

India Flexes Its Foreign Aid Muscle

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A country with the world's largest concentration of poor people, itself still one of the world's largest recipients of foreign aid, gives out significant amounts of aid to other countries? This might sound paradoxical, but it is true.

India today, with at least 300 million people living below the official poverty line, continues to have significant development problems of its own. Yet with annual economic growth rates that have averaged around 8 percent during the past decade and a growing middle class of at least 200 million, India is joining the ranks of middle-income countries and is projected to have the world's fifth-largest economy in a decade. This increasing economic heft has led a more confident India to engage with greater resources in its foreign relations. Indeed, its foreign aid is an indicator both of India's aspiration to be a responsible actor in international affairs and of its growing power in an increasingly multipolar world.

While India has a high profile historically as a recipient of foreign aid, its own aid giving is not as well known. Recent analyses have frequently labeled India as an "emerging donor," one whose lending volume is still small. This categorization is incorrect: It ignores India's significant record as a provider of foreign aid from the country's independence to its rise today as a "development partner." (The Indian policy establishment eschews the term "donor," with its neocolonial and hierarchical connotations that suggest a one-way flow of benefits.)

India started providing aid to its neighbors Nepal and Bhutan in the 1950s. In the ensuing decades of the cold war, Indian aid remained focused on countries in the region, with smaller amounts given to some countries in the Commonwealth and members of the nonaligned movement, largely in sub-Saharan Africa. However, exclusive focus

on the amount of aid misses the fact that even some of the smaller amounts given in the form of technical assistance and training had a multiplier effect by leveraging goodwill. Future leaders and bureaucrats of recipient countries were trained in India, which bore fruit in the form of friendly relations in later decades.

The end of the cold war and India's opening of its economy in the early 1990s changed the calculus, and Indian foreign aid expanded both in reach and in volume. India today is the world's fifth-largest donor to Afghanistan, the largest to Bhutan and the Maldives, and an increasingly large provider of aid to sub-Saharan Africa.

COMPLEX TIES

Labels of "creditor" and "borrower" belie more complex relationships. India is currently undergoing a transition from being a net borrower to a net creditor of aid. Yet it became the largest World Bank borrower in 2009–2010 and remains one of the main destinations for bilateral aid. India wants to move away from being a large aid recipient; it wants to be recognized as a country that has arrived at the table of important global powers. However, with its intractably low social indicators, India would be well advised to continue accepting technical and development assistance that is focused on its poorest populations, as well as on knowledge transfer and innovations, particularly since it lacks a significant cadre of development specialists.

Increased Indian confidence and the politics underlying foreign aid were apparent in India's 2003 decision to refuse bilateral assistance from all but a list of six countries. Canada, France, Italy, and the Scandinavian countries, which were not included on the list, immediately started lobbying to be reinstated—some of them successfully. More recently, in 2011, the Indian foreign minister argued that India no longer required British aid, saying that it was unnecessary for Indian development efforts and undesirable because of the British aid agency's negative portrayal of Indian

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poverty. British officials successfully lobbied to remain a foreign aid “donor” to India. In a testament to the political nature of aid even among traditional donors, Britain reportedly wanted to use foreign aid to India as a way of sweetening its consortium bid on an Indian defense contract, but it lost in that bidding to the French.

All aid, as well as its refusal, has political objectives. India refused humanitarian aid during the 2004 Asian tsunami, a 2005 earthquake in northern India, and 2006 flooding in Mumbai. India now ranks among the top 20 creditors to multilateral institutions such as the International Monetary Fund and the World Food Program, and it has even provided humanitarian aid to richer countries, including the United States in 2005 after the Hurricane Katrina disaster. India is increasingly signaling that, although it remains a poorer country, it wants to be regarded as an equal partner in the global policy arena.

SOFT POWER TOOL

Foreign aid is an increasingly important “soft power” instrument for elevating India’s global status. The country’s foreign aid supports this goal through three avenues: building general partnerships with other developing countries, securing access to energy resources, and developing strategically important relationships. Commercial interests are also a factor.

As with any country’s foreign aid, India’s is not one-dimensional and is often given with multiple objectives in mind. While its aid traditionally has helped foster development and build partnerships with other developing countries such as Nepal or Bhutan, the growth-driven need to secure energy resources has in recent years become a key motivation. Indian aid to Afghanistan, though focused on development of infrastructure and technical assistance, is also given with an eye to gaining access to energy supplies. This is similarly the case with India’s foray into aid to non-anglophone sub-Saharan Africa—an area that is likely to receive more attention as the Indian economy continues to grow.

Geostrategic objectives have also become more important considerations in Indian aid-giving. These include heightened concerns over securing India’s western coastline, rivalry with China, particularly in the Indian Ocean, and the desire to act

as a responsible international power by preventing piracy on the Arabian Sea. Such factors have led India to greatly expand its defense and foreign aid to the strategically located Maldives, which lie to the southwest of India’s southern tip. This aid has been accompanied by closer defense cooperation and guarantees between the two countries.

Similarly, a desire to secure access to Iranian and Central Asian resources, and to counter Chinese support for expansion of the Pakistani port of Gwadar, has led India to provide aid to Iran for the development of its Chabahar port. India has also backed the construction of railroads linking the port to coal fields in Bamian, Afghanistan—where an Indian steel consortium recently won an exploration contract.

Such commercial interests have become a more visible aspect of Indian aid policy. India’s expansion of foreign aid to African countries builds on historic ties and the commercial networks of its large diaspora, seeking access to the continent’s resources in competition with China. It also aims to establish markets for Indian products by

methods such as giving tied loans that require the purchase of Indian equipment and services, and by capitalizing on India’s use of the English language to establish an “e-network” project that links schools and hospitals in

Africa with Indian experts. Tied loans have been the norm with bilateral aid.

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Indian foreign aid still has some way to go before the full weight of its potential can be brought to bear on larger foreign policy objectives. Indian officials plan and disburse aid in a decentralized and uncoordinated manner, with no single agency to set priorities or development aid cadre to manage programs and cull a knowledge base from them. While such an agency is reportedly in the making with a projected \$11 billion to spend over five years, previously announced initiatives have not panned out.

Currently, different joint secretaries in the Ministry of External Affairs make decisions on aid projects and grants in an ad hoc manner, while joint secretaries in the Ministry of Finance manage lines of credit. In addition to these two main channels of aid, the office of the prime minister has its own discretionary aid budget, as do many

other ministries. Such decentralization results in lack of oversight and resource leakage. It hinders overall policy coherence, making Indian foreign aid reactive rather than strategic and proactive, and it prevents closer congruence with foreign policy objectives.

Nevertheless, Indian foreign aid, while not a new phenomenon, has changed fundamentally in recent decades, signaling an evolution in the country's foreign policy. The volume and diversity of development partners have increased greatly, as has the nature of the aid. India is building on its comparative advantages of being the world's largest developing-country democracy, with a large and highly educated English-speaking population and significant business and service sector expertise. India has also sought to differentiate itself

from developed countries by repeatedly pointing out that, unlike their aid, Indian foreign aid is "demand-driven," with the partner nation, not India, deciding what type of aid it requires.

India is signaling that it wants to be recognized as a co-equal among providers of foreign aid and as a rising power that is increasingly influential, including outside its neighborhood. Providing aid has helped India secure access to natural resources, create markets for Indian products and services, and create goodwill abroad—thereby helping it gain recognition as an emerging global power. While India still has significant coordination deficits to overcome before it can mobilize its aid policy fully in support of its regional and global power aims, its foreign aid today is already too influential to ignore. ■