

DEVELOPMENT AS A FORM OF DIPLOMACY: TRACING ITS ROOTS AND RELEVANCE

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INTRODUCTION

Bilateral relations in world politics often display a mix of stability and dynamism. The underlying principles of these relationships are the vested interests of individual states. Thus, catchphrases like 'Look East' or 'Neighbourhood First' are not linear concepts. They are, in fact, layered and complex. Several ideas and interests, whether economic, political, cultural or historical, have shaped the experiences of nations. Changing political and strategic relations are a reflection of such changes.

International politics is an arena which thrives on the interdependence of various actors. The positions of nation-states are relative, and a command over international or regional politics is a matter of augmenting not one, but several capacities. Thus, it is difficult for a country, facing the complexities of today's times, to develop independent of other actors on the global stage. Rather, every country's relations are built on multiple levels of complex interdependence.

The growing needs of the population shape what a country wants out of its relations with other countries. Domestic needs of energy, capital, labour and

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food security have become major bargaining points in international politics. An essential dimension of cooperation, thus, becomes the economic factor.

External assistance can be a vital tool for developing countries to accelerate investment and growth, resource mobilisation and structural transformations. The unavailability of robust domestic and capital markets makes foreign assistance vital in the promotion of relations. Further, domestic private capital

with its limited outreach is often not interested in financing unviable but crucial infrastructure gaps like roads, rural water supply or health. The grant element and concessional assistance that foreign assistance provides may, thus, be crucial in augmenting resources.

In this regard, development cooperation has become a tool in the strategic relations of countries. Development assistance has the potential to be a consistent line of communication in times when international and defence cooperation can turn fragile. It involves an engagement with local factors, an understanding of local cultures and people-to-people contacts, which are not easily set aside due to political animosity. The proximity that such cooperation brings often operates as a building block of strategic relations. This particularly holds true for a region like South Asia, which is afflicted with several development paradoxes. Here, the capacity to provide economic and social assistance can become a crucial factor in bilateral and multilateral relations.

The paper seeks to understand why development assistance or development cooperation¹ could become the currency of strategic thinking in foreign policy. Though some actors such as the European Union (EU)

1. The distinction between the two is minor. Development assistance involves an activity described from the actor's point of view. It involves the giving of assistance. Development cooperation, on the other hand, involves the interaction between two actors i.e., giving and receiving.

and the United States (US) have hinged their foreign policies around the provision of humanitarian and development assistance, development cooperation today exists as an ad hoc measure that is seldom theorised and examined as a mode of interaction across the world. It is often spoken of on the sidelines of global security summits, even though this constitutes the *modus operandi* of cooperation which could have a direct effect on people's lives. One reason for this is that it involves several dimensions which are difficult to amalgamate and examine. It involves everything from loans and grants provided by governments, to business partnerships by third parties.

Development assistance as a concept is examined in detail here, and so is its potential to further strategic relations. The debate around development assistance is contextualised to the South Asian environment, and historical experiments with development assistance are examined to see if they hold any relevance for the South Asian context. The purpose of this study is to develop an understanding of how India, in many instances a recipient of development assistance itself, can take its own extension of development cooperation forward to others, in a region where, and at a time when, China is engaging in aggressive powerplay with its own surplus wealth.

Should India develop its own model of development cooperation? Are there experiments from its past that can be analysed to take the idea forward? Can India's model be a meeting ground of Western and Eastern methods of development cooperation? Such questions are explored further.

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developmental issues in the region. While this allows for a certain degree of generalisation in policies, the uniqueness of each case is no less evident. This paper seeks to identify the pieces of India's past efforts at extending development cooperation. It serves as an overview and explores three dimensions to introduce the importance and scope of development cooperation in strategic relations: the first section explores the differing ideas and concepts of development assistance/foreign aid/development cooperation; the second section goes into the historical evolution of the idea, while the third highlights the status of how India has chosen to align development cooperation and foreign policy.

CONCEPTUALISING DEVELOPMENT DIPLOMACY: DEBATES AND DISCUSSIONS

Diplomacy in international relations can be defined as an institution at the level of international society, which consists of a collection of norms and conventions that govern relations among those involved². Development, on the other hand, has a less satisfactory definition due to the complexities inherent in it. Definitions of development may vary according to the context, the time period or even the ideology of the actors concerned. Similarly, the idea of development has been carried to different ends by different actors in the international scenario.

Development has often been defined ideologically according to the trope of the times. For instance, the initial years after World War II saw a linear definition of development, which was essentially that of the West. Understanding where a country stood on the development paradigm was a matter of cross-checking a few generalised parameters. Acting on the wisdom of the times, Rostow defined five stages of development on a linear trajectory, riding on the back of the experiences of the Western states. This was what led the Western countries to believe that development in Third

2. Christer Johnson and Martin Hall, *Essence of Diplomacy* (Gordonville: Palgrave MacMillan, 2005), p. 21.

World countries would not take place on its own and needed a push³. Gradually different theories and definitions emerged. However, all of them were essentially concerned with the relationship between economic growth and the principles behind the allocation of assets and income.

The idea of development has conceptually widened since the 1990s with the advent of the United Nations Development Programme's (UNDP's) Human Development Index, which embraced the enlargement of human choice as the idea behind development. This was a shift from the erstwhile linear trajectory, as the emphasis on choice reflected the need to respect domestic and local parameters as the means for development. This, incidentally, put more responsibility on the state to enhance its capacity to create conditions which would lead to the realisation and actualisation of choices. Enhancement of state capacity meant improving public administration, strengthening state-society linkages and consolidation of democratic institutions, to name a few measures. Good governance practices or sustainable governance practices came to define the means to progress and development, at the turn of the century.

Development diplomacy, thus, implies leveraging the idea of development, with all its caveats, as a tool to build relations and diplomatic channels with other nations. This is not in contrast, but supplementary, to traditional diplomacy which particularly emphasises cooperation on security and military matters.

In simple terms, development diplomacy involves the financial or in-kind assistance given by governments or other agencies to support social, political, environmental or economic programmes initiated by other governments, which further progress and enlarge human choice and freedom. It refers to a set of behaviour directed towards uplifting the standard of living in regions outside one's territorial boundaries. It is both a method and an objective of diplomacy, and complements state-centric diplomacy.

However, development diplomacy has seldom been looked at as an overarching concept and is seen more in cases which are isolated to individual

3. Jagdish Bhagwati and Richard Eckhaus, eds., *Development and Planning: Essays in Honour of Paul Rosenstein-Rodan* (United States: Routledge, 2015), p. 15.

countries and their conduct. For instance, the term 'charm offensive' or 'public diplomacy' has been used to describe China's overtures to expand its global status and image⁴. Similarly, the term 'citizen diplomacy' has also been employed to explain the role that non-state actors play in mitigating political problems that the leadership cannot solve.⁵ However, these terms have not been expanded as a lens to analyse the behaviour sets of nations that indulge in development diplomacy. Thus, there exists a gap in the available literature in terms of understanding comprehensively, and comparing, the motives, objectives and outcomes of various actors that engage with development as a form of diplomacy.

Here, a qualitative distinction needs to be made in terms of the difference between 'foreign aid' and 'development assistance/cooperation'. The former implies a one-way monetary transfer of resources, whereas the latter two terms comprise an assorted basket of measures. It is further different from humanitarian aid, with which it is most often misconstrued, as the latter is short-term and mitigative, rather than long-term and development-centric. Development assistance involves cooperation on systemic factors like poverty or structural issues like lack of skill development or economic infrastructure, which may hinder social and economic progress. In the 21st century, development cooperation has been conceptualised in terms of a partnership which is mutually beneficial, at least in theory. Hence, development cooperation is used to refer to the assistance provided and received by two or more actors on the international stage. Over time, development cooperation has materialised as a mixture of charitable, economic and political considerations, the qualitative value of each changing with the pressing need of the times.

Development cooperation can be further refined in terms of the actors involved, wherein aid could be bilateral or multilateral. It could involve

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4. Joshua Kurlantzick, *Charm Offensive: How China's Soft Power is Transforming the World* (New York: Yale University Press, 2007), p. 55.
 5. Andreas Fulda, *The Emergence of Citizen Diplomacy in European Union-China Relations: Principles, Pillars, Pioneers, Paradoxes, Diplomacy and Statecraft*, (United States: Taylor and Francis, 2019), pp. 120-123.

sovereign governments or multilateral aid agencies. However, most of the aid circulating in the international system is bilateral.⁶ As opposed to the offensive part of bilateral assistance, development assistance can be viewed as the preventive part.⁷ Assistance can further be official, as well as non-official, the latter being provided by private persons or Non-Governmental Organisations (NGOs). The former is generally referred to as Official Development Assistance (ODA). The focus of research in this study will confine itself to relations between sovereign actors and assistance which are bilateral and official, as this gives a more accurate account of a country's priorities and foreign policy objectives.

ODA must be additionally qualified by a few factors: it must be the government or a governmental agency which undertakes the operation. Further, the idea is to provide assistance on concessional terms, rather than at prevailing and competitive market rates. The Development Assistance Committee (DAC) of the Organisation for Economic Cooperation and Development (OECD) grouping, defines ODA as having a grant element of 25 per cent, which implies that a significant portion need not be paid back.

Several questions can be thrown up regarding the concept of ODA itself: why should a state provide a share of its own scarce resources to other countries? Why should a government that has been primarily given the mandate of taking care of its own citizens, prioritise the welfare of others? The opportunity cost must be particularly low and the rewards significant, to take up what seems, at first, like a counter intuitive way to conduct relations.

The defence for leveraging development cooperation is provided by many schools of thought. Realist scholars believe that aid is, in fact, a tool of hard-

6. Aid comprises 70 per cent bilateral aid and 30 per cent multilateral aid. *Managing Aid: Practices of DAC Member Countries* (OECD Publishing, 2005), p. 11.

7. In Kenneth Waltz's structural realism, offensive and defensive realism denote two approaches to formulating relations between countries. While offensive strategies seek out power and influence to achieve security through domination and hegemony, defensive strategies desist from aggressive expansion and look to reserved and moderate policies to attain security.

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headed diplomacy.⁸ Thus, for them, aid is an instrument or tool for the donor nation to build security. Marxist scholars believe that assistance is yet again a means of exploitation on the part of donor countries, to secure for themselves raw materials from underdeveloped countries. The international norm that richer countries should help in providing more humane conditions in underdeveloped countries came to be accepted in the 21st century. The turn of sustainable development and common but differentiated responsibility emerged in environment related debates but soon spilled over into social and everyday existence due to the interconnectedness of the new world.

However, these theories do not consider the complexities of modern-day trade. The exploitative developing country-developed country relationship in assistance giving is not the only one which exists. In fact, cooperation between South-South countries has become an equally viable means of development assistance.

Liberal institutionalists and constructivists are on the two sides of the fence. The former believe in the power of aid diplomacy to extend cooperation and goodwill. The latter believe in ethical considerations and norms that have given rise to the need for development assistance. Constructivists believe that ethical and humane concerns, as well as the prospect of the establishment of a peaceful international order were the grounds on which development assistance was meted out.⁹ The notion that domestic politics could play a crucial role in shaping the motives of assistance giving countries is a constructivist one and is a late

8. George Liska, *Nations in Alliance: The Limits of Interdependence* (Maryland: Johns Hopkins University Press, 1968), pp. 116-120.

9. David Lumsdaine, *Moral Vision in International Politics: The Foreign Aid Regime, 1949-1989* (New Jersey: Princeton University Press, 1993), p. 151.

development. Constructivists believe that the political institutions in which decisions are made and the nature of the actors involved are crucial in determining the components, the longevity and purpose of aid.

The very concept of development assistance has various exclusions and inclusions across international organisations and countries. The Development Assistance Committee of the OECD, for instance, considers as development assistance only the transfers meant for low income countries¹⁰. However, many developing and middle-income countries have also taken up the baton of providing development assistance, besides the already established players in the field.

There exists a North-South divide in categorising assistance providers as well. Those outside the DAC are called ‘emerging’ aid givers by the West, which the Southern countries resist.¹¹ This is because the South’s sense of development assistance is different from that of the West. Their cooperation is across multiple sectors and cannot be qualified in strict terms as ‘aid’. They seek to term their involvement as development cooperation or South-South cooperation. This relationship is one based on solidarity and mutual benefit rather than a topical treatment of communities. India too falls in this bracket as it aims more towards local capacity building. These countries deliver low cost aid, with fewer conditionalities than the traditional aid givers. They are also seen as being demand driven¹² in the sense that the aid given is aligned with the needs of the recipient governments.

A common emphasis among Asian donors like Japan, China and South Korea is on loan aid for building economic infrastructure. Aid has been seen conceptually as a part of the wider picture of mutually beneficial assistance.

10. OECD, “Official Development Assistance”, <https://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/official-development-assistance.htm>. Accessed on September 21, 2019.

11. Kimberley Smith and Felix Zimmerman, *Beyond DAC: the Welcome Role of Other Providers of Development Cooperation* (OECD Development Cooperation Directorate, 2010), p. 35.

12. Supriya Roychowdhury, “India’s External Aid—Lessons and Opportunities”, *Economic and Political Weekly*, vol. 48, no. 36, 2013, p. 5.

Within the South-South model, there has been a considerable debate regarding the existence of an Asian model. This model of ODA is rooted in the experience of development donors in the region. Their basket of services, and the treatment of the concept itself, differs from that of their Western counterparts. A common emphasis among Asian donors like Japan, China and South Korea is on loan aid for building economic infrastructure. Aid has been seen conceptually as a part of the wider picture of mutually beneficial assistance.¹³ China is, thus, cautious about the language it uses to denote its development partnerships. It doesn't talk of a 'donor-recipient' equation but, instead, emphasises on mutual benefit and win-win situations.

A few characteristics are common to the Asian model: the emphasis on development through industrialisation;¹⁴ and, belief in the role of a strong state and a considerably smaller component of conditionality, as opposed to the DAC countries. They also spend more aid on building economic infrastructure than the DAC countries.

The sectors for investment differ according to the donor's capabilities and competitive advantage in the international economic system. ODA eligible sectors for the DAC countries include debt forgiveness/waivers, technical cooperation, measures for encouraging peace-building such as election monitoring, assistance to refugees, disaster relief, civil use of nuclear energy, assistance to the civil police service, among others. Few countries or organisations have such explicit and transparent categorisations as the DAC countries. Many countries, just like China, prefer to keep their sectors of investment as well as official figures, away from the public domain. Further, the categorisations are subject to change. The DAC countries themselves have included and excluded peace-keeping operations as a part of development assistance in the past.

13. Alf Morten Jerve, et al., *Aid Relationships in Asia* (United Kingdom: Palgrave Macmillan, 2008), p. 215.

14. Aid is not seen as separate from private investment and other economic activities. It is seen holistically. Most loans, thus, extend to assisting domestic companies in achieving efficiency in production and delivery.

The end goals of using development diplomacy as a tool have been varied. They include, among other things, humanitarian relief, commerce, gaining cultural prowess, and since the advent of 9/11, the promotion of democracy, aiding social or economic transitions, as well as conflict mitigation. However, as we will explore further in the section on the historical development of foreign aid, the goals have always been set according to the domestic considerations of donor nations. Thus, certain factors may weigh in more for some nations than for others. For instance, diplomatic and developmental purposes are high on the agenda of the US, whereas commercial interests predominate the Japanese concerns.

Apart from having the potential to improve the economic and social conditions in countries, the pursuit of development diplomacy can also have strategic advantages.

THE SECURITY-ECONOMY NEXUS

Understanding the link between development cooperation and foreign policy objectives is the key to analysing how the developing and developed countries can extend their hegemonic footprints. Theoretically, it has occupied an important space in the realist school of thought. Morgenthau himself believed that in the modern age, foreign aid is among the real innovations that have been introduced into foreign policy.

The political-security nexus was first brought out by President Truman when he pointed out that poverty is a handicap to the less prosperous countries, as well as their well-off counterparts. The development paradigm is often cited as an arm of the neo-liberal framework. The type of state that is advocated here is the 'governance state' which marks a shift in ideology from the minimal state advocated by libertarians, to the 'effective state' which is effective for businesses and international companies. An example of the neo-liberal state in practice can be seen in the OECD aggregated data on development cooperation. It shows that

there is a declining share of aid assistance to the neediest countries.¹⁵ Instead, aid flows are towards countries which often have viable infrastructure in place to utilise the aid or share a strategic partnership and understanding with the donor country.

It can also be seen from the lens of biopolitics, which is a part of the neo-liberal framework. It concerns the governance of life and populations, rather than states and territories and it aims to govern and promote certain forms of life and develop knowledge, in this case, according to the neo-liberal paradigm. Thus, this development paradigm classifies certain forms of life which are culturally distinct, as unfamiliar and incomplete, and in need of external tutelage.

A nation's development policies or economic assistance in today's context, serves more than goodwill. It is, in fact, an instrument to further geo-political ambitions. This puts into question the conventional categorisation of development diplomacy within the soft power paradigm. To take an example, China has, in fact, been conscious of its political reputation in the region. Evading the 'China Threat' became its focus by leveraging its economic prowess while simultaneously keeping alive the String of Pearls ambition which has overlapping political and military objectives. China works on using development diplomacy to cement hegemonic ambitions. The model of conduct is the new mode of interaction and influence in the region. It leads us to question our understanding of geo-politics and global development as separate and isolated entities. The arena of global development is proceeding to be the dominating arena where global geo-politics plays out.

Development cooperation can also serve as a form of 'cheque book diplomacy'. The term implies granting economic assistance in exchange for political dividend. Russia's \$50 million in development aid to Nauru, for instance, was primarily in exchange for recognition of Abkhazia, Southern Ossetia, which is otherwise considered by the international community to be a part of Georgia.

15. Catherine Bremer, "Development Aid drops to the neediest countries," OECD News Bulletin, 2018 at <https://www.oecd.org/newsroom/development-aid-drops-in-2018-especially-to-neediest-countries.htm>.

Assistance can allow for the expansion of activity by governments, or for enhancing the capacity of the recipient government to combat several domestic challenges. An example of this is the development assistance provided to African nations that has often been successful¹⁶ in lowering the prevalence of diseases, spurring entrepreneurship and boosting agriculture, thus, allowing for the availability of healthier human capital.

Assistance is also symbolic in many ways: falling assistance levels can be a cooling off factor in a relationship, whereas renewed assistance is a means of indicating closer partnerships. It can also promote cooperation and goodwill. The constructivist school of thought believes that ethical and humane concern, as well as the desire to establish a peaceful international order were the pretexts on which development assistance was meted out. The United States, for instance, has incurred budget cuts in its total development assistance expenditure this year. However, a look at the qualitative component of the budget cuts tells us that aid for refugee-based programmes has been cut.¹⁷ This goes back to its larger policy focus of America First and its declining attention to refugee crises around the world.

Foreign assistance is also used to garner diplomatic reputé, and support for diplomatic stances in international organisations. This could augur well for India's campaign to be seen as an economic powerhouse for a permanent seat in the United Nations Security Council (UNSC). Grassroots-based programmes like India's community building programmes in Afghanistan have implications for de-radicalisation and extremism as well.

Development assistance can also be seen as creating dependency and encouraging currency overvaluation due to the false notion of a bullish economy. The neo-colonial function of creating dependency through aid can also be seen in the case of Greece where the aid package for bailing out

16. Angelle B. Kwemo, "Making Africa Great Again: Reducing Aid Dependency", 2017, <https://www.brookings.edu/blog/africa-in-focus/2017/04/20/making-africa-great-again-reducing-aid-dependency/>.

17. Robie Gramer, Colum Lynch "Trump's Plan to Slash Foreign Aid Puts Humanitarian Programs in Jeopardy." August 16, 2019, <https://foreignpolicy.com/2019/08/16/donald-trump-plan-to-slash-foreign-aid-puts-humanitarian-programs-in-jeopardy/>.

The factor that has remained constant in the trajectory of development aid despite the change in volume, composition and financial terms, is the exploitation of development objectives for commercial and political advantage.

its economy largely benefitted big businesses¹⁸ and helped keep the economy afloat, instead of being invested in making structural changes in the economy and in productive assets.

However, ODA requires constant adaptation to the situation and is far from perfect in its conceptualisation. It has evolved, and continues to evolve, by taking into account new sources of finance, as well as new objectives.

Examining the history of aid and assistance giving provides an answer to why objectives have been mixed among donor countries. It is to be noted however, that development diplomacy remains a modern phenomenon. Even though ad hoc transfers took place in the past, in the form of colonial policies, subsidies and tributes which were linked to forwarding strategic and diplomatic goals, they were not in the form of institutionalised public concessional transfers to promote development. The latter remains a 20th century innovation.¹⁹

HISTORICAL CONTEXT: DEVELOPMENT DIPLOMACY IN PRACTICE

Historically speaking, development diplomacy has grown out of the mould of being narrowly conceived as foreign aid. However, it has always been linked with security and never existed independently as a goodwill initiative.

Prior to World War II, the concept of gifting of public resources by one government to another was unheard of. It began as a temporary and ad hoc measure of Cold War diplomacy and was later institutionalised in the late 20th century. The factor that has remained constant in the trajectory of development aid despite the change in volume, composition and financial

18. Larry Elliot, "Greece's Bailout is Finally at an End – but Has Been a Failure," <https://www.theguardian.com/world/2018/aug/19/greeces-bailout-is-finally-at-an-end-but-has-been-a-failure>.

19. Ibid., p. 312.

terms, is the exploitation of development objectives for commercial and political advantage.

Assistance has varied across the decades in terms of the basket of goods on offer, as well as the philosophy and political strategy behind its conceptualisation. This section will analyse the history of development assistance on the parameters of economic philosophy and political strategy, marking noticeable changes across the decades.

The essential shifts across the decades were as follows: community development support was the crux of the support system in the 1950s, while in the 1960s, aid was provided to fill trade and investment gaps. The 1970s saw the transition to implementing aid for basic human needs, while the 1980s fleshed out structural adjustment and debt relief. Further, the 1990s built on this trajectory and emphasised on human development and democratic governance.

The reasons for these shifts embodied the complexities of the changing times. The developments in economic thinking were always shaped by the happenings in world politics and vice versa. The world was becoming more and more interdependent and involved, as witnessed in the decolonisation movement, the Cold War, the wars in Vietnam, Middle East and South Africa. Here, the interests of the North-South and East-West coincided.

The 1800s and Early 1900s: A Start to Development Thinking

The practice of assistance in the 1800s cannot be termed development assistance but it did mark a start to the act of providing relief. Sporadic

The post World War II period saw the mushrooming of several institutions which would be the future of aid giving processes in the times to come. The UN, UN Relief and Rehabilitation Administration, Bretton Woods Conference, Oxfam and United Nations International Children's Education Fund (UNICEF) were established in quick succession. This period saw a focus on reconstruction efforts and the rise of programme aid.

acts took place at this time but these did not result in the culmination of a culture or ethos. The US and UK were the pioneers in this regard. In 1812, the Act for Relief of the Citizens of Venezuela was passed by the US Congress and it was in the 1870s that discussions regarding transfers of official assistance to the British colonies were initiated. By 1896, the act of transferring food surplus from the US had begun, with the intention of developing new markets abroad. The UK's Colonial Development Act similarly mirrored the need to use the colonies for its own development cause. The Act authorised loans and grants for building infrastructure which would allow the supply of inputs for British manufacturing industries. Aid financing drew heavily from the experience of France and Britain in their colonies.

The 1920s: Linking Economics and Public Policy

The UK Colonial Development Act of the late 1920s and the Agricultural Adjustment Act of the US in the 1930s, saw the beginning of institutionalisation and regularisation of aid shipments.

Post the Great Depression and the difficulties that war induced destruction brought, the reform of the economic system was inevitable. International peace was synonymous with economic stability and growth. However, the unilateral transfers continued, with the motive of developing markets and spheres of economic influence.

The 1940s: World War II and the Rise of Planned Assistance

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The priority at this point of time was for financing the reconstruction of the war-ravaged countries and, thus, this formed the crux of the Marshall Plan

and the World Bank's assistance programmes.²⁰ Under the Marshall Plan, 25 percent of the assistance was to be in the form of food and fertilisers. As aid under the plan waned, its spirit was re-enacted by the powerful farming lobby in the form of PL480.²¹

Debates on the economics of aid raged during this time, with T. Bauer and Milton Friedman voicing their opinion against it. They believed that aid would only substitute the national resources, without causing any structural or policy changes that would enable its proactive utilisation. Aid could, thus, be used for consumptive expenditure, rather than for capital investments. There was a need to have good governance policies in place before aid could be given.²²

It was also feared that aid would retard the development of an indigenous entrepreneurial middle class and delay institutional reforms by creating dependency on external structures and finances. This would, in fact, slow down growth in the long term, contrary to the neo-liberal goals of accelerating it.²³

The 1950s and 1960s: The Cold War and the Ideological Nexus

The Cold War period saw the rivalry between the US and the Soviet Union gaining momentum. The US policy of containment guided its initiation of the Marshall Plan. Aid, at this point, included food aid and individual projects. A unique initiative by the US at this time was the Community Development Movement which went side by side with its otherwise top-down approach to development assistance. This was, in fact, a programme to strengthen social cohesion at the village level and develop community directed progress. It reflected sensitivity towards the rise of independent nations and further facilitated the case for a broader development effort later in the 1960s.

20. Jan Pronk et al., *Catalysing Development—A Debate on Aid* (Oxford: Blackwell Publishing, 2004), p. 73.

21. This was instituted by the 1954 Act. The US' Food for Peace programme was instrumental in providing food aid for over 50 years, and was, incidentally, one of the most important tools of diplomacy for the US at a time of global food shortages.

22. Milton Friedman, "Foreign Economic Aid: Means and Objectives" (*The Yale Review*, 1958), pp. 500-516.

23. Pronk, et al., n. 20, p. 151.

The 1950s were inspired by the Harrod Domar growth model and the Arthur Lewis unlimited supply of labour model which resulted in assistance being directed towards large-scale capital-intensive projects, with scant regard for labour, human capital and productivity. The Harrod-Domar growth model emphasised on the gap and trap approach to foreign aid. This implied that aid could be utilised to fill finance gaps and escape from economic traps in a system. Although the logic of the approach has been disputed, it served as the underlying economic logic for aid.²⁴

The Colombo Plan established by the South Asian and Southeast Asian nations in 1951 was a unique initiative by the newly independent and developing countries of the time. The primary aim was developmental assistance and it was recognised as a novel South-South effort.

The 1960s also saw the start of many bilateral programmes and sector specific approaches, for instance, towards agriculture, popularly known as the green revolution. Technical assistance and budget support became popular means of assistance, thus, indicating willingness on the part of the donor countries to be attentive towards the finer details of the newly independent countries.

These efforts were cemented by the formation of the DAC of the OECD in 1960. Its mandate was to monitor the performance of aid and aid related targets of its members. It also defines the components of ODA and updates the list of recipients periodically. The need for an institution like the DAC was felt due to the disorganised manner in which foreign aid was being meted out. Thus, it was natural for its mandate to not only include setting standards on terms and conditions of aid and monitoring flows in development finance, but also the promotion of good practices in the global development architecture.

24. William Easterly in *White Man's Burden* states that there is no clear link between aid and economic growth and no theoretical model has been able to establish such a link. William Easterly, *Tyranny of Experts: Economists, Dictators, and the Forgotten Rights of the Poor* (New York: Basic Books, 2013), p. 51.

The 1970s and 1980s: Multilateral Institutions and Multipronged Approaches

This period saw the prevalence of multilateral assistance from the World Bank and International Monetary Fund (IMF). This meant the promotion of the gradual roll-back of the state. In fact, the 1980s saw an increased reliance on NGOs as a conduit for furthering assistance. The growing importance of the market also implied the simultaneous rise of financial programmes, debt relief and import substitution, as opposed to food aid. Development assistance became a mix of commercial, altruistic and norm-based behaviour. Agencies like the IMF had made aid conditional on free market reforms in order to drive home the prevailing ideology.

Robert Solow's neo-classical model of growth and the basic needs approach in welfare economics inspired a dedicated flow of funds towards social programmes like health and education, poverty eradication, upskilling and development of human capital. His idea of sustained economic growth involved investing in human capital and technological advancement, rather than accumulation of capital as focus on the latter would eventually lead to diminishing returns.

The Japanese aid giving strategy came of age during this period and also assumed a unique position because of its domestic stimuli. The oil crisis of the 1970s made the world jittery about securing oil supplies. Japan particularly, recognised its vulnerability as a resource poor nation and understood the importance of securing the cooperation of the developing countries.²⁵ However, to conduct trade and carry on a relationship of mutual assistance required infrastructure. Thus, its heavy emphasis on developing infrastructure is rooted in its own experience. The other push was the ardent need to feel respected in the international community, since it was limited in terms of its military capabilities by its own Constitution. By the end of the 1980s, Japan had become the biggest

25. D.T Yasutomo, *The Manner of Giving: Strategic Aid and Japanese Foreign Policy* (New York: St. Martin's Press, 1986), p. 12.

donor in terms of ODA in absolute terms. It embodied the principles of burden sharing or *yakuwari bhuntan*.²⁶

During the Cold War period, the US took the lead in aligning its security policy with its development aid programmes. The major purpose of US foreign policy at this juncture, was the containment of the Soviet Union's Communist policy. Here too, context played an important role. The East European countries were less developed and were in dire need of economic assistance. The purpose of economic aid, or the Marshall Plan, was to create stable political systems since motivations for assistance were driven by the notion that 'underdevelopment' constituted the conditions that were conducive to the spread of Communism. In the 1960s, US involvement in Vietnam was also on the back of an economic and military assistance programme in the initial years.²⁷

The 1980s and 1990s saw the mushrooming and strengthening of an international economic order that was centred around the Washington Consensus²⁸. Poverty alleviation continued as an important international concern. However, the path to alleviation was linear and driven by monolithic ideas. Economic growth and an outward looking development strategy which emphasised on open trade and greater investment flows, dominated the poverty alleviation discourse. The underlying philosophy was this: accumulation of capital was co-related with increased savings and investment, which would further translate into higher growth, which would,

26. The Ministry of Foreign Affairs of Japan emphasises on the need for 'internationalisation of the country'. Its official document on the synergy between the international community and Japan, emphasises on the need to be magnanimous towards different countries and cultures, in order to tackle pressing international problems like poverty, discrimination, etc. Thus, burden-sharing becomes an important facet of Japan's foreign policy.

Ministry of Foreign Affairs, Government of Japan, "The International Community and Japan", <https://www.mofa.go.jp/policy/other/bluebook/1991/1991-3-4.htm>

27. Louis Picard, ed., *Foreign Aid and Foreign Policy: Lessons for the Next Half Century* (London: M.E Sharpe, 2008), pp. 130-146.

28. The Washington Consensus was an agreement among key Washington-based institutions such as the IMF, World Bank, US Department of Treasury, on policy measures to assist crisis-stricken countries. This included liberal measures such as opening up of trade and investment, expansion of market forces and other measures which focussed on macro-economic stabilisation.

in turn, trickle down to the masses.²⁹ And the key to all of this was the input of ODA, which would help finance this cycle.

Prevailing schools of thought during this time encouraged the above-mentioned dynamic. The works of Anne Krueger and Jagdish Bhagwati emphasised on the need to open up economies and expand exports in order to achieve higher productivity.

The developing countries, which were the major recipients of donor assistance at the time, had very poorly developed private capital markets. Thus, ODA was considered to close this financing gap and propel growth. The financial assistance was clubbed with structural reform packages which aimed to build a free market system in the recipient countries. Donors generalised the economic allocation strategies and effectively aggregated the diversity of the developing world.

The 1990s: Good Government and Policy-Making

The end of the Cold War period saw the US as the leader of the new unipolar world order. It now encapsulated foreign aid as a part of its peace-making initiatives in the Balkans, Northern Ireland and Africa, among others. Aid was also utilised to promote smooth transitions of governments in the erstwhile Communist countries. Initiation of democratic reforms prevailed as the most appropriate form of government reforms post the transition. The state became important for implementing reforms, while good governance issues took centre-stage.

The phrase 'Programme Ownership' became important to describe the orientation of the assistance programmes. It was considered more efficient to incorporate the recipient government in the design and management of programmes in order to incentivise their enthusiasm and involvement.

Post-1990, the composition of aid diplomacy also changed. Development and humanitarian assistance grew as the post-1990 goals turned to the discourse of sustainable development. With time, the trade vs aid debate took centre-stage. The belief here was that trade, which involved

29. Christian Schabbel, *The Value Chain of Foreign Aid* (Germany: Physica-Verlag, 2007), p. 216.

Relatively poorer countries, in terms of per capita Gross Domestic Product (GDP) like India and China also provide assistance to similarly placed countries. There is also the trope of developing countries providing aid to other developing countries.

economic policies such as open markets and elimination of trade barriers was a more comprehensive and sustainable policy than mere monetary assistance. The US was, in fact, charging more as import duties from the poor countries than it was providing in aid, and approaches such as these needed to be rectified.³⁰ The debate gradually led to the notion that trade, as well as aid, would tantamount to development success stories. Incidentally, this made the environment more friendly for the developing countries to enter the fray.

The nature, scope and motives of development assistance have changed over the years as improvements in standards of living have taken place, throughout the world. Most of the major recipient countries have now become donors, and so have several developing countries.

The reality is that assistance giving is not confined to the developed countries, as was the norm at the inception of development aid. International organisations, whether old or new, such as the World Bank, Asian, African, Inter-American Development Banks have such programmes inked into their mandate. However, the developed countries of North America and Western Europe also find company in this field in the oil producing countries of the Middle East, as well as the middle income countries like Korea, Thailand and Turkey. Eastern European countries which were part of the former Soviet bloc, have also found their footing in the midst. Relatively poorer countries, in terms of per capita Gross Domestic Product (GDP) like India and China also provide assistance to similarly placed countries. There is also the

30. Steven Radelet et al., "Counting Chickens When They Hatch: The Short Term Effect of Aid on Growth," *World Bank Policy Research Working Paper 1550* (Washington: Centre for Global Development).

trope of developing countries providing aid to other developing countries.³¹

The 2000s: Globalisation and Development Politics

Never has the need for development assistance been so pressing as in the globalisation era where access to technology, capital and ideas has created sharp divides between the haves and the have nots. The role of public perception became important during this time due to the widespread penetration of means of communication and the growing need for holding governing bodies accountable for their actions. NGOs and civil society groups also emerged as prominent lobbies in the 21st century, thus, propelling development concerns on the agenda of countries.

Many of the ongoing projects today include reconstruction projects in politically disturbed countries like Iraq and Afghanistan, as well as micro-enterprise loans like that to Bangladesh. Development assistance even includes alliances with scientists and professionals to collaborate on solutions to food and agricultural crises. An example of this is the ongoing collaboration between India and Israel on non-traditional security aspects like agriculture, food and water security.³² Aid to support girls' education,³³

Japan emerged as the largest ODA donor in the 1990s and still thrives as one of the largest contributors to the same. Its successful implementation of ODA has also seen many of its donee countries turn into aid donors, such as China, South Korea and even Thailand.

31. Harsh V. Pant, "Israel's Arms Sales to India: Bedrock of a Strategic Partnership", Observer Research Foundation, <https://www.orfonline.org/research/israels-arms-sales-to-india-bedrock-of-a-strategic-partnership-55101/>. Accessed on September 19, 2019.

32. Meighan Stone and Rachel Vogelstein, "Investing in Girls' STEM Education in Developing Countries", Council on Foreign Relations, <https://www.cfr.org/report/investing-girls-stem-education-developing-countries>. Accessed on August 1, 2019.

33. World Health Organisation, "Aid for Health", <https://www.who.int/hdp/aid/en/>. Accessed on August 15, 2019.

vaccination drives³⁴ and family planning services³⁵ comprise another basket of social welfare activity. Research and collaboration in the fields of medical sciences is complemented by university level exchanges. The new threat to global security also comprises diseases such as Ebola or H1N1, which are trans-border agents and need coordinated policy-making for their control. Development assistance works towards collaborating on such issues for greater precaution and prevention. In a way, the new millennium has seen a diversification of goals, projects and ideas.

2013 Onwards: BRI and Ahead

The Chinese model takes forward their apparent success in providing economic welfare measures for their own citizens and extrapolates it abroad.³⁶ The philosophy behind their chosen form of assistance is to improve the accessibility of remote regions by developing the infrastructure, with the underlying assumption that this would boost economic morale and activity. Hu Jintao's emphasis on China developing and strengthening 'public diplomacy and humanities diplomacy' marked China's adoption of public diplomacy at the global level³⁷ in 2009. The rhetoric was soon followed up with concrete measures like formation of public diplomacy associations in Beijing a few years later.

China assumes that an entrepreneurial spirit would develop amongst the people at large, once they are given the opportunity and exposure via connectivity schemes. The Chinese pitch lies in providing information and infrastructure in a way that is distinct from that of the West, and closer to the South-South principle of cooperation.³⁸ The official Chinese narrative lies in pledging greater development cooperation, without challenging the cultural

34. Ibid.

35. Ibid.

36. James Pamment and Karin Gwinn Wilkins, eds., *Communicating National Image through Development and Diplomacy* (Switzerland: Palgrave Macmillan, 2018), p. 272.

37. 11th Conference of Chinese Diplomatic Envoys Stationed Abroad, Beijing, 2009.

38. Q. Zhao, "Japan's Aid Diplomacy with China" in B.M. Koppel and R.M. Orr, eds., *Japan's Foreign Aid: Power and Policy in a New Era* (Boulder: Westview Press, 1993).

dynamics of the region, or questioning the ruling elite.³⁹ This serves them well at a juncture where Western economic and political reforms have been criticised for raising tensions across the globe due to their inability to view situations from a localised lens. Thus, China has combined the development methods of the West while, at the same time, allowing countries to adapt the models to their own unique contexts.⁴⁰

Similarly, Japan emerged as the largest ODA donor in the 1990s and still thrives as one of the largest contributors to the same. Its successful implementation of ODA has also seen many of its donee countries turn into aid donors, such as China, South Korea and even Thailand.

The September 2001 attacks placed an emphasis on the fight against terrorism. Development diplomacy also succumbed to the Western notion that poverty bred discontent and terrorism. Thus, assistance again received a new orientation. There was now a need to take a three-pronged approach to world politics: maximisation of security and economic development while addressing humanitarian issues. The issues of development, security, conflict prevention and peace became interdependent.

The South Asian context provides an apt setting for analysing the phenomenon. Established players in South Asia such as China, and in East Asia such as Japan, have long dominated the narrative. However, the recent years have seen the emergence of new players.

THE DEVELOPMENT CONUNDRUM: THE SOUTH ASIAN THEATRE

The South Asian region represents a unique medley of contradictions and synergies. It represents a myriad aspirations from its growing middle class but basic services still elude a majority of its population. The prevailing security matrix is one of suspicion and constant vigilance despite having historical and cultural affinities. The constantly changing political posturing of the countries in the region also lends an atmosphere

39. Xinhua News Agency, "Belt and Road Initiative," <http://www.xinhuanet.com/silkroad/english/index.htm>.

40. Sputnik News Agency, "Russian Chinese Officials Discuss Color Revolutions", 2016, <https://sputniknews.com/world/201609131045247958-russiachina>.

of unpredictability. The region is younger demographically in comparison to other international groupings and represents aspirations of breaking out of the shell of its post-colonial identities and ascriptive descriptions. Countries such as India, China and Pakistan seek to place themselves as indispensable players in the global matrix. However, despite the competitive international environment, this region is distinguished by its stark need for capital from domestic and foreign sources, in order to fulfil its ambitions.

This section offers a look at where the individual actors stand in terms of their national goals and how the region as a whole compares to global indicators. Thus, the South Asian region provides abundant scope for leverage for an actor with deep pockets like China. This is the reason why China has been able to spread its footprints in the region by offering competitive loans. The theatre of development politics can play out only if there is a sufficient need for the same. The South Asian region offers a stage, a platform and an invitation to an economic hegemon to cultivate and further develop its strategic agenda.

India's position in this matrix is unorthodox and needs to be explored further. It seeks to be the major player in the region's politics but does not perform better than its South Asian counterparts on many global indicators⁴¹. However, India seeks to branch out in its communications, support and influence in the region and even rival China's claims by the strategic use of its comparative advantage. The following section presents an analysis of the scope of key areas of cooperation and divergence in South Asia and establishes why it is an ideal theatre for development politics.

On Sustainable Development Goals

The Millennium Development Goals (MDGs) and the more recent Sustainable Development Goals (SDGs) are the best matrices for a global comparison of achievements in the development sector. The MDGs

41. In the SDG index (2018), only two countries in South Asia (Bhutan, Sri Lanka) are in the top 100. India finds itself at the 112th position, <https://in.one.un.org/sdg-india-index-2018/>.

comprised a set of 8 objectives that were to be achieved by 2015. The SDGs, on the other hand, are more detailed, universal, integrated and inclusive in nature.⁴² They comprise 17 goals with 169 targets which must be achieved by 2030.

The NDGs did not see strong performance across the region,⁴³ which makes the success of the SDGs important in improving the standard of living of people in the region. There are several paradoxes that come to light when analysing the region: performance on the development indicators does not mostly correspond to the per capita income;⁴⁴ although the South Asian economies perform well in terms of progress on elimination of poverty,⁴⁵ the absolute numbers remain high; Gini coefficients of consumption inequality are low in the South Asian countries,⁴⁶ however, the region remains among the most unequal in the world. This is due to several intersectionalities of social factors like caste, ethnicity and gender.

The SDGs would be difficult to achieve, with each country working in isolation. In fact, several goals are transnational in nature⁴⁷ and require cooperation by design. Country level data show that India is doing well in certain goals: Goal 1 (ending poverty), Goal 6 (sanitation and access to clean water), Goal 12 (sustainable development) and Goal 16 (strong institutions, peace and justice) while underperforming in goals like Goal 2 (zero hunger), Goal 5 (gender equality) and Goal 9 (industry and innovation).⁴⁸ Bangladesh,

42. Syed Munir Khasru, "Why South Asia Must Cooperate," *The Hindu*, June 22, 2019, <https://www.thehindu.com/opinion/op-ed/why-south-asia-must-cooperate/article28103001.ece>.

43. Jayati Ghosh and C.P. Chandrashekhar, "Why is South Asia Performing so Badly on the SDGs?" *The Hindu Business Line*, March 25, 2019, Macroscan, Delhi Edition.

44. India has one of the most diversified economies and is also the largest economy. However, it does not perform better than the landlocked likes of Nepal and Bhutan.

45. Income poverty is defined as living below \$1.90 per day at Purchasing Power Parity (PPP) exchange rates as the indicator. Use of PPP exchange rates, however, can always be criticised.

46. Forbes, "Asia's Wealth Gap is Among the Largest in the World: What Can Leaders Do to Fix it?," <https://www.forbes.com/sites/ljkelly/2018/02/02/asias-wealth-gap-is-among-the-largest-in-the-world-what-can-leaders-do-to-fix-it/#1760c87ea436>. Accessed on August 14, 2019.

47. These include goals related to hunger, gender equality, education and even sustainable cities and technology.

48. Ibid.

on the other hand, also does well in Goals 1, 6 and 12 but fares poorly in Goals 2 and 9.⁴⁹ Pakistan, similarly, lacks improvement in Goals 2,5 and 9, similar to both Bangladesh and India.⁵⁰ Policy harmonisation, thus, could also avoid duplication of efforts in a resource starved region. A coalition of efforts from non-state actors in the region such as the public and private sectors, public-private partnerships and NGOs could help catapult progress in terms of the nationally determined goals.

The figures (Fig 1 and Fig 2) depict the concerning levels of inequality in Asia. Inequality can be seen as a compounded result of inefficiencies in individual goals, such as those in the SDGs highlighted above. India's Gini coefficient rose to 51 by 2013, from 45 in 1990, on account of rising inequality between urban and rural areas as well as within these areas.⁵¹ Similarly, at a time when inequality came down for the rest of the world, a regional comparison shows that the net Gini coefficient rose for Asia to 40 in 2013, up from 36 in 1990.

Trade

South Asia remains one of the least integrated regions in the world. The facts are self-explanatory. Intra-regional trade accounts for only 5 per cent of the total trade conducted in the region, whereas intra-regional investment is less than 1 per cent of the total investment.⁵² The facts allude to the underutilised potential in the region. Clubbed with the fact that the region hosts 30 per cent of the world's poor,⁵³ it is clear that there is a lot of scope for cooperation on common developmental problems.

49. Ibid.

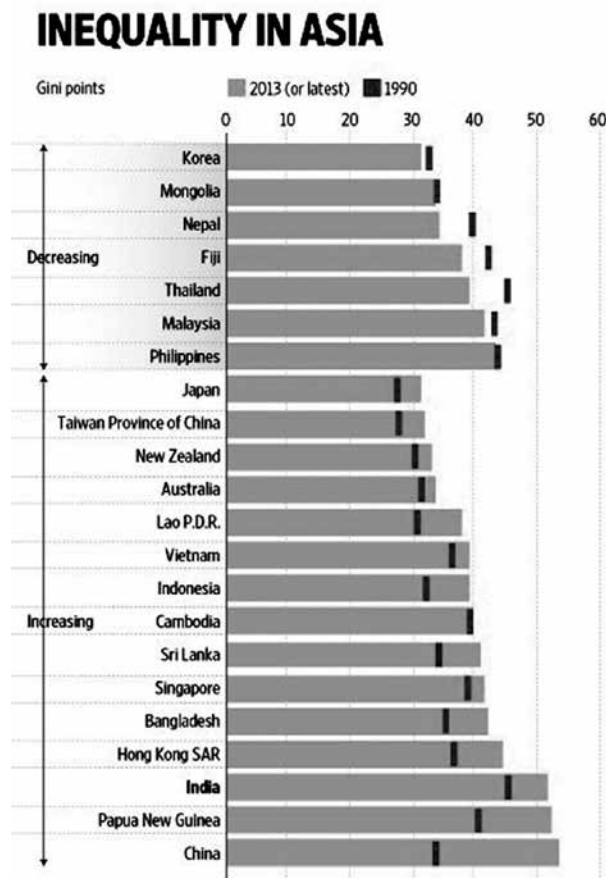
50. Ibid.

51. Remya Nair, "IMF Warns of Growing Inequality in India and China," *LiveMint*, Politics Section, <https://www.livemint.com/Politics/mTf8d5oQzMwavzaGy4yMN/IMF-warns-of-growing-inequality-in-India-and-China.html>.

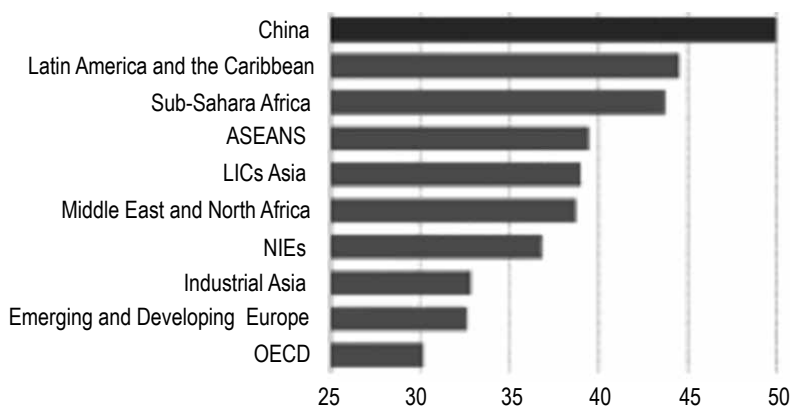
52. This is in comparison to intra-regional trade accounting for 50 per cent of the total trade in East Asia and the Pacific, and 20 per cent for Sub Saharan Africa. Sanjay Kathuria, ed., *A Glass Half Full: The Promise of Regional Trade in South Asia* (Washington D.C: World Bank, 2018), p. 112.

53. "30 percent of Very Poor Children Live in India: Unicef", *Economic Times*, October 5, 2016, Economic Indicators

Fig 1: Inequality in Asia as per Gini of Inequality



Source: IMF data on regional inequality levels.

Fig 2: Regional Comparison Coefficient

Source: IMF data on inequality.

Financing of SDGs would benefit greatly from the intra-regional flow of Foreign Direct Investment (FDI), with the public and private sector pooling in their resources. The Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) and Bangladesh, Bhutan, India and Nepal (BBIN) groupings have identified lack of connectivity as among the key problems restricting trade flow. However, as far as redressal of the problem is concerned, the connectivity initiatives operating in the region are stunted by weak governance structures and inadequate political will.⁵⁴ Similarly, the South Asian Free Trade Area (SAFTA) of 2006 has been undermined by a long 'sensitive list' which restricts 35 per cent of intra-regional trade.⁵⁵

Despite progress, the South Asian countries export approximately only one-third of their potential. The export gap has only widened over time as countries have not been able to take advantage of the global trade environment.⁵⁶ They have, in fact, inadvertently restricted themselves to the margins of global value chains. In terms of exports to each other, the figures

54. Constantio Xavier, "Bridging the Bay of Bengal: Toward a Stronger BIMSTEC", Carnegie India, February 22, 2018, South Asia section.

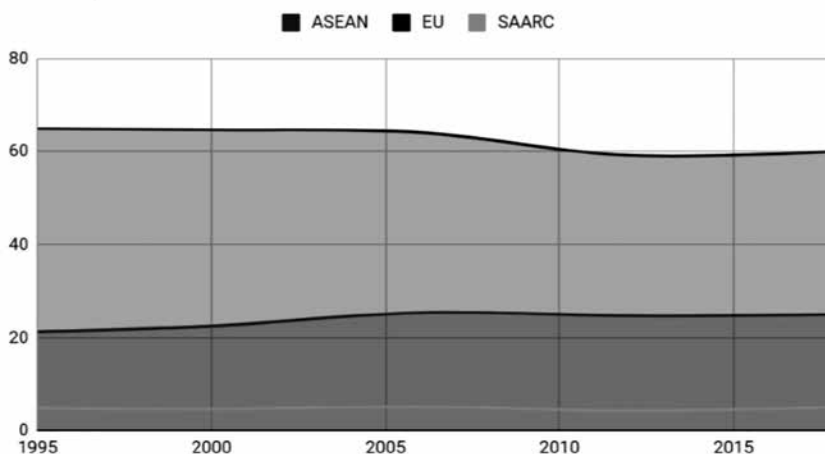
55. Items on the sensitive list are not offered concessional tariffs. India itself restricted up to 52 per cent of its total imports by value from SAFTA members, due to its utilisation of the sensitive list category.

Nisha Taneja et al., "Enhancing Intra-SAARC Trade: Pruning India's Sensitive List under SAFTA," Indian Council for Research on International Economic Relations, April 2011.

56. The export gap stands at 20 per cent of the GDP as of 2017. World Bank, "South Asia Needs More Exports to Maintain Growth", World Bank Press Release, April 7, 2019.

amount to less than 2 per cent of total exports among India, Pakistan, Sri Lanka and Bangladesh.⁵⁷

Fig 3: Intra-Regional Trade as a Percentage of Total Trade



Source: Author's own calculations, based on World Bank data.

An Aspirational Region

The cumulative growth statistics in the region stand at 6.9 per cent in 2018 and are gearing up to accelerate even further in the future.⁵⁸ However, what is common across the region is the qualitative nature of the growth. Growth is mainly consumption led and not investment led. Thus, the region faces vulnerabilities since lack of investment fuels low growth and this, in turn, makes people wary of spending. This model of growth is prone to shocks and is unsustainable in the long run and can be contrasted to China which has grown on the back of an investment led economy, rather than solely being fuelled by domestic

57. The Asia Foundation, "Intra-Regional Trade in South Asia," Asia Foundation Yearly Report, May 7, 2016.

58. The World Bank regional economic update cites these figures and proclaims it the fastest growing region, surpassing East Asia and the Pacific.
The World Bank, "Where We Work," <https://www.worldbank.org/en/region/sar/overview>, Accessed on August 3, 2019.

demand. Further, most South Asian countries generate low tax revenue and incur substantial budget deficits.⁵⁹ This is accentuated in the time of election cycles. Its fiscal weakness diminishes its ability to take on external shocks and slowdowns. Being driven by domestic demand also increases pressure on imports, which far outstrip exports.⁶⁰

The fiscal situation points to several developmental challenges. Weak discipline by state governments in federal states and high cost of service delivery in island nations hinder access and equality. There is a strong need to spur entrepreneurship, innovation and also to equip citizens with the skills to compete in the global market. High government spending is understandable in a region like South Asia where the developmental challenges are plentiful. However, the governments also need to think about the sustainability of their initiatives.

In terms of population demographics, South Asia faces the challenge of underutilisation of its resources. Population growth and economic growth are not necessarily co-related unless the capacities of the economies are improved. As Fig 4 shows, the South Asian population will remain relatively young. It is a region with high fertility rates in absolute terms, though they have been on a declining trajectory. The working age population is expected to increase by 2030 and, thus, requires commensurate growth to absorb them. A common point of tension among the South Asian countries is an underdeveloped manufacturing sector.⁶¹ China relied on this sector to absorb the growing workforce during its economic boom years.

59. South Asia's fiscal deficit is the second largest in the world (2018), after the Middle East and North Africa region. It currently stands at 4.4 per cent of the GDP.

The World Bank, "South Asia Firms Up Its Growth Lead, Despite Budget Woes," The World Bank Press Release, October 7, 2018.

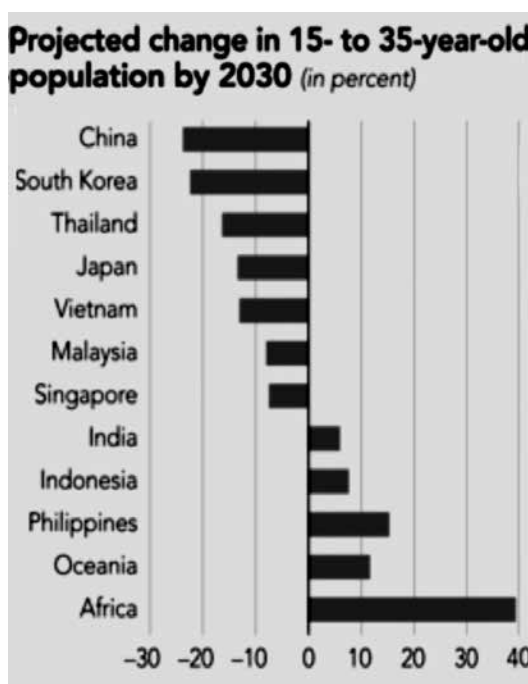
60. Though the region's growth is robust, swelling imports have caused widening trade gaps and current account deficits, often triggering currency depreciation. High import growth of 14.9 per cent in 2017 and 15.6 per cent in 2018, was twice as high as the region's export growth of 4.6 percent in 2017 and 9.7 per cent in 2018.

International Bank for Reconstruction and Development, "Exports Wanted," *South Asia Economic Focus*, May 6, 2019.

61. The Economist Intelligence Unit, "Can South Asia Make the Most of Favourable Demographics?" *The Economist*, November 21, 2018, South Asia, Country Analysis.

Poor educational standards and obstructive labour laws across the region compound the problem. Problems of skewed land distribution and equity will complicate the situation even further. Added to this is the increased push towards urbanisation which leads to potential problems of sanitation and inequitable growth. South Asia's urban population is expected to rise by 250 million by 2030,⁶² placing additional pressure on the economies to quickly remedy the prevailing situations of disguised unemployment, as well as underemployment. The need to upskill the youth, to invest in last mile service delivery, and to make national projects viable via investments, are not issues which can be confined to the borders of a country.

Fig 4: Potential Demographic Situation in South Asia in Comparison to Global Statistics



Source: United Nations World Population Prospects.

62. The World Bank Group, "Leveraging Urbanization in South Asia." World Bank Publication, November 21, 2018.

Infrastructure

The risk for investors resides primarily in the mitigation of domestic and administrative delays. The needed capital investment in infrastructure in the region, on an average, is 9 per cent of the GDP.⁶³ Infrastructure in South Asia also lags behind most regions.⁶⁴ Deficits exist in transport and connectivity and logistical performance, whether it is the borders or the ports, or access to basic services like infrastructure, sanitation⁶⁵ and electricity. On electricity alone, South Asia suffers the most outages as compared to other regions. This reduces productivity and man hours.⁶⁶

There is a need to mobilise more private finance to tackle the shortage of funds. South Asia has the peculiar distinction of having the public sector finance 60 per cent of its infrastructure, but, at the same time, it suffers from low collection of user charges. Reports cite an unwelcoming environment⁶⁷ for the private sector as the reason for the low investment. The private sector refrains from investing in public projects as it faces issues in the recovery of project costs and the unpredictability of revenue streams.

As all the countries in the region seek to move to higher income brackets and out of the middle-income trap, innovative ways to finance projects would be sought. Development of capital markets to free up bank-induced lending and incentivisation of insurance companies and pension funds which could potentially share infrastructure risk, are needed. The technical expertise and management practices of the private sector are also desirable.

63. Shikha Jha and Rosa Mia Arao. "Infrastructure Financing in South Asia," ADB South Asia Working Papers, vol. 59, <https://www.adb.org/sites/default/files/publication/454316/swp-059-infrastructure-financing-south-asia.pdf>. Accessed on September 15, 2019.

64. Jules Gray, "World Bank Report Highlights South Asia Infrastructure Problems," *The New Economy*, April 23, 2014, Business.

65. In 2015, only 56 percent of the South Asian residents used safely managed drinking water services, in comparison to 71 percent of the global population. Vanita Suneja, "Despite Progress, South Asia Faces Daunting Challenges in Water and Sanitation," Inter Press Service, WaterAid, July 16, 2018, Updates.

66. The World Bank Group, "In the Dark: How Much Do Power Sector Distortions Cost South Asia," World Bank Report, December 12, 2018.

67. The World Bank Group, "South Asia Firms Up its Growth Lead, Despite Budget Woes," World Bank Press Release, July 9, 2018.

The vision of a South Asian Association for Regional Cooperation (SAARC) energy ring, conceptualised to bring about an interconnected electricity system across the region, still remains elusive. Cross-border power connectivity has gained currency among governments due to the benefits of scaling and lowering costs, the potential for cooperation on renewables, and diversifying of supply. The energy trilemma⁶⁸ of energy security, affordability and sustainability is a task at hand for cooperating partners. There exist several opportunities in this regard as South Asia is home to the second largest population living on off-grid supplies of electricity.⁶⁹

Skills development is also an important dimension of cooperation and investment. A demand supply mismatch in the region has been aggravated by global trends of an economic slowdown. Opportunities to collaborate on curriculum and training programmes that could tackle common issues like lack of hard and soft skills, should be focussed upon. This would complement national efforts towards the same. Collaboration on three major growth sectors among the South Asian countries such as agriculture, manufacturing and services is key to moving forward on this. The factors discussed above allude to the various sectors and levels of cooperation that face challenges and need to be pursued to their potential in the future.

Having analysed the strategic, economic and social consequences of development as a form of diplomacy, the potential for India to leverage this tool in the region merits discussion. Where does India stand in terms of

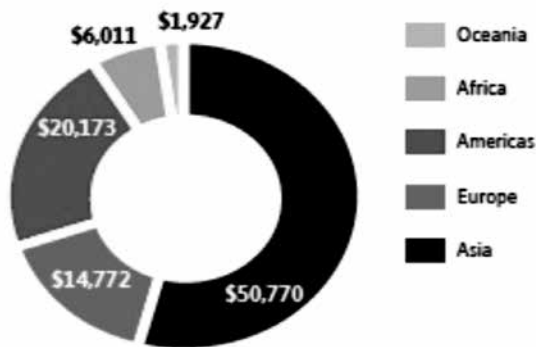
As all the countries in the region seek to move to higher income brackets and out of the middle-income trap, innovative ways to finance projects would be sought. Development of capital markets to free up bank-induced lending and incentivisation of insurance companies and pension funds which could potentially share infrastructure risk, are needed.

68. UNESCAP, "Integrating South Asia's Power Grid for a Sustainable and Low Carbon Future." The Asian Pacific Energy Forum, April 1, 2018.

69. ET Energy World, "Offgrid Communities," <https://www.power-technology.com/features/offgrid-communities-renewable-energy/>. Accessed on September 1, 2019.

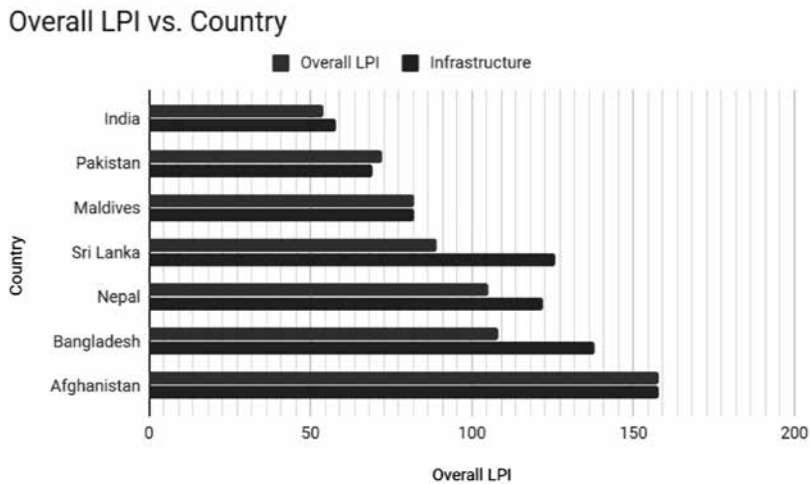
providing and receiving development assistance? Is it willing to challenge established players in the South Asian region and find its own niche?

Fig. 5: Prevailing Infrastructure Investment Needs per Region (2016-2040)
(in \$ billion terms)



Source: World Bank data and chart.

Fig 6: Rankings on the World Bank's Logistics Performance Index (LPI) and Infrastructure Rankings



Source: Author's own calculations based on World Bank Data. Figure shows the rankings on the World Bank's Logistics Performance Index and the rankings on the sub-category of infrastructure.

INDIA IN THE QUAGMIRE: POTENTIAL AND OPPORTUNITIES

In a region where it is seen as a big brother figure, it is important for India to deepen trade and also manoeuvre the trust deficit in the region. Aid partnerships are not new to Indian foreign policy and can, in fact, be said to assume an integral part.⁷⁰ In 1960-61, India supported Nepal's 5-year plan with \$36 million in aid.⁷¹ In 2003, India announced its stake to global prominence by launching the India Development Initiative and the discontinuation of aid programmes of all but five countries.⁷² This had a symbolic effect as it signalled India's attempts to be seen as an aid giver rather than a passive recipient. India also launched its development aid agency in 2012, called the Development Partnership Administration (DPA).

The mandate of DPA was to oversee, execute, monitor and evaluate assistance programmes. India has traditionally used three important means of development assistance: technical cooperation, including capacity building as well as knowledge transfer; Lines of Credit⁷³ (LOCs); and grants assistance. This allows India to maintain several conditionalities in its interactions. For instance, LOCs are extended on the condition that the recipient imports Indian equipment, technology and goods on deferred credit terms.⁷⁴

Trade in kind has also been a part of India's basket to its neighbouring countries as has financing of large-scale infrastructure projects, particularly in Bhutan, Bangladesh and Nepal. However, a figure which is telling is that imports from the region form only 0.6 per cent of its total imports.⁷⁵

70. Supriya Rowchowdhury., "India's External Aid- Lessons and Opportunities", *Economic and Political Weekly*, 48(36), 2013, pp. 32-34.

71. S. Chaturvedi and E. Sidiropoulos, *Developing Cooperation and Emerging Powers: New Partners or Old Patterns* (London: ZED Books, 2012).

72. The German, Japanese, Russian, British and American programmes were continued. Nick Langton, *Emerging Economies like India's Make Aid Recipients the New Donors* (San Francisco: Asia Foundation, 2012).

73. They are essentially concessional loans with a grant element, administered by the EXIM Bank.

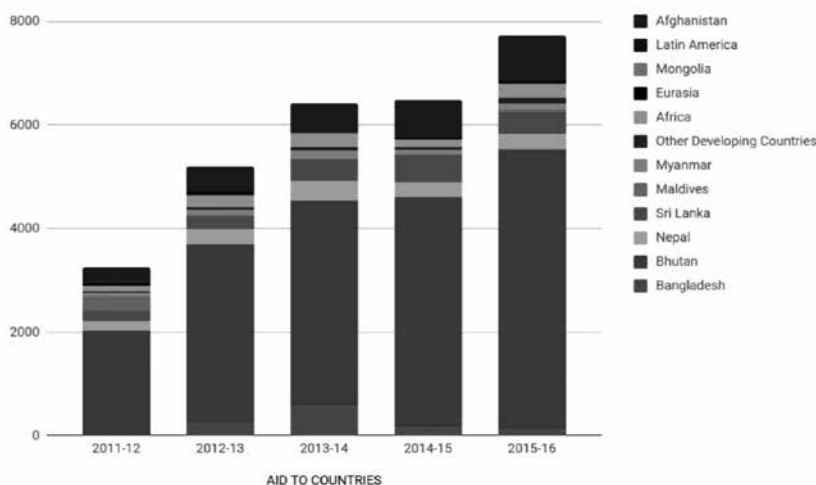
74. Abhishek Mishra, 2018, Observer Research Foundation, <https://www.orfonline.org/expert-speak/changing-nature-india-lines-of-credit-africa/>. Accessed September 21, 2019.

75. S. Sirohi, 2018, Observer Research Foundation, <https://www.orfonline.org/expert-speak/south-asia-high-costs-of-not-trading-with-neighbours-45195/>. Accessed September 21, 2019.

India's basket of investments is mostly the same across the region, but it is able to tweak it according to the requirements of the individual countries. For instance, India's aid to Afghanistan comprises large and small infrastructure projects, humanitarian assistance, capacity building initiatives as well as community building projects which focus on vulnerable and border areas through education, agriculture and health. It reflects a desire to have an in-depth understanding of the area, the local communities, and their lifestyles. In fact, this uses a more decentralised approach to development which is bottom up, rather than merely being focussed on promoting industrial growth.⁷⁶

India has, with its endeavours, emerged as a net donor country, with most of the aid given being confined to the South Asian region.⁷⁷ However, where it lags and where it, in turn, gains disfavour is in terms of completion of its projects and not their sanctioning.

Fig 7: India's Aid to Countries in Dollar Terms (in millions)



Source: Author's own calculations based on MEA data.

76. Emma Mawdsley, "The Changing Geographies of Foreign Aid and Development Cooperation", *Transactions of the Institute of British Geographers*, 37(2), 2011, pp. 21-25.

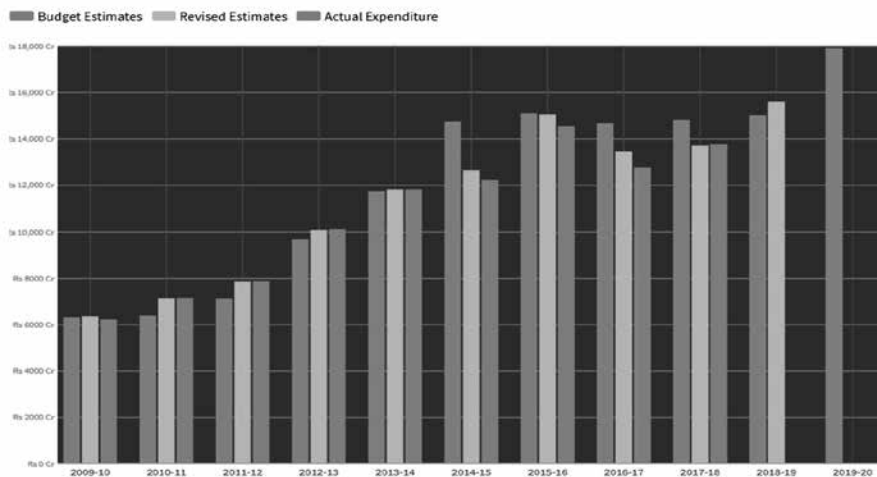
77. Saurabh Kumar and Aparna Sharma, *India's Neighbourhood Aid Policy* (Jaipur: CUTS International, 2023).

Fig 7 indicates India's bonhomie with Bhutan which gets a large chunk of its development assistance. In 2019, however, it has seen a substantial drop as India has chosen to diversify its donee base. For instance, aid as a percentage of total foreign assistance for Bhutan dipped from 43.7 per cent to 34 per cent and subsequently to 30 per cent for 2016-17, 2017-18 and 2018-19 respectively, even as absolute allocations remained somewhat constant. On the other hand, aid to Mauritius has tripled.

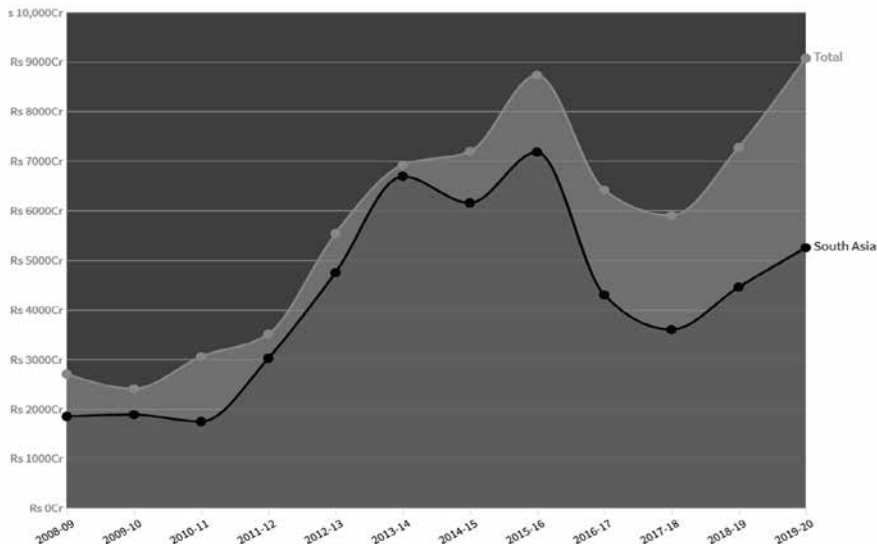
In terms of absolute allocations, the trend has been upward. This signifies the importance of foreign assistance in the current era. Budget allocations remain at an all-time high with Rs 17,884.78 crore in the 2019-20 budget.

However, South Asia has always retained a significant chunk of India's foreign assistance, as Fig 10 below depicts. It is significant to note from Fig 9, however, that the share of South Asia's allocation as a percentage of total aid expenditure has been on a decline. It now accounts for 58 per cent of the foreign aid. This is because of India's desire to expand and diversify its footprint in the Indian Ocean.

Fig 8: MEA's Allocation, as Opposed to Actual Expenditure in the Last Decade



Source: The Wire, <https://thewire.in/diplomacy/budget-mea-foreign-policy-charts>

Fig 9: South Asia's Share in India's Foreign Aid Expenditure

Source: The Wire, <https://thewire.in/diplomacy/budget-mea-foreign-policy-charts>

India is now a net donor of foreign aid.⁷⁸ In recognition of the complexity and scale of new projects undertaken by India, the Ministry of External Affairs (MEA) had created the office of the Development Partnership Administration (DPA) within its precincts in 2012. It handles the conceptualisation and execution of aid projects. It has been segregated into three divisions for better implementation of its commitments: DPA I looks into project appraisals; DPA II deals with sectors in which India has a competitive advantage, such as technical and economic cooperation, capacity building schemes and disaster relief; DPA III deals with project implementation.

India's development capacity has been spread thin with the expanse of cooperation in Southeast Asia, Caribbean, Pacific Islands, Africa, Latin America, as well as its own neighbourhood. Its composition basket

78. Ministry of External Affairs, 2017, Lok Sabha Unstarred Question No. 3245, New Delhi: MEA, Government of India.

comprises grant assistance, which is given primarily to countries in its own neighbourhood, and Lines of Credit which are given on concessional terms to the African and Latin American countries.⁷⁹

Out of the programmes of assistance which India provides, two stand out for their success and innovative conceptualisation: the Indian Technical and Economic Cooperation (ITEC) programme which teaches a wide variety of skills and courses on subjects like information technology, English language, project management, health, irrigation, among others, and the Small Development Projects (SDPs) which emphasise on building infrastructure projects on a localised and small scale.

India also formulates certain guidelines that it follows under IDEAS (Indian Development and Economic Assistance Scheme), for the purpose of committing to, and executing, assistance. Its Project Preparation Facility (PPF) has been recently developed to act as an incubator for new ideas in other countries.⁸⁰

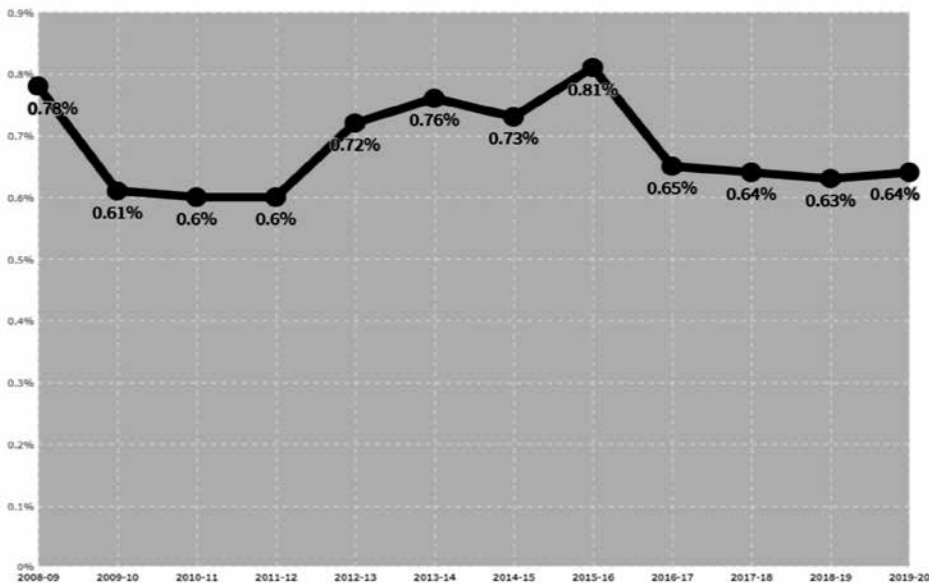
The 2019 budget has seen an increased allocation from the previous financial year by over 25 per cent,⁸¹ particularly because of increased investments in Mauritius, Maldives, Nepal and Bhutan. The increase is on account of insecurity caused by China's political manoeuvring in the region. The 2016-17 and 2017-18 periods had earlier seen a dip in foreign investment by India, but there has been a boost this year due to renewed priorities. As a percentage of the budget share, there is a gentle rise in expenditure by the MEA.

79. Ministry of External Affairs, 2019, Lok Sabha Starred Question No. 53, New Delhi, MEA, Government of India.

80. Ministry of External Affairs, 2019, Rajya Sabha Unstarred Question No. 460, New Delhi, MEA, Government of India.

81. Ibid.

Fig 10: MEA's Share of the Total Budget Expenditure of the Government, over the Last 10 Years



Source: The Wire, <https://thewire.in/diplomacy/india-lines-of-credit-aid-diplomacy>

India's policies in the region could make use of some of the successes of countries that have been involved in giving development assistance, in order to formulate a model that works best for it. It is, thus, important to analyse the performance of countries in the matrix, to gauge lessons and considerations. Several criticisms have been levelled against Indian projects and assistance abroad, the key among them being cost overruns and inconsistency. An example of this is the Chabahar port which was slated to be an important node for India's connectivity scheme to Afghanistan and Central Asia. However, it hasn't seen any allocations in the last two years from the foreign aid assistance package.

India has frequently chosen a benign role for itself in the development space. It prefers not to impose on, or interfere in, the national planning of

the countries it is involved with. However, a comparative assessment with other countries' experiences could tell us whether India needs to maintain its posturing or shift from it, with regard to making the best use of development politics in South Asia.