that the industry has the potential to aggregate revenue of US$225bn by the year 2020 – however, 80 percent of the incremental opportunities will come from sectors that the industry has not tapped till now. Building a business in new markets with new customers and in new verticals will help the industry to realise this vision.

To achieve this, the industry will need a fundamentally different business model – enhanced focus on globalisation, innovative applications and solutions, partnerships and domain capabilities. Industry will need to act more local in key markets it operates and focus on inclusion.

In addition, the partnership with the government and in particular the missions overseas will need a different thrust. India's role will most likely emerge as a 'soft power' and public diplomacy could be the thread that will bind our trade partners to address bilateral and multilateral issues.

To my mind, an industry partnership with the Indian missions could focus on the following:

- **Influencer**: The rise of India in the global economic landscape will witness protectionist sentiments taking centre stage. The demographic dividend that India can reap will require movement of professionals across borders. It is important that India's trade partners view the relationship of trade as a two way street and sourcing solutions from India as a part of the global value chain. Much like how China is viewed as integral to manufacturing, India will need to be viewed as a key resource for knowledge services. The Indian missions can take leadership in leveraging public diplomacy to counter negative sentiments and provide factual perspectives to generate positive outcomes.
- **Brand and Image**: India is seen globally as a land of contradictions. From the positive headlines of 8-9 percent GDP growth, negative stories on communal divide, poverty, corruption etc. are the highlight for global

media. There is a strong need for India to have a coordinated communication and brand management group anchored through the Indian missions. Using social media and the large NRI community, the government can shape influences and also counter negative news.

- **Trusted Partner**: As Indian industry will expand across developed and developing markets, India will need to emerge as a trusted partner – engaged across societal initiatives, integrated with the local economies, diverse workforce and following the laws of the country. Indian missions in partnership with the industry can help build this partnership, aggregate existing and new initiatives and communicate outcomes.
- **Market channelisation**: The industry is expanding and setting up new centers across Latin America, Eastern Europe, China, Sri Lanka, Philippines etc. The missions are already playing a significant role in helping the industry to set up in these markets. Going forward, it would be important to aggregate these investments and help in opening up local markets in these countries.
- **Co-creation for emerging markets**: India as a part of its public diplomacy initiative will play a more strategic role in emerging markets – Africa, Euro Asia, South Asia etc. A partnership with NASSCOM can be created to build a repository of information technology offerings that can be leveraged in these markets – commercially and as government aid. These offerings could include - E-governance solutions for passports or UID;[4] scalable solutions for training and skill building; entrepreneurship programmes for local companies etc. This would help the industry to enter into new markets and help the government build a strategic leverage.

4 UID is a major Indian initiative launched in 2009, to provide each citizen with a 'unique identity document' incorporating high-grade biometric safety

- **Global trade in services**: From the current relationship of bilateral trade, there will be a lot more focus on multilateral trade. We are already witnessing new regional groups come up – IBSA, EAS etc. Negotiating a common work visa across 27 EU countries is a complicated task, but will be the need of the day. Similarly as new trading blocs come up, the missions will need to work across regions to enable common policy frameworks and regulations.

The tasks that lie ahead require more complex policy intervention and strategic focus. The government has taken a phenomenal initiative to bring all heads of mission together annually in Delhi and share current and future priorities. However, to realise our ambitions for the future, the missions will need to be staffed better and capacity building will be critical. For multilateral activities like WTO, FTA negotiations – we need a dedicated team of negotiators.

The industry of course will also need to look beyond short term business opportunities and bottom line benefits to create a long-term strategic partnership. The industry will need to invest in resources that can study trade agreements and raise industry aspirations on what can be achieved in these FTAs. Innovation, collaboration, globalisation coupled with sustainability will define the companies of tomorrow.

In conclusion, public diplomacy will be a strategic lever for India and will need to work across all international stakeholders – government, industry and society.

27 Concluding Thoughts

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What 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.[1] That set of recommendations perhaps drew ideas on

1 An economic division was created in MEA in 1947, but it withed 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.[2]

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.[3] 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.[4]

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.[5] 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

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.[6] 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;[7] 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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7 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 Arnholt, "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…".[8] 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

8 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 encourage 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.[9]

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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9 The report of the Hussain Committee was published in May 2009; it is available from the website of FSI (*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.[10]

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

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About the Book

Economic diplomacy includes the promotion of trade and investments, management of aid and other financial flows, tourism promotion and the management of all the regulatory issues that affect a country's external economic policy; it is handled by the foreign ministry and the economic ministries, and involves contributions by many non-state actors. This book tells the story of India's economic diplomacy through 27 essays that portray a mosaic of experience in different situations around the world.

Reflections

Few are aware of how economic and commercial diplomacy works, even though it is an important part of how our interests are pursued and advanced. This is a pioneering and invaluable book that sheds light on this subject and will become indispensable to every policymaker.

Jagdish Bhagwati
University Professor, Economics and Law
Columbia University

How, in today's global economy, can States make best use of their foreign policy machinery and diplomatic talents? We are all groping for new solutions. This book develops robust, intelligent and closely argued answers, based on acute analysis and an impressive range of professional experience. It deserves to be read with close attention by theorists and practitioners alike. I salute the achievement.

Sir John Boyd
British Ambassador to Japan (1992-1996)
Master of Churchill College, Cambridge (1996-2006)

This book is overdue: it analyses the changing nature of international diplomacy in the age of globalisation. Economic, financial, trade relations have overtaken traditional government to government interactions, acquiring highly strategic importance. The tools and resources of diplomacy are forced to adapt to this trend or run the risk of losing influence among the many other actors in foreign relations. This is valid for all diplomatic services. It is a must read for everyone interested in the impressive growth story of India on its way to becoming a world power.

Thomas Matussek
Ambassador of the Federal Republic of Germany, New Delhi

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