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India and the United States How Individuals and Corporations Have Driven Indo-U.S. Relations

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Executive Summary

Foreign policy discussions tend to focus on government policies and diplomatic initiatives. But relations between India and the United States have been driven substantially by corporations and individuals, with the two nations' governments trailing behind and catching up only now. During the Cold War, India's quasi-military relationship with the Soviet Union led to cool Indo-U.S. governmental relations. Despite this, Indian citizens went in droves to the United States for education and employment, and the United States became India's largest trade partner. After India's economic reforms in 1991, two-way flows of individuals and corporate activity greatly accelerated. U.S. corporations became an important foreign policy lobby for India in the U.S. Congress. The Indian diaspora in the United States grew rapidly to 3 million, and these people are among the richest, best-educated ethnic groups in the United States, and hence politically influential, too.

The Indian and U.S. governments, far apart during the Cold War, have now started building on the solid foundation created by individuals and corporations. The George W. Bush–Manmohan Singh nuclear deal of 2005 was a land-

mark event. Later, President Obama backed India for a permanent seat in the United Nations Security Council.

Individuals and corporations have also taken the lead in expanding India's footprint in other countries across the globe. The India-based Tata group is now the largest private-sector employer in the United Kingdom. As in the Indo-U.S. case, Sino-Indian commercial and individual relationships have also grown despite cool governmental relations, and could one day lead to warmer political relations.

The lesson is that good economic policy is good foreign policy, too. Indian foreign policy should promote measures that expand individual and corporate ties with the United States, as well as other countries. This means embracing globalization and emphasizing international exchanges in trade, investment, and the movement of people. India must see the movement of talented Indians abroad as mutually enriching "brain circulation," not a "brain drain." Even those Indians who do not return to India become a foreign policy asset in the shape of a powerful diaspora. Indian diplomacy needs to pay more attention to harnessing this asset.

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Introduction

As India grows in wealth and global influence, U.S. foreign policy experts find themselves facing difficult questions: Are Indo-U.S. relations improving or worsening? Is the U.S. support of India for a United Nations Security Council seat meaningless in practice? Did India's decision not to support a U.S.-advocated no-fly zone over Libya in March 2011 imply that it is drifting away from the United States? Can India improve its relations with China, even while improving them with the United States?

Many foreign policy analyses focus on these and other intergovernmental issues. This paper aims to show that the Indo-U.S. relationship has actually been driven substantially by exchanges between individuals and corporations—not just diplomats or politicians—for six decades. The nations' two governments have, by and large, simply been catching up in the last two decades. Something similar has happened in other countries, too, with corporations and individuals developing bilateral relations and governments catching up later. India needs to follow policies that help globalize flows of trade, investment, and labor. That will expand the scope for corporations and individuals to create strong ties, and for governments to catch up.

Such governmental catch-up has produced some impressive results, such as the Indo-U.S. nuclear deal of 2005. As long as business and individual ties keep strengthening, there is little need to get either euphoric or depressed about the ups and downs of Indo-U.S. foreign or defense relations. Even when intergovernment relations run into rough weather—something that will happen from time to time—they will be calmed, although not completely, by the strength and resilience of business and individual relations.

The same phenomenon can be seen in Indian relations with other countries around the globe. The scope for corporate and individual exchanges was limited during India's

socialist era, when the country's leaders emphasized self-sufficiency and discouraged global interdependence. But with the end of the Cold War and start of Indian economic reforms in 1991, Indian corporate and individual ties have expanded rapidly across the globe. This has provided a good foundation for governments to build on later. An interesting example is China. After their border war of 1962, political relations between India and China were cool. But in the last decade, Sino-Indian commercial and individual relations have boomed. This has some potential for creating warmer political relations, although the conditions are nowhere near as favorable as in the Indo-U.S. case.

The Blooming of Indo-U.S. Relations

India's global image and clout have been transformed in the last two decades. For decades after becoming independent in 1947, it was seen as a bottomless pit for foreign aid, holding world records in starvation and poverty. India tried to project itself as a Third World leader, and its talented diplomats were at the very forefront of debates on ending colonialism, promoting non-alignment, and expanding a new field called development economics. India was prominent in establishing and expanding the Non-Aligned Movement, and played a leading role in the G-77 group of developing countries in economic discussions in the World Bank, the United Nations Conference on Trade and Development, the General Agreement on Tariffs and Trade, and other international forums.

However, its emphasis in the 1950s on Third World and Sino-Indian solidarity in opposing colonialism took a knock when it was thrashed by China in a short war in 1962 and barely held its own in another short war with Pakistan in 1965. The Non-Aligned Movement was in one sense a success; almost all developing countries joined it. Yet in another sense non-alignment became

meaningless when the movement admitted countries spanning the entire ideological range from Singapore to Cuba. The search for sheer numbers made the Non-Aligned Movement intellectually vacuous.¹

By following inward-looking socialist policies for three decades, India condemned itself to GDP growth of just 3.5 percent per year, half the rate of many miracle economies in East Asia. Other developing countries came to view India as pretty good for drafting resolutions at international conferences, but pretty useless as a role model for economic or political development. Neither Indian democracy nor socialism looked very appealing to other developing countries.

However, there has been a dramatic change in the last decade. The cumulative impact of economic reforms since 1991 have spurred GDP growth averaging 8 percent in the last decade, leading analysts to project India as a potential economic superpower—the only possible Asian counterweight to China in the 21st century, and a top candidate for permanent membership of the UN Security Council. Forget its old attempts to lead the G-77; India is now a member of the G-20, the group of the 20 most powerful nations in the world. *The New Statesman* had a cover story on India in its issue of July 14, 2011, and the blurb on the cover said, “By 2030 it will be bigger than China. Should we fear this new superpower?”²

India’s first entry point into the “big league” came in 2005, when U.S. president George W. Bush and Indian prime minister Manmohan Singh reached an agreement exempting India from sanctions over its refusal to sign the Nuclear Non-Proliferation Treaty. This exemption was seen by both leaders as the start of a new strategic partnership. At the time, the Iraq war was going badly for Bush, and his political capital in Washington was eroding rapidly. Yet, in the face of strong opposition, he pushed through U.S. legislation giving India a waiver from nuclear sanctions, and then ensured approval of the Nuclear Suppliers’ Group (countries authorized by the Nuclear Non-Prolifera-

tion Treaty to supply nuclear materials and know-how). Future historians may conclude that the most successful achievement of the Bush presidency was the creation of a new U.S. partnership with India.

In 2009, India’s arrival as a major economic power was formalized by making it a member of the G-20 group of nations. President Obama built further on this foundation during his visit to India in 2010 by offering U.S. backing for India to become a permanent member of the UN Security Council. This was a major initiative. However, it may not bear fruit for a long time. One Indian columnist compared it with giving a ticket for the first commercial trip to Mars: a favor, no doubt, but one long off in the future.³ Still, the fact is that many Third World countries have sought U.S. backing for a UN Security Council seat, but only India has received it.

This dizzy rise in bilateral relations looks especially dramatic when one recalls that in 1998 the United States and other western countries imposed economic sanctions on India after it conducted nuclear weapons tests (followed closely by Pakistan). What happened in the years after 1998 that so transformed relations? Four things stand out.

First, India emerged as a world-class software producer by becoming a major contributor of software to tackle the “Y2K” problem (the threat that computers with systems software designed for the 20th century would suddenly crash when 2000 arrived).⁴ India built on this foundation, and later added other business outsourcing services and research and development, to become an important global force in services exports. In earlier decades, India was seen as too focused on self-reliance, too uncompetitive in exports, and hence not capable of playing a global role. However, by the early 21st century, the majority of Fortune 500 companies decided they had to have operations in India, for business services and research and development, as well as for exploiting the fast-growing Indian market.⁵

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India's emergence as a high-tech exporter of manufactures (notably in pharmaceuticals and automobiles) proved its new competitiveness in brainpower. This held far more long-term promise than the cheap-labor exports specialized in by other Asian countries. This

gave India a special cachet. Besides, India had a large, fast-growing market that U.S. corporations wished to take advantage of. These corporations became unanticipated lobbyists for India in the U.S. Congress, and helped change political attitudes there (see Box 1).

Box 1. East India Company in Reverse

Indians have historically feared foreign corporations as stalking horses for imperial conquest. Great Britain's East India Company started as a trading entity, but opened the path to British imperial rule of India. So, when the Indian government started wooing foreign investors with the launch of economic reforms in 1991, critics warned that this would lead to the return of the East India Company—and Western domination—in new forms. Business is never divorced from politics, they said, and letting in American investors would eventually mean U.S. domination of India's foreign policy, too.

In fact, the very opposite has happened. By attracting American investors, India unexpectedly obtained powerful foreign policy allies in the form of U.S. corporations. The first proof of this came in 1998, when lobbying by corporate America gave India a triumph on human rights in the U.S. Congress.

In the 1990s, Rep. Dan Burton (R-IN) received strong backing and contributions from Pakistanis and separatists Sikhs in the United States. This support stemmed from Burton's filing an amendment to each year's U.S. foreign-aid bill, demanding a cut of 25 percent in aid to India as punishment for its alleged human-rights violations in Kashmir and Punjab. Indian abuses in those states—where it was battling insurgents, some backed by Pakistan—were worrisome, but they were no worse than abuses by many U.S. allies, including Pakistan itself. As an old U.S. military ally, Pakistan had far more friends in the U.S. Congress than India. The proposed Burton amendment aimed to cut the U.S. aid allotment to India by \$56 million, a modest sum that India could easily do without. But it was politically important for India to scotch the Burton amendment.

In 1995, a time when U.S. foreign investment in India had not quite taken off, the Burton amendment failed by just 19 votes. This spelled danger. But in 1996 his amendment was defeated by 169 votes. Next, in 1997, it was defeated by a whopping 260 votes. The main reason for this transformation was organized lobbying on India's behalf by U.S. corporations that had invested in India.

In the old socialist era, when India strove for self-sufficiency and kept out foreign investors, India had no effective way of influencing votes in the U.S. Congress. It could not compete with Pakistan at a time when India was viewed as a Soviet ally. But in the 1990s an India Interest Group was formed in the United States. This included as members General Motors, Boeing, Enron, Ford, AT&T, Raytheon, Citicorp, Motorola, and Hughes. Business pressures helped create an India Caucus in the U.S. Congress.

Once India started attracting foreign investment, Pakistan lost influence rapidly in Washington. Pakistan simply could not match India's potential for trade and investment, so economic reform in India gave birth to a foreign policy windfall. Until the 1990s, U.S. diplomats tended to bracket India and Pakistan together in policy discussions: India could not be given anything that Pakistan was not given. But that changed once business and individuals forged a broad Indo-U.S. relationship. Both India and

Pakistan were penalized with sanctions for their nuclear tests in 1998. But subsequently, the Indo-U.S. relationship became so strong at the corporate and individual level that the notion of parity was broken decisively. India got a nuclear deal in 2005 while Pakistan was denied one. India also got U.S. backing for UN Security Council Membership and G-20 membership—something Pakistan could not hope for.

Indians who saw foreign investment as the return of the East India Company were proved wrong. They were indeed right in thinking that business and politics were interconnected, but they failed to see that U.S. investment would increase Indian influence in the United States, rather than make India subservient. The actual outcome was the East India Company phenomenon in reverse.⁶

Second, partly because of its new export dynamism, India's GDP growth accelerated to 8 percent per year in the early 21st century. Its savings rate shot up to 30–35 percent of GDP, implying that it could sustain rapid growth with only minimal dependence on capital inflows, and so growth could be resilient even in crises when capital flows dried up (as was proved in 2008–09). Projections of sustained 8 percent growth revealed that India would become one of the biggest economies in the world in a few decades, a sea change from its earlier image as a basket case. New market-friendly government policies obviously created a climate that made this change possible, but the main actors implementing the change were corporations and individuals. Analysts like Tarun Khanna of Harvard have noted that, whereas China's economic success has been driven largely by government, India's success has been driven largely by the private sector.⁷

Third, the rise of the Indian economy was matched by the dizzying rise in the size and prestige of the Indian diaspora in the United States. The number of Indians living in the United States tripled from one million in 1990 to almost three million by 2011. It was the best educated of the many immigrant groups in the United States, and wealthy to boot, so Indian Americans began to matter not just in sheer numbers but in their political contributions, too. They rose to top positions in academia, Wall Street, Silicon Valley, and industry. Three Indian Americans won Nobel Prizes. In this manner, the

diaspora helped raise India's "brand value" and clout in the United States, and made it look like a good strategic partner.⁸

Fourth, the United States found that it could present India as a role model for secularism and democracy in a world where religious terrorism and autocracy remain major issues. As long as India was poor and slow-growing, its secularism and democracy did not look like roads to success. But in the early 21st century, India proved conclusively that there was no tradeoff between democracy and miracle economic growth. This made it look like an excellent bet as a long-term U.S. partner, despite many foreign policy differences (for instance, an all-party resolution in India's Parliament deplored the U.S. invasion of Iraq in 2003).⁹

Many foreign policy analysts give credit to George Bush and Manmohan Singh for forging the new relationship between the United States and India despite considerable domestic opposition in both countries. Certainly their individual contributions were considerable, but they were building on a convergence that had already been forged by rising business and individual ties for decades. This was crucial in helping reverse substantial divergences at the political level that had arisen in past years, first from the Cold War and later from nuclear non-proliferation.

What's true of Indo-U.S. relations also applies in different degrees to India's foreign relations across the globe. For instance, in October 2009, Indian Foreign Secretary Nirupama Rao delivered a lecture at Harvard

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on “India’s Global Position.” This provided a grand tour of India’s relations with different regions of the globe, as well as terrorism, the Doha round of trade negotiations, energy, and climate change. Like most conventional analyses, the lecture was almost entirely about government policies and achievements. It did not emphasize that India’s global footprint, like its footprint in the United States, had been driven substantially by corporations and individuals, with the government catching up later. Today, the government has caught up, and is working together with individuals and corporations—something that was not always the case.¹⁰ The Indian and U.S. governments now hold a formal annual Indo-U.S. Strategic Dialogue, encompassing political, economic, and social fields.

At the political and diplomatic levels, many Indo-U.S. differences continue. India abstained on the U.S.-backed resolution in the UN for intervening in the Libyan civil war. India opposes the U.S. idea of a deal with the Taliban in Afghanistan. India has a substantial working relationship with Iran and relies on it for oil imports, something Washington is unhappy about. However, person-to-person relations between the two countries continue to strengthen, so the long-term foundation of relations continues to grow. This constitutes a transformation that was unimaginable during the decades of the Cold War.

The Cold War and Its Aftermath

During the Cold War, India developed a quasi-military relationship with the Soviet Union. This meant that Indo-U.S. governmental relations ranged from tepid to frosty. In 1971, there was a real chance of hostilities when the United States sent warships into the Bay of Bengal in an attempt to thwart Indian troops from overrunning what was then the Pakistani province of East Pakistan and converting it into an independent Bangladesh. But no matter how frosty

governmental relations were, the Indo-U.S. relationship grew steadily at the business and individual levels.

After the 1971 standoff over Bangladesh, the United States virtually ended all foreign aid to India save some food aid. This was a substantial penalty, since the United States had earlier accounted for the bulk of foreign aid to India from the Aid India Consortium.¹¹ Meanwhile, the Soviet Union became India’s main military supplier, at fire-sale prices. Soviet aid and technology helped create most public-sector giants in India. India was chronically short of foreign exchange thanks to its inward-looking policies, and the Soviet Union helped out by agreeing to conduct bilateral trade entirely in rupees, taking rupee payment for arms, equipment, and raw materials (including oil).

Despite this, the United States remained India’s biggest trading partner by far. Indo-U.S. commercial relations strengthened even as government ones weakened. Many Indian public-sector companies that started with Soviet technology later switched to Western technology in order to upgrade. For instance, Bharat Heavy Electricals Ltd., a public-sector manufacturer of electrical equipment, became much stronger after switching from Soviet to German technology. India’s Oil and Natural Gas Commission was launched with Soviet assistance, but later turned to American and French companies for technology.

Even more striking was the growth in Indo-U.S. relations at the individual level. Because of the colonial connection, Indian students going abroad tended to go to Britain for several decades after India’s independence, taking advantage of cheap fees for Commonwealth students. But when British prime minister Margaret Thatcher ended those subsidies, thousands of young Indians began to go to the United States for higher education, taking advantage of scholarships available for post-graduate studies. Student numbers rose as India became more prosperous, and in 2010, more than 100,000 Indians entered U.S. universities, overtaking China as the largest supplier of foreign stu-

dents. Many Indian students stayed on in the United States after completing their studies and went on to occupy important positions in academia, Wall Street, and Silicon Valley. The Indian diaspora in the United States is three million strong today.

Indians seeking to study in or migrate to the United States found that, having English language skills, they could communicate well with Americans, who were also more welcoming of immigrants than any other country. India is now on its way to overtaking the United States as the biggest English-speaking country in the world. No diplomat or strategist could have concocted any economic advantage as powerful as the colonial legacy of English. The economic returns to learning English were always high within India during colonial times. But the advantage of knowing English has become much bigger with the globalization of India's economy and the rise of outsourcing.

This fact has been clearly established by researchers Mehtabul Azam, Aimee Chin, and Nishith Prakash of the Centre for Research and Analysis of Migration at University College, London. Analyzing data collected for the *India Human Development Survey, 2005*, the researchers found that

being fluent in English (compared to not speaking any English) increases hourly wages of men by 34%, which is as much as the return to completing secondary school and half as much as the return to completing a Bachelor's degree. Being able to speak a little English significantly increases male hourly wages 13%. . . . More experienced and more educated workers receive higher returns to English. The complementarity between English skills and education appears to have strengthened over time.¹²

Far from seeking to exploit the colonial language legacy, the Indian government initially viewed English as an imperial aberration and sought to abolish it as an official In-

dian language and replace it fully with Hindi in 1965. But riots erupted in southern states, notably Tamil Nadu, which were proud of their own regional languages and viewed the imposition of Hindi as North-Indian imperialism. English survived unscathed in India because of this revolt, a triumph of the people over the government. English flourished in private schools (parents greatly preferred English-language schools) even as the language was de-emphasized or banned in government schools, especially in North India. It should be no surprise that the software and outsourcing revolution in India started in South India, and has spread only fitfully to the North.

The rise of English in independent India, despite government discouragement, turned out to be a major force for Indo-U.S. relations. Young Indians were attracted by the soft power of the United States. They loved American movies, music, and literature, and could absorb this because they knew English. Students going to the United States found they shared not only the same language as native-born Americans but interests in music, literature, and movies, and so integrated effortlessly. Indian students and migrants felt at home in the United States even when intergovernmental tensions were high during the Cold War.

By contrast, very few Indians were inclined to learn Russian or study in the Soviet Union, despite strong intergovernmental relations. Very few Indians were interested in Soviet films or music. They danced the twist, shake, and jive. They did not dance the Cossack dance. Excellent Indo-Soviet governmental relations simply did not translate into strong ties at the individual level.

The Pew Global Attitudes survey illustrates strikingly how large a gap can arise between formal government relations and public attitudes. Pew's annual survey asks people in different countries, among other things, whether they have a favorable view of the United States. Pakistan and Turkey have been formal military allies of the United States, and that indicates closeness at the

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Table 1
Proportion of Citizens with Favorable View of the United States (%)

	2002	2005	2006	2009	2011
India	66	71	56	76	41
Pakistan	10	23	27	16	12
Turkey	30	23	12	14	10

Source: Pew Global Attitudes surveys.

political level. Yet the public in those countries has generally had an unfavorable view of the United States. On the other hand, the Indian public has generally had a favorable view of the United States despite historically problematic relations between the two governments and India's quasi-military links with the Soviet Union during the Cold War (see Table 1).¹³

The 1991 Watershed: Soviet Collapse and Indian Economic Reform

In 1991 the Cold war ended and the Soviet Union collapsed. In the same year, India suffered a major balance-of-payments crisis, and went to the International Monetary Fund hat-in-hand. It even had to mortgage its gold reserves, a humiliation and loss of face felt keenly in a country where attachment to gold was very strong.

Clearly India had to change its economic path. The collapse of the Soviet Union showed that more socialism and autarky could not be the way forward. On the other hand, the success of Deng Xiaoping in China showed that, for large and poor countries, enormous gains could accrue from market-orientation and globalization. So, India began to gradually dismantle its jungle of socialist controls and open up to foreign goods and capital. This opening up steadily but inexorably increased the scope for Indian individuals and corporations to expand their

interactions with the United States, and indeed, to the whole world.

Indian economic reform began cautiously and hesitantly. The reformers of 1991 aimed at rescuing a bankrupt economy and increasing GDP growth. They did not think so far ahead as to imagine that the reforms would lead to a powerful Indian diaspora of three million in the United States, or a huge business outsourcing industry, or a big rush of Indian corporations abroad to become multinationals in their own right. Yet these consequences ultimately flowed from the end of the Cold War and the economic reforms that followed.

Many analysts feared that opening up India would lead to the crushing or takeover of Indian companies by multinationals. As things turned out, Indian companies held their own in the 1990s, and in the next decade became multinational corporations in their own right, acquiring massive business abroad. Rapid economic growth at home was accompanied by rising Indian corporate clout across the globe.

Computer software and offshore business services were the two areas where Indian companies became most well-known globally, especially in the United States. Starting from almost nothing in the early 1990s, Indian exports of software and business services rose to an estimated \$69 billion in 2011–12.¹⁴ Indeed, this instilled fear and alarmism in the United States over the shift of jobs to India (with TV anchor Lou Dobbs being a prominent fear-monger). India's success inspired a short-lived American TV comedy, *Outsourced*.

A new word, “Bangalored” (meaning losing your job to somebody in Bangalore, India) entered the dictionary. Most of the U.S. Fortune 500 companies now have operations in India for software and business services. Indeed, IBM and Accenture now have more employees in India than in the United States, and their global competitiveness is critically dependent on their Indian operations.

For all these fears of India taking away jobs, India’s own investments in the United States between 2004 and 2009 totaled \$26.6 billion and created 65,000 U.S. jobs, according to a joint report of the Federation of Indian Chambers of Commerce and Industry and Ernst and Young. In the fiscal years 2009 and 2010, Indian companies made 536 acquisitions abroad, of which 105 were in the United States.¹⁵

How Corporations Expanded India’s Footprint Across the Globe

India’s economic liberalization from 1991 onwards catalyzed Indian corporations and individuals to rapidly expand relations not only with the United States but with countries across the globe. The role played by Indian corporations has been nothing short of extraordinary in the last decade. Indian industrial houses once cowered in fear of being crushed by U.S. multinationals, but have now become multinationals in their own rights. Many have become global giants, making acquisitions in every continent.

Lakshmi Mittal took over the European giant Arcelor in 2005 to create the world’s biggest steel company. In 2007, Tata Steel took over the Anglo-Dutch steel giant Corus. Tata Motors acquired and turned around Jaguar Land Rover, which had earlier remained deep in the red, despite efforts at revival by first BMW and then Ford. The Birla group acquired Novellis of Canada to become the sixth-largest aluminum company in the world. This was risky—globally, up to 80 per-

cent of acquisitions fail to add value, and acquirers typically find they have overpaid. The Tata and Birla acquisitions were especially risky, since they took place at high prices at the very top of the business cycle. Soon after acquisition, they plunged into the red because of the Great Recession of 2007–09. But subsequently, all these acquired companies have turned around. Jaguar Land Rover reported record profits in 2011, and its acquisition is clearly a major success. Some analysts still wonder whether the returns on acquisitions of Corus and Novellis have been commensurate with the high cost of acquisition. But dozens of other Indian acquisitions—notably those in the Lakhmi Mittal steel empire—have been unambiguously successful.¹⁶

Historically, the Indian government frowned on Indian corporations investing abroad; this was interpreted as depriving India of much-needed capital. In the 1980s, Indian companies could invest abroad only in kind (machinery and equipment to be supplied to a factory in lieu of equity), not in cash. That changed in the 1990s, but there remained stringent curbs on the ability of Indian companies to raise money abroad. These were gradually eased, mainly in the early 21st century. The government thought this would make it easier for Indian companies to find global funds for investment in India. Nobody anticipated that the result would be massive takeovers of global giants by Indian companies. This was a classic case of economic opening-up creating what diplomats and planners never envisaged: a huge Indian footprint across the globe.

Other developing countries have a comparative advantage in cheap labor. But Indian companies have proved through successful foreign acquisitions that they have a comparative advantage in corporate management. That holds enormous potential for increasing India’s global footprint and influence.

Indian companies in both the public sector (ONGC, BPCL, GAIL) and private sector (Reliance, Essar, Videocon) have made massive acquisitions in oil and gas companies

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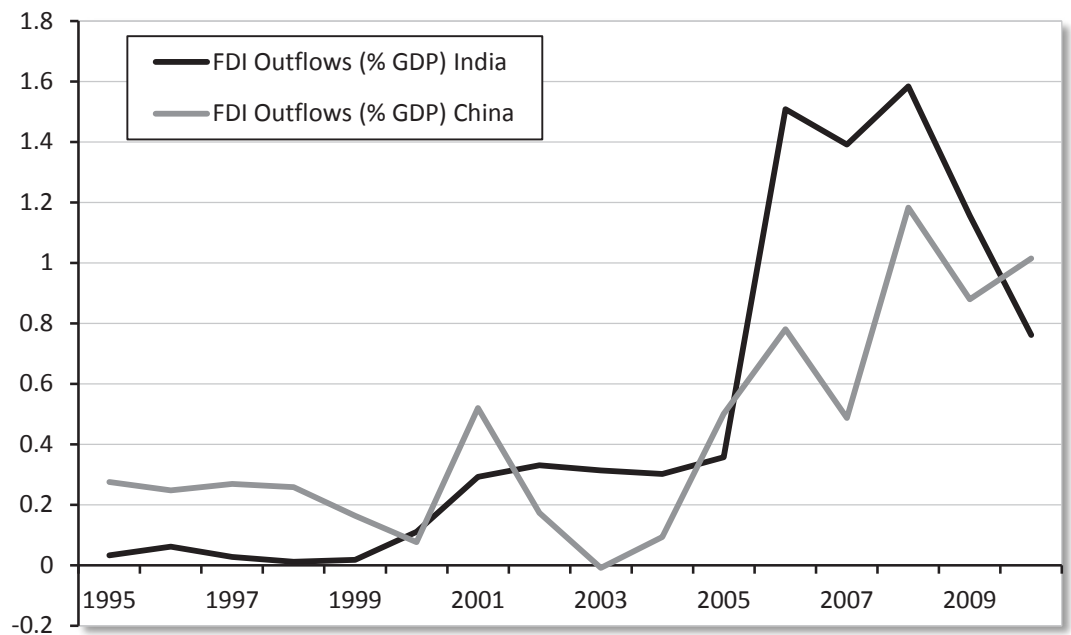
abroad, partly to share in the hydrocarbon output and partly to acquire know-how to be used later in India. The Reliance Group, for instance, has acquired large stakes in three shale gas companies in the United States, with a view to becoming a shale gas driller itself.

Economists Aaditya Mattoo and Arvind Subramanian have demonstrated that, while foreign direct investment (FDI) into China is far higher than into India, a different picture emerges in relation to outward foreign direct investment (FDI; that is, investments by Indians or Chinese abroad). Measuring FDI outflows as a proportion of GDP, India overtook China by a big margin between 2005 and 2008. India's FDI/GDP ratio has subsequently dipped below China's (see Figure 1), but is nevertheless an extraordinary achievement, unmatched by any other country at a similar early stage of development.¹⁷

China's outward FDI reflects, in part, its huge mercantilist surpluses—that is, trade surpluses arising from manipulated exchange rates have led to an excess accumula-

tion of capital that then has to be invested abroad. In part, the outward FDI of China also aims at securing sources of raw materials such as copper and oil. India, however, has no mercantilist surpluses, and its outward FDI has been financed almost entirely by borrowing abroad, which shows the confidence of global lenders in Indian managerial skills. Unlike China, India cannot really be called an exporter of capital. Rather, it leverages its managerial skills to raise foreign loans for foreign acquisitions. This is how Tata Steel, a relative pygmy, could acquire Corus, which was six times its size in terms of steel output. Tata did not have the cash, but had the required drive and skills to convince the “whale” that it would benefit from being swallowed by the “minnow.” This demonstration of global managerial skills has had an unanticipated corollary. As Indian companies have become big global acquirers, they have also become big global employers. Indeed, the Tata Group has become the largest private-sector employer in the UK (see Box 2).

Figure 1
FDI Outflows (% of GDP)



Source: World Bank Development Indicators, 2012.

Box 2. Tata Group Becomes the Largest Employer in the UK

The Economist, the British weekly, revealed in its issue of September 10, 2011, that the Tata Group had become the largest private-sector employer in the United Kingdom. This was an astonishing achievement, unmatched even by China. It turned conventional economic theory upside down. Foreign investment is supposed to flow from rich to poor countries and create jobs in the latter, but Indian corporations have proved that the opposite can not only happen, but even become a dominant trend.

Tata's first acquisition in the UK was of Tetley, the beverages group specializing in tea. Later Tata acquired Brunner Mond, the parent of what used to be Imperial Chemical Industries. The really big acquisition was in 2007 of Corus, a British steelmaker with a production capacity of 18 million tons. In technological terms, the Tata Group's most sophisticated acquisition was of Jaguar Land Rover. These companies account for 40,000 employees in the UK. Add Tata's service industries, mainly TCS (a software and consulting company), and the group has 45,000 employees in the UK, making it Britain's top employer, just ahead of British Aerospace.¹⁸

When Japan rose fast to become a major industrial power in the 1970s, management and business journals began studying Japanese techniques, some of which became world famous: Just in Time, Kaizen, quality circles. The world of management doffed its cap to Japan for throwing new light on how to increase productivity. But India has started achieving the same thing at a much lower level of per capita income. India has provided two new concepts that have now entered the world of management literature: *jugaad*¹⁹ and frugal engineering. Neither term was heard of a decade ago.

"Jugaad" is the art of endless improvisation to overcome obstacles of all sorts. Indian companies that managed to survive the license-permit raj of socialism for decades developed all sorts of skills in survival and growth in inhospitable conditions. Once presented with a better policy environment, they soared, in India and abroad.²⁰ *Jugaad* is an amoral concept: it includes ways of "managing" politicians and bureaucrats, including intricate forms of corruption. This aspect has naturally drawn much criticism. Yet the record suggests that Indian companies that seemed to succeed at home only through political cronyism were later able to

flourish in decontrolled sectors and across the world. For instance, the construction company GMR was widely accused of crony capitalism in building the New Delhi airport terminal—the contract conditions were changed more than once. Yet GMR subsequently won contracts for new air terminals in Istanbul and Male (in the Maldives). This is seen by some analysts as evidence that any company good enough to manage Indian politicians and bureaucrats has developed world-class managerial skills.

India has become famous for "frugal engineering," which means producing goods and services that are not just 10 percent cheaper than others, but 50–90 percent cheaper. Some examples come from management guru C. K. Prahalad's book *The Fortune at the Bottom of the Pyramid*. Carlos Ghosn, head of Renault-Nissan, says his company came to India to learn frugal engineering.²¹ The Nano, built by the Tata group, is the world's cheapest car, costing \$3,000 after taxes. Motorcycle companies like Bajaj and Hero have created bikes that travel as much as 234 miles per U.S. gallon of gasoline. Indian telecom companies provide the cheapest calls in the world, at one cent per minute. Narayan Hrudalaya and Aravind Netralaya

Forget its old attempts to lead the G-77; India is now a member of the G-20.

India's trade pattern got diversified dramatically after it opted for outward-looking economic reforms in 1991.

provide heart and eye surgery, respectively, at a twentieth of the U.S. cost. This has led to what is now called medical tourism: people across the globe coming to India for surgery and other medical treatment.

In this manner, Indian companies have greatly increased India's global footprint. The global media have extensively covered Indian takeovers of corporations in the West. Less well known is the extent to which India's footprint has grown in the Third World, too.

Beyond Non-Alignment: India's New Footprint in the Third World

For decades after independence, India was among the foremost proponents of anti-colonialism and Third World solidarity. It was a key force in the G-77 group of developing countries, which aimed to negotiate trade and aid concessions from the West in pursuance of what came to be called "development economics." But affirmations of solidarity did very little for economic relations between India and other developing countries. For instance, in 1967, three stalwarts of the Non-Aligned Movement—Jawaharlal Nehru, Josip Tito, and Gamal Nasser—signed an agreement on tripartite cooperation between India, Yugoslavia, and the United Arab Republic (a temporary combination of Egypt, Syria, and Yemen). This was touted as a model with strong political roots for promoting "South-South Relations" between developing countries. But this political solidarity never translated into strong economic ties. These three countries had few economic complementarities, and their socialist policies discouraged the private sector and foreign investment. India's professed aim of self-sufficiency meant deemphasizing trade and promoting import substitution. One result was that India developed its own long-staple cotton varieties and stopped importing Giza cotton from Egypt, leading to a col-

lapse of bilateral trade. Despite all the talk of Third World solidarity, Indian foreign trade until 1991 was overwhelmingly with members of the Organization for Economic Cooperation and Development and what used to be the Soviet-led Council for Mutual Economic Assistance. Trade with other Third World countries remained very modest, and trade with China was almost nonexistent.

But India's trade pattern got diversified dramatically after it opted for outward-looking economic reforms in 1991.²² Today, the United Arab Emirates and China have become India's biggest trading partners. The United Arab Emirates connection will surprise many; it is explained by the fact that a lot of Indian trade with Pakistan and Iran is routed via Dubai for political reasons.

Indian commercial contact with Latin America was historically very limited, and there were hardly any regular shipping services. But the meteoric rise of Indian business then transformed matters. The first push came from steel baron Lakshmi Mittal, who in the 1980s had started with a tiny mini-steel plant in Indonesia. When a government-owned steel plant in Trinidad went bankrupt, Mittal boldly leased it in 1989, and later acquired it. His success in this endeavor gave him the credentials for acquiring Sibalsa, Mexico's third-largest steel plant, when it was privatized in 1992. He turned around Sibalsa too, and this became the launching pad for an acquisition spree the likes of which India (and the world) has never seen. The company's website gives this thumbnail sketch:

Mittal Steel's rapid growth since 1989 has been the result of combining a successful consolidation strategy with a number of significant acquisitions.

Since setting up operations in Trinidad and Tobago in 1989, some of its major acquisitions are Siderurgica del Balsas (Mexico) in 1992, Sidbec (Canada) in 1994, Karmet (Kazakhstan) and Hamburger Stahlwerke (Germany) in 1995, Thyssen Duisburg (Germany)

in 1997, Inland Steel (US) in 1998, Unimetal (France) in 1999, Sidex (Romania) and Annaba (Algeria) in 2001, Nova Hut (Czech Republic) in 2003, BH Steel (Bosnia), Balkan Steel (Macedonia), PHS (Poland) and Iscor (South Africa) in 2004, ISG (US), Kryvorizhstal (Ukraine), as well as a significant interest in Hunan Valin Steel (China) in 2005, and three Stelco Inc. subsidiaries (Canada) in 2006.

Arcelor was created in February 2002 through the merger of Arbed (Luxembourg) founded in 1911, Aceralia (Spain) and Usinor (France). Arcelor also had major steel production facilities in Belgium, Germany, Italy, Brazil and Argentina.

Arcelor acquired a controlling interest in Companhia Siderurgica Tubarao (now a part of ArcelorMittal Brasil) in 2004, Huta Warszawa (Poland) in 2005, a controlling interest in Sonasid (Morocco), as well as Dofasco (Canada) in 2006.

At the time of the merger with Mittal Steel, Arcelor was the second largest steel producer in the world.

In 2007 the newly merged Arcelor-Mittal continued to pursue an expansive growth strategy, with 35 transactions announced worldwide.

At the beginning of 2008 ArcelorMittal continued to make investments, with significant transactions announced in Australia, Brazil, Canada, Costa Rica, France, Russia, South Africa, Sweden, Turkey, United Arab Emirates, the US and Venezuela, the majority of which were completed. But in light of the deteriorating economic situation during 2008, ArcelorMittal suspended most investment activity by the end of the year.

Post-crisis, ArcelorMittal has cautiously restarted certain projects to capture growth in key emerging markets and mining. Capital expenditure on mining doubled in 2011 to almost

US\$1.3 billion, as the group embarked on a major development programme aimed at expanding existing mines and developing new ones.²³

There could hardly be a better example of a business house creating a global imprint wider and deeper than anything achievable by conventional diplomacy. Mittal's success inspired other Indian companies to follow suit. Moreover, Mittal's ability to turn around bankrupt companies gave companies around the globe the confidence that they would benefit by being acquired by Indian groups (like Tata, Birla, and Mahindra). That confidence has subsequently been vindicated.

TCS, India's biggest software company, has operations in eight Latin American companies ranging from Mexico to Argentina. Tata Motors is making buses in a joint venture with Marcopolo in Brazil, with future plans to assemble Tata's Nano and Jaguar cars. Indian pharmaceutical companies such as Ranbaxy, Glenmark, and Dr. Reddy's Labs have joint ventures and subsidiaries in several countries in the region.

Much bigger is the increase in India's footprint in Africa. Bharti Airtel is now providing telecom in 15 African countries after taking over Zain's operations there. In Kenya, Essar has acquired oil refineries and the Khaitan group has acquired tea gardens. Many Indian companies have rushed into Mozambique to exploit coal deposits newly discovered there. Zambia's Konkola mine, the largest in Africa, was once sold to a multinational mining firm, Anglo American plc., which failed to revive it. Then it was acquired by Indian magnate Anil Aggarwal, who converted it into a money-spinner. Tata, Reliance, and Mahindra are among the 96 Indian firms currently investing in South Africa, and cumulative Indian investments there exceed \$100 million.

Indian companies have become substantial investors in Asia. Tata Motors has acquired the truck assets of Daewoo in South Korea, while the Mahindra group has ac-

Mittal's success could hardly be a better example of a business creating a global imprint wider and deeper than anything achievable by conventional diplomacy, and it inspired other Indian companies to follow suit.

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Table 2
India's Trade Share with Biggest Trading Partners, 2008–2011 (%)

Country	2008–09	2009–10	2010–11
China-Hong Kong	11.30	11.79	13.34
UAE	9.76	9.29	10.81
USA	8.18	7.83	7.35
Saudi Arabia	5.09	4.49	4.13
Switzerland	2.54	3.26	4.10
Germany	3.80	3.37	3.00
Singapore	3.26	3.01	2.81
Indonesia	1.91	2.52	2.60
Belgium	2.09	2.09	2.60
Korea	2.62	2.57	2.35

Source: Government of India, Economic Survey 2011–2012.
Note: Trade data comprise merchandise exports plus imports.

quired Ssangyong. Indian companies have acquired massive coal assets in Australia and Indonesia. The Adani group has launched a \$10 billion investment in Australia for coal, plus the supporting infrastructure (railway lines, a port, and a fleet of ships). Other Australian acquisitions include that of Griffin by India's Lanco group, and of Hancock by the GVK group. In Indonesia, the Tata Group has acquired a 30 percent stake in the Bumi Resources. Reliance ADAG, Essar, GMR, and Punj Lloyd are other companies gobbling up coal mines abroad.

The Chinese Challenge

Commercial relations between India and China were virtually nonexistent until the 1990s, yet China (including Hong Kong) has now become India's largest trading partner (see Table 2). This is a huge and unanticipated change. The two-way trade turnover was \$82 billion in 2010–11, way ahead of Indo-U.S. trade of \$45.6 billion. Surprisingly, India's second biggest trading partner was not the United States, but the United Arab

Emirates, with a \$67.1 billion trade turnover. This is partly a statistical illusion: large amounts of Indian trade with Pakistan and Iran are routed via the United Arab Emirates for political reasons.

Indians are not entirely happy with the current trend.²⁴ China exports twice as much to India as it imports, and this is not entirely the consequence of comparative advantage: it is at least partly aided by an undervalued exchange rate and significant export subsidies. China's exports consist mainly of manufactures, notably equipment for telecom and power generation, while Indian exports to China are overwhelmingly of iron ore and a limited amount of chemicals. Antidumping complaints against Chinese imports into India are legion. Despite political mistrust, commercial relations are rising fast, although from a low base. Indian companies have started investing in China. Essel Pro-pack claims to be the market leader in China in plastic-laminated tubes. Indian software companies have invested in China to garner a workforce that can operate in Chinese. The Bajaj group has invested in a motorcycle plant in China to meet global export de-

mand, claiming it is cheaper to manufacture in China than India.²⁵ The TVS group, another motorcycle manufacturer, is following suit. The Chinese do not speak English, so language is a barrier that restricts person-to-person contacts, yet several thousand Indian students now go to China for higher studies, mostly in medicine.²⁶

China has become politically assertive in Asia in recent years, not just in the South China Sea, but also along the Himalayan border with India. It has become more insistent in its claims to Arunachal Pradesh in India's northeast, which it now calls South Tibet. China blocked assistance from the Asian Development Bank for hydroelectric projects in this area. It has accused India of violating its territorial waters in exploring for oil with a Vietnamese partner. New Delhi worries that ports being built by China in the Indian Ocean (Gwadar in Pakistan, Hambantota in Sri Lanka) will become naval bases that encircle India.²⁷

Political relations have become tenser, yet are by no means unfriendly. The main reason is that the two countries decided in the 1980s not to let politics stand in the way of normalizing other relations. As a consequence, business relations have flourished beyond the wildest dreams of analysts or the two governments, even as political relations have worsened.

This has some limited resemblance to the evolution of Indo-U.S. relations during the Cold War. It leads to an interesting question: Will business and individual relations between India and China grow so strongly that they create a solid foundation for political amity, and later force governments to catch up, as in the Indo-U.S. case?

It is easy to spot major differences in the two cases. The biggest difference is that the Chinese do not speak English, do not attract Indians with soft power, and have no interest at all in Indian immigrants. Hence, people-to-people contacts are very limited and don't have much potential for expansion. On the commercial side, India had a trade surplus with the United States during the Cold War,

and exported many manufactures to it. But India currently runs a huge trade deficit with China, and Indian businessmen complain that this is because of unfair Chinese subsidies and currency manipulation. Dozens of antidumping suits have successfully been brought by Indian companies against Chinese exports (though this owes something to Indian protectionism). India overwhelmingly exports raw materials (mainly iron ore) to China, while importing manufactures (mainly telecom and electrical equipment), and critics say this is reminiscent of the old colonial relationship between India and Britain. India has expressed security concerns about Chinese telecom equipment, which may have embedded spying capacity, and so limited its entry.

Indian companies wishing to invest in China say they face several informal barriers. China's huge demand for iron ore has certainly boosted Indian exports, yet has also led to large-scale illegal mining in many Indian states, culminating in formal export curbs by some state governments and the Indian Supreme Court. China may be a large export destination for India, but India accounts for a small fraction of China's exports, so the relationship is asymmetrical—China dominates in quality and quantity, and is less dependent on India than India is on China.²⁸

These are good reasons for going slow on the notion that business and individual ties can improve the Sino-Indian political relationship any time soon. Yet it looks to be possible—if we look forward a decade or two. The countries of the West look likely to grow much more slowly in coming decades. While the growth of China and India may also slow down as part of a global trend, they will still grow relatively fast compared to the West. If so, the two countries will increasingly become more important for one another commercially. This could have political consequences, just as happened to India and the United States in the last two decades. India has the potential to become a very important market for China, and this could, at some point, become important enough to

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A much-neglected contributor to India's growing footprint in the United States and the rest of the world has been the rise of the Indian diaspora, estimated at over 30 million strong.

change Chinese political attitudes, even on thorny issues like the border.

The Rising Importance of the Indian Diaspora

A much-neglected contributor to India's growing footprint in the United States and the rest of the world has been the rise of the Indian diaspora, estimated at over 30 million strong. In the 19th century, many Indians were taken by British colonialists as indentured laborers to British possessions ranging from Asia, to Africa, to the Caribbean. Indian traders accompanied these workers and became commercially important in these regions. Indians also became important as doctors, shopkeepers, and motel owners across the United States and United Kingdom. Millions of Indians went to the Persian Gulf to work after oil-rich countries became wealthy in the 1970s.

However, an important new development in this diaspora is the rise of highly skilled Indians in the United States. Many first came to the United States as university students and stayed on, rising up the ladders of academia and industry. Today over 100,000 students come annually from India to the United States, constituting the second-largest foreign-student community after the Chinese.²⁹

AnnaLee Saxenian of Berkeley University was among the first to highlight the stellar role of Asians—of Indian and Chinese origin—in Silicon Valley. These groups accounted for one-third of the scientific and engineering workforce in Silicon Valley. Indeed, she found that chief executive officers of Asian origin ran a quarter of all high-tech firms in the region. Rather than a “brain drain” from the originating countries, Saxenian detected “brain circulation” as immigrants returned to their home countries to take advantage of promising opportunities there, and also played a key role in building markets in their native countries from a California base. She concluded that this

two-way exchange of brainpower had greatly benefited both India and California.³⁰

NR Narayana Murthy of Infosys and Azim Premji of Wipro are perhaps the best known returnees who created world-class software companies in India. India could never have developed a comparative advantage in software on its own: politicians instinctively opposed computerization, fearing it would lead to job losses, and public-sector domination of the economy meant there was little competitive pressure to computerize for better customer service. So, software engineers did not have enough work within India for building major new skills. This led to what was called body-shopping—Indian software engineers were hired to work onsite in projects in the United States and other foreign locations, where they acquired considerable skills that they took back to India. In the 1990s, more than two-thirds of the income of Indian software companies came from work done onsite in countries such as the United States, and only one-third came from work in India. The two ratios have now reversed—a major success of brain circulation.

Another returnee, Pramod Bhasin of General Electric, was the pioneer of outsourcing clerical and other white-collar functions to India. He made Genepact—the outsourcing subsidiary of GE—the biggest such player in India, and inspired hundreds of others to follow suit. Dozens of scientists have returned to India to join research centers set up by a host of multinational companies ranging from General Electric and Microsoft to Suzuki and Bosch. Bond rating agencies like Moody's and Standard and Poor's started by rating Indian commercial paper and ended up using India as a base for ratings internationally.

Indian business families sent their children to study business abroad, and they brought back skills that have been crucial to modernizing Indian industry. All the professions now boast a long list of returnees. Many economists who helped drive India's economic reforms—such as Montek Singh

Ahluwalia, Shankar Acharya, Rakesh Mohan, Vijay Kelkar, and Arvind Virmani—were returnees. Socialist politicians who fulminated against elite private schools were nevertheless hypocritical enough to send their children to the United States and the UK for education, and that provided unexpected dividends when the time for economic reform came: the children arguably helped change the attitudes of their political parents as much—or more than—any seminars or debates. In sum, what was originally called the brain drain became a brain circulation of immense value to India.

A joint study by Duke University and the University of California–Berkeley revealed that during 1995–2005, immigrants founded a quarter of all engineering and technology start-ups in the United States, of which 26 percent were founded by Indian immigrants. In the last decade, Indian Americans founded more new high-tech firms than immigrants from the UK, China, Taiwan, and Japan combined.³¹ Indians, along with other Asians, have one of the highest educational qualifications of all ethnic groups in the United States. According to one recent report in the *New York Daily News*, “Seven-in-ten (70 percent) Indian Americans ages 25 and older, have obtained at least a bachelor’s degree; this is higher than the Asian-American share (49 percent) and much higher than the national share (28 percent).”³²

Three Indian Americans have won Nobel Prizes (Gobind Khurana in 1968 for medicine, S. Chandra Shekhar in 1983 for physics, and V. Ramakrishnan in 2009 for chemistry). Two Indian Americans, Bobby Jindal and Nikki Haley, have become state governors (of Louisiana and South Carolina, respectively). Hundreds of Indian Americans occupy top positions in academia (for example, Jagdish Bhagwati of Columbia University and Avinash Dixit of Princeton University), in corporations (Vikram Pandit, former CEO of Citigroup; and Indra Nooyi, CEO of Pepsi), media (Fareed Zakaria, former editor of *Newsweek International*) and Wall Street. The head of Standard and Poor’s, when it

downgraded U.S. government bonds from AAA in August 2011, was Deven Sharma.

Indeed, it’s amusing to note that in Wall Street’s biggest scam regarding insider trading by the securities firm Galleon, the chief accused were Raj Rajaratnam and Rajat Gupta, the government prosecutor was Preet Bharara, and the major witnesses included Rajiv Goel and Anil Kumar. From the names, you might have thought this was a scam in India. In fact, it simply showed how large was the footprint of the Indian diaspora on Wall Street. (Technically, Rajaratnam is a Sri Lankan, but of Tamil origin from India.)

The Indian diaspora has become an important source of India’s own economic strength. Overseas remittances from the diaspora were under \$2 billion a year in the 1980s but have risen strongly in recent times, totaling \$66.13 billion in 2011–12, or 3 percent of GDP.³³ This has been of immense value in helping India in shoring up India’s finances, especially in international financial crises (as in 2008–09 and 1997–99). In addition, overseas Indians in 2011–12 put \$11 billion into certificates of deposit in Indian banks.³⁴ By contrast, the net inflow of foreign aid that year, negotiated by diplomats and governments, was just \$2.35 billion.³⁵ This drives home how much more important the diaspora has become than the Indian government in harnessing foreign-exchange flows from abroad and stabilizing the balance of payments. Corporate inflows have been far bigger, too, than foreign aid, and in 2011–12 foreign direct investment totaled \$46.8 billion—a new record. Here again the direct contribution of governments was dwarfed by that of individuals and corporations. The government was most effective when it facilitated the latter.

The Indian diaspora has long urged the Indian government to allow dual citizenship. The government has demurred, fearing this could become a route for infiltration by terrorists or Pakistan agents. But it decided to issue Person of India Origin (PIO) cards that provided free entry into India for 15

The Indian diaspora has become an important source of India’s own economic strength.

A strong Indian American community of millions is a foreign policy asset of high value for India.

years for foreign citizens of Indian origin, and entitled them to own property in India and enjoy other privileges denied to foreign nationals in general. Later, this was upgraded to an Overseas Citizen of India passport, proving lifetime free entry into India, and waiving the PIO requirement to register with the police for stays of over 180 days. This is more than just an ethno-nostalgic initiative: it has solid foreign policy motives too. It seeks to bind the diaspora closer to their original homeland, and thus become a more committed local lobby.

Obviously, Indian Americans are Americans first and foremost, and the Indian government would be unwise to think it can ever manipulate them for narrow ends. But the power of ethnic lobbies in U.S. politics is well established. The Greek American lobby has ensured that the United States tilts towards Greece in its disputes with Turkey (notably over Cyprus). The anti-Castro Cuban American lobby has long ensured a hard-line U.S. policy toward communist Cuba.

Indians in the United States have, in past decades, been so divided by religion and region as to not constitute a homogeneous lobby. Indeed, Kashmiris and Sikhs in the United States often backed secessionist movements in India and acted as anti-Indian lobbies. But today the secessionist fringe is fading away and Indian Americans appear to be a much more homogeneous lot. The rapid rise in their sheer numbers gives them political visibility and clout. Besides, they are highly educated, articulate, and well off, and have become a rising source of financial contributions for U.S. politicians. That has a positive knock-on effect on Indo-U.S. relations. Encouraged by the success of Nikki Haley and Bobby Jindal, six Indian Americans ran for the House of Representatives in November 2012, and one of them won (Ami Bera of California).³⁶ A strong Indian American community of millions, deeply networked into the top political, educational, business, and income brackets in the United States, is a foreign policy asset of high value for India.

Conclusion

Indian foreign policy has long been based on the notion that politicians and diplomats drive international relations. Diplomats will readily agree that corporations and individuals matter, too, but they have seriously underplayed the role of these while exaggerating that of politicians, military brass, and diplomats. India today has become a country that matters globally mainly because of foundations created substantially by individuals and corporations. During the Cold War, Indo-U.S. political relations were cool, but commercial and person-to-person ties expanded fast, laying the ground for a major political rapprochement after the Cold War ended. Sino-Indian relations have also grown explosively on the commercial side in the last decade, even as political relations have cooled. There is much less scope for business and individual relations to drive the political process in Sino-Indian relations, yet it needs to be kept in mind and encouraged in every way.

Indian politicians have historically worried endlessly about the brain drain of Indian emigrants, and the supposed loss it imposes on India. Yet India's recent success owes much to the return flow of Indians who had gone abroad. What initially looked like the brain drain has become brain circulation: the secret is to create conditions at home that attract returnees. Those that remain abroad also serve very important purposes. The Indian diaspora has provided steadily rising remittances, which touched \$66.13 billion in 2011–12.³⁷ This flow remained steady in financial crises when foreign investors were fleeing India, as in 1997–98 and 2008–09, and so was invaluable in stabilizing the balance of payments. The success of the diaspora in the United States also provides major brand-image advantages to India. Finally, the diaspora constitutes a formidable political lobby in the United States, and hence is a great foreign policy asset.

Far from recognizing these advantages of free movement, Indian politicians continue

seeking curbs. India's health minister, Ghulam Nabi Azad, recently declared that Indian medical students going to the United States would have to sign bonds and forfeit them if they did not return to India after their studies.³⁸ He claimed that the United States required a "No Objection" Certificate from India for students entering U.S. colleges, and said that as a condition for such certification, he would tell the United States not to let Indian students stay on to practice medicine after completing their studies. In India's socialist past, medical students were indeed asked to sign an affidavit promising to return, but this proved unenforceable. World Health Organization guidelines say there should be free movement of doctors globally. Indeed, the UN Declaration of Human Rights says that every human has the right to leave his country. But Azad remains in narrow pursuit of the old idea of trying to keep all Indian professionals caged in India, believing that this self-sufficient cage is more important than interdependence. In many other fields, Indians going abroad have returned to take advantage of huge new opportunities created by economic reforms. The lesson for Azad and others of his ilk is clear: create more opportunities at home, not more barriers to emigration.

India's favorable global image today owes much to corporate initiatives that the government did not, and could not have, planned, such as Lakshmi Mittal's creation of the world's largest steel empire or the Tata group's emergence as the biggest private-sector employer in the UK. Yet politicians and intellectuals in India continue to be fascinated by self-sufficiency and autonomy, approaches that dragged India down and kept it poor for decades.

In the 1990s, many Indian politicians and intellectuals wanted India to leave the World Trade Organization when that organization insisted on imposing intellectual property rights (IPR) on all members in the Uruguay Round of negotiations. These critics claimed that Indian industry, especially the pharmaceutical industry, would be maimed or killed

by IPR rules. This proved false; Indian industry actually did very well after accepting the new WTO rules. Indeed, many of India's most dynamic industries turned out to be those for whom IPR is actually vital: computer software, pharmaceuticals, automotive design, and research and development.

Despite two decades of economic reform, there is insufficient recognition in India of the importance of global integration and interdependence as a source of strength. The emphasis of the government and policy analysts tends to be on narrower, shorter-term calculations that seek to maximize autonomy of action. A recent influential foreign policy strategic paper from India's Centre for Policy Research and National Defence College, which had inputs from national security advisers, top diplomats, and army brass, was titled "Nonalignment 2.0." While containing many good proposals for a globalized and open economy, the very title reflected Cold War nostalgia. The paper proposed that the key thrust of future foreign policy should be to maximize India's space for autonomy of action. This missed the point that becoming integrated into the global economy—something essential to economic success—means emphasizing interdependence over autonomy and reaping the gains of global integration over those of self-sufficiency. The paper made no mention of the Indian diaspora at all—a major omission.³⁹ However, it correctly highlighted the need to keep the Indian economy relatively open and integrated with the global economy, so that economic growth will be rapid and opportunities will proliferate. A strong economy is vital for a successful foreign policy. And economic strength requires major encouragement of business and person-to-person exchanges.

In coming years, Indian foreign policy should aim to maximize the gains of interdependence, not autonomy. This means liberalizing Indian rules and policies to give corporations and individuals the fullest scope to expand their footprint at home and around the globe. It also means entering into bilateral, regional, and global agreements that

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promote business and personal exchanges. India's diplomats should certainly drive a hard bargain to maximize its interests in international, regional, and bilateral agreements. It should keep some wiggle room for autonomous action even while binding itself and its economic partners to newly agreed-upon rules. But creating wiggle room is a tactic, not a grand strategy. India's grand strategy must aim at maximizing gains through intelligent global interdependence, thus creating myriad opportunities for individuals and corporations to change India, and indeed, the world.

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