When the flag follows trade
Ashok Malik and Rory Medcalf
The Times of India
3 May 2011

Business is taking India's international relations in new directions, and the flag must follow trade. Yet is the nation's traditional foreign policy community up to the task? Can it, for instance, contemplate a merger of the ministry of external affairs (MEA) and the ministry of commerce?

Foreign direct investment (FDI) in India amounted to a paltry $393 million in 1992-93. By 2007-08, it had climbed to $34.7 billion and by 2008-09 to $35 billion. What is less recognised is the quantum of outbound FDI: money Indian businesses invest abroad. In 2007-08, this reached $18.8 billion and in 2008-09, it was marginally lower at $17.5 billion. In effect, for every two dollars overseas investors put into the Indian economy, one is exported.

For what was till recently a closed economy, that is a remarkable ratio. It represents a growing risk appetite for Indian business. Big-ticket acquisitions - such as that of the Britain's Corus Steel by Tata Steel in 2007 - also become symbols of middle-class pride. All of this has an impact on foreign policy. It makes the support - if not yet 'protection' - of Indian capital abroad a legitimate expectation of Indian diplomacy.

Of course, foreign acquisitions by Indian companies are almost always autonomous corporate decisions. They are not pushed by the government's strategic imperatives. This has inoculated them from some of the controversies that have thwarted Chinese efforts - such as the Chinese National Offshore Oil Corporation's attempt to buy Unocal in the US in 2005 or Aluminium Corporation of China's problems with expanding its stake in Rio Tinto in Australia in 2009.

In essence, the Indian government plays catch up with the business relationship rather than nurtures it. With some countries, it is only after the business relationship has become too big for the foreign policy establishment to ignore that the MEA steps in. The India-US relationship is emblematic of this equation but there are other examples.

After Brasilia, Santiago is perhaps the second most important capital in South America for New Delhi. In April 2008, President Pratibha Patil travelled to Chile for three days. The visit had zero political content. If it was a priority for the MEA it was entirely due to business. In the preceding three years (2005-06 to 2007-08) India-Chile trade had almost quadrupled from $586.65 million to $2093.35 million.

In 2005, India's biggest IT/ITES company, Tata Consultancy Services (TCS), had acquired Chilean BPO firm Comicrom for $23 million. Part of TCS's professional responsibility was supervising the public transport system in Santiago.

More than one country has drawn India into a broader strategic relationship by first making itself important to Indian business. Chile followed one route; the US and Singapore took another, with business associations becoming the initial interface for not just trade negotiations but an entire gamut of political issues.

India lacks a strong culture of foreign policy think tanks. Fortuitously, Indian business is better organised. In January 2002, India's first 'Track 2' dialogue with the US was hosted in Udaipur, with Henry Kissinger leading the American delegation. The Confederation of Indian Industry (CII) put together a group of business leaders and former diplomats under Ratan Tata and Naresh Chandra. So successful was the interaction that in 2006 the Indian government asked CII to catalyse a similar dialogue with the Japanese.

A CII insider argues the 'strategic dialogue' series - it extends to Singapore, Israel and even China - is not quite Track 2 but more Track 1.5, given the amount of MEA buy-in.

It wasn't always like this. The business community was not recognised as a partner of the foreign policy establishment for most of independent India's history. In many ways it is the response of other countries and capitals that has forced New Delhi to rethink.

Singapore, where some 4,000 Indian companies have made investments, has played a key role. It is not just a business partner but a quasi-ally that has drawn India into the Southeast Asian strategic calculus. Indeed, it was Singapore that set the alarm bells ringing when the Satyam scandal broke in January 2009. Satyam's foreign clients included the company that runs Changi airport. It also provided back-office support to the Singapore government's payroll system. Authorities there reportedly contacted the Indian ambassador and urged the Indian government to not allow Satyam to sink.

In New Delhi, a meeting of senior ministers was called. The then finance minister recommended market forces run their course and Satyam not be bailed out. The commerce and foreign ministers disagreed, arguing this would damage India's reputation and it would lose face diplomatically. They won the day.

The Satyam affair poses a question. If business and foreign policy goals are beginning to converge, can India envisage a merger of the MEA and the commerce ministry, just as, say, Australia created a combined Department of Foreign Affairs and Trade in the 1980s?

In May 2005, the government moved half a step in this direction when it set up the Trade and Economic Relations Committee (TERC). Chaired by the prime minister, TERC comprises, among others, the finance, foreign and commerce ministers. As a collective, it runs economic diplomacy. Admittedly TERC has lost some of its salience in the second UPA government. Even so it offers a template that India needs to build upon.

Malik is a political commentator; Medcalf is a programme director at the Lowy Institute, Sydney.