Indian Foreign Affairs Journal Vol. 10, No. 2, April–June 2015, 146-159

Invigorating India's Economic Diplomacy in South Asia

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Indian diplomacy has been carving a niche for Indian business overseas since the rise of India's economic power. It has been establishing networks in Africa, Latin America, West, East and South East Asia to boost Indian business, and to secure energy assets abroad. India can now offer large credit lines, frontier technology in many fields, and is among the leading investors across the world.

However, the notable increase in India's trade and total outward investment in recent years has not been reflected it its economic engagements in the South Asian region which is its immediate neighbourhood. India's merchandise exports to South Asia accounted for only 5 per cent of India's total goods exports in 2013. India imports only 0.5 per cent of its total imports from South Asia. On an average, Indian exports constituted less than 13 per cent of South Asian goods imports in 2012. South Asian countries trade less with each other, and more with Western countries like Europe and North America to which they export goods like agricultural products, textiles, garments, and labour while importing capital goods and petroleum. Despite territorial proximity, there has been low regional trade due to high transaction cost, high tariff rates, and a large negative list. They have similar export baskets, and compete with each other for the regional market. Nearly 53 per cent of intra-SAARC imports are currently restricted under the sensitive list.

The focus of India's outward investment has been overwhelmingly outside its neighbouring region. South Asian nations account for less than 3.5 per cent of India's total outward FDI.[1] On the recipient side, firm-level data show that between 2002 and 2006, Indian firms invested not more than US $20 million per year in South Asia, which constituted less than four per cent of FDI received by these countries.[2] The regional share of Indian outward investment has declined continuously: from 4.5 per cent in 2003–04 to a

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mere 0.1 per cent in 2006–07.[3] However, during the period 2008–10, about 90 per cent of Indian aid was channelled to South Asian countries.

South Asia has constantly remained in conflict due to religion, caste, ethnicity, and border disputes since decades, creating inappropriate backgrounds not only for regional economic integration but also to feed looming security threats to India from non-state actors. India's diplomatic energy is now being directed towards its neighbours in South Asia. While much has been articulated by the present government on the role of India's South Asian neighbours in fostering its growth, a paradigm shift is required in projecting India as a development partner in the South Asian growth and stability. India encompasses more than 75 per cent of the region's GDP, and more than 70 per cent of the population. It also wields relatively enormous military and economic power in the region. Most South Asian nations have common borders with India, and their territorial dependency on India for regional and international trade is high. Thus, regional integration in South Asia will not succeed without India's active participation and sincere political commitment.

South Asian regional economic integration is critical for the development of mutual trust, economic growth, social cohesion, and shared cultures – all of which could lead to reduced hostility and security threats. The region faces common development challenges of energy security, poverty reduction, unemployment, and the removal of socio-economic disparities. Through its economic diplomacy, India can create mutually beneficial energy assets, generate diverse production capacity by slicing the value chain of skills, capital or technology intensive goods, and shift the labour-intensive sections to low-wage locations. Though India is the largest regional investor in some South Asian countries, its investments are largely market seeking. Evolving a regional production structure helps the neighbouring countries to improve their Balance of Payments vs. India, gain new competitive advantage with more employment opportunities, rationalise the cost of production, and thus improve India's cohesion with its neighbours.

Bangladesh

Since the last few years, India's economic diplomacy in Bangladesh is now bearing fruit, and much of the anti-India sentiment has been wiped out. India granted a US$ 800 million soft loan and US$ 200 million aid to Bangladesh in 2010. To facilitate the increase in Bangladeshi exports and improve its Balance of Payments, India allowed the import of about 61 items at zero duty in

September 2011. The majority of these items were related to textiles, which reportedly led to a 35 per cent rise in the export of Bangladeshi ready-made garments to India during the first seven months of 2012–13. The garment sector in Bangladesh is crucial, both for job creation and foreign exchange earnings; but it was not able to tap India's vast neighbouring market due to latter's protectionist trade policies. The preferential tariff facility also converted Bangladesh into a re-exporting hub for beetle nut, which was used by *gutka* makers in India according to *Prothom Alo*, a Dhaka based daily. The rising textiles and beetle nut imports hardly made any difference to the already huge India's annual trade deficit of about US$ 180 billion (in 2011–12). However, it was a new beginning for bilateral relations and created an amicable ground for further collaborations.

India has also started facilitating sub-regional transit and connectivity for Bangladesh. It allowed the movement of fertilizers between Bangladesh and Nepal through the rail route in 2011. An amendment to the MOU between Bangladesh and India was signed in 2011 permitting the use of Rohanpur-Singabad as an additional route for bulk and container cargo for Nepalese rail transit traffic.[4] A Standard Operating Procedure (SOP) allowing the movement of trucks carrying goods from Nepal and Bhutan to Land Customs Stations in Bangladesh was also finalised in 2011.

Bangladesh helped India to set up the power plant at Palatana in the state of Tripura. Heavy machinery was brought from India's western parts to Bangladesh through the transhipment system at Ashuganj in the Brahmanbaria district and the Chittagong sea port. There is abundant natural gas in Tripura. A power project by ONGC-Tripura Power Company in a land locked, logistically challenged and difficult terrain was made possible with the help of Bangladesh facilitating transport.

Bangladesh is importing about 500 MW of electricity through a 500 MW HVDC Back-to-Back a-synchronous link at Bheramara (Bangladesh) and Baharampur (India). The Rampal power station – also known as the Maitree Super Thermal Power Project – is a proposed 1,320-megawatt (MW) coal-fired power station at Rampal, to be jointly developed by Bangladesh's Power Development Board (PDB) and India's state-owned National Thermal Power Corporation (NTPC) on a 50:50 equity basis. The plant will be constructed with super critical technology and use high quality imported coal. It is scheduled to be completed by 2016. Bangladesh and India will share equally up to 30 per cent of the equity of this project. The remainder of the equity – which is about US$ 1.26 billion – will be taken as bank loans from the Export Credit Agency.[5]

In the North Eastern State of Arunachal Pradesh, the hydropower potential of about 35000–37000 MW from various HEPs is under various stages of development.[6] The transmission corridors for the evacuation and transfer of power would be passing through Rangia, Rowta and Bongaigaon (Assam), on the northern side of river Brahmaputra. This interconnection would also facilitate Bangladesh buying electricity from Bhutan in the future as the India-Bhutan transmission line is very near Bongaigaon. Bangladesh wants to partner Bhutan in the latter's future hydro-power projects, and reduce the existing trade gap between two countries through the expansion of trade and commerce. Bangladesh has unilaterally offered Bhutan the use of the Chittagong and Mongla seaports and the Lalmonirhat and Saidpur airports, and has also invited Bhutan to use their upcoming Paira seaport.[7]

Bangladesh's Petrobangla, the state owned oil and gas exploration company, has agreed to collaborate with GAIL India to establish a strategic gas grid connectivity between India and Bangladesh if the Indian company agrees to deliver gas at Benapole in the Jessore district.[8] There is also a plan is to import LNG converted gas from Haldia in West Bengal through a pipeline. The present government resolved a seven decade long territorial dispute with Bangladesh in December 2014, thus bringing progress in the integration plans for the North East in terms of tighter relations with Bangladesh and Myanmar. During his stop in Tripura on 1 December 2014, Prime Minister Modi spoke of an "economic corridor" that "would be established using North East India, Myanmar, and the adjoining regions". North East India would be the gateway of South East Asia in the future, and the government has signed an agreement with Japan to open an economic corridor with Myanmar. The key transit initiatives between North East India and Myanmar, the Kaladan Multi-Modal Transport Project, and the India-Myanmar-Thailand trilateral highway are on track to be completed by 2016.[9]

Srilanka

The bilateral India Sri Lanka Free Trade Agreement (ILFTA) – operational since in March 2000 – was a pioneering attempt in the direction of trade liberalisation in the South Asian region. India is Sri Lanka's largest trade partner, and bilateral trade between the countries stood at US$ 4.6 billion in 2014. India has invested in Sri Lanka's mega project business by entering into building construction in the North and the East. A Mumbai based company is building about 12,500 houses each in the Kilinochchi and Mullaitivu districts, about 10,000 houses in Vavuniya, and around 15,000 residential units in Jaffna and

Mannar, under the supervision of the Government of India.[10] Indian companies have won bids in railway expansion projects in the North and the South. The Power Grid Corporation of India Ltd. (NTPC), the Lanka India Oil Corporation (Lanka IOC), Cairn Lanka Pvt. Ltd., Lanka, and Ashok Leyland are now keen to invest massively in order to expand their businesses in the island.

India is the second largest investor after Malaysia in Sri Lanka. Indian cumulative investment in Sri Lanka is above US$ 1 billion, and Indian companies have committed to investing nearly US$ 2 billion in Sri Lanka for the next 5 years.[11] India has also become the largest source of tourists to Sri Lanka, accounting for 20 per cent of tourist arrivals.

Sri Lanka is procuring half of its requirement for petroleum products from India. Lanka IOC, Indian Oil's subsidiary in Sri Lanka, is the only private oil company – other than the state owned Ceylon Petroleum Corporation (CPC) – that operates retail outlets in Sri Lanka to serve consumers, provide bulk supply to industrial consumers, and has also built and operates storage facilities at the Trincomalee Tank Farm, thereby providing energy security for Sri Lanka. Sri Lanka benefits from using India's existing trade infrastructure which is available at lower costs than if it operated independently. India is assisting Sri Lanka in becoming a regional petroleum hub. It has also agreed to set up the Sampur Coal Power Project (500 MW capacity) through a 50:50 joint venture between NTPC Ltd. and the CEB.[12] The plant will have two units, each having 250 MW capacity. Coal for the project will be imported and supplied by Lanka Coal Company (LCC) while land will be given by the Sri Lankan government on a long term lease.

The most significant agreement with Sri Lanka is the recently signed civilian nuclear co-operation, which envisages an "exchange of knowledge and expertise, sharing of resources, capacity building and training of personnel in peaceful uses of nuclear energy, nuclear waste management, [and] nuclear and radiological disaster mitigation". This is of significance especially as Sri Lanka explored a similar pact with Pakistan two years ago. Besides, there is agreement on cooperation in agriculture, defence and security, as well as Sri Lanka participating in the Nalanda University project.

Nepal

Nepal has 60–65 per cent trade with India.[13] Of the total foreign direct investment in Nepal, 48 per cent is from India.[14] About 26 per cent of tourists to Nepal are from India. Tens of thousands of Nepalese live in India, and a large number of Indians live in Nepal doing business and work. The government recently signed an agreement for cross-border electricity transmission, grid connectivity, and power trade between India and Nepal. It was also agreed to resuscitate stalled projects – like the 6,720 megawatt Pancheshwar Multipurpose Project (first announced in 1996) and the 900 megawatt Arun III project. Nepal also finally approved an agreement to develop the 900 megawatt Upper Karnali Project.

Meanwhile, India and Nepal are working on the Raxaul-Amlekhgunj Project. It includes an oil pipeline that has the potential to halve the cost of petroleum products imported by Nepal from India, besides checking pilferage and adulteration. Both countries are still negotiating the duration of the contract. The Indian side wants a 15-year term, while Nepal is willing to commit the purchases for five years merely.

During his second visit to Nepal, Indian Prime Minister Narendra Modi signed ten pacts with Nepal on the sidelines of the 18th SAARC Summit. They included a US$ 1 billion credit line for infrastructure development, a bus service between Kathmandu and New Delhi, MoUs on tourism and traditional medicine, as well as twin city agreements between Ayodhya-Janakpur, Lumbini-Bodh Gaya and Varanasi-Kathmandu. India's assistance in constructing new highways would greatly improve connectivity in Nepal, while cooperation in setting up information hubs can facilitate a digital revolution in the country.

However, Nepal needs assistance in exploiting renewable technologies to reduce the consumption of biomass. India should collaborate to make biogas, solar and wind energy, as well as improved cooking stoves more accessible to the Nepalese people. By assisting in providing renewable energy alternatives to the use of biomass to the Nepalese, India can help in the reduction of deforestation in the Himalayan country and the subsequent adverse effect on floods in the Gangetic plains in India.

Bhutan

Bhutan is important for India as it is close to the narrow 'Chicken's Neck' corridor – the sole link between the Indian mainland and the perennially disturbed north-eastern region. India has been a major development partner of Bhutan. It remains its largest trading partner. In June last year, India provided Rs. 700 crore standby credit facility to overcome its rupee liquidity crunch. The Government of India also reimburses the excise duty paid by Bhutan to buy manufactured goods from India. India is funding three projects in Bhutan: Punatsangchhu-I (60 per cent loan and 40 per cent grant, scheduled for completion in 2016); Punatsangchhu-II (70 per cent loan and 30 per cent grant, scheduled for completion in 2017); and Mangdechhu (70 per cent grant and 30 per cent loan, scheduled for completion in 2016). Five more Hydro Electricity projects are proposed as a part of the Bhutan government's commitment to generate 10000 MW of electricity by 2020 These are in Sankosh, Chamkharchu, Bunakha, Kholongchhu and Wangchu

Bhutan imports power from India to cater to its domestic consumption during winter. Though highly rich in hydropower, Bhutan's power production lowers during winter due to low hydro logical output. On an average, Bhutan imported around 40 MW from India between October–March.[15] Given its increased domestic consumption, last winter it imported 80 MW units of power. It aims to achieve 10,000 MW additional installed capacity by 2020 in co-operation with the Government of India. Being the largest buyer of Bhutan's hydropower, India is the sole stakeholder of this additional capacity. This gradual downfall may force these projects to run at much lower than expected output levels – or lesser than installed capacity – making for an inadequate return against the investment.

India also needs to earnestly complete some of the projects that have already been delayed due to the lack of sufficient funds. India has also committed to partially fund the Bhutan's 11th Five Year Plan, and Prime Minister Modi has promised opening of 20 e-libraries in 20 districts of Bhutan as well as double the Nehru-Wangchuk scholarship initiated in 2009 from the present 27 to funding the higher studies of Bhutanese students.

Pakistan

India's relation with Pakistan is on a stop-go mode. The current annual trade volume between Pakistan and India is around US$ 3 billion, which could increase manifold in the long run under an open trade regime. The trade between Pakistan and India has grown rapidly in recent years. Indian exports to Pakistan comprise 80 per cent of this bilateral trade. It is reported that trade between the two countries is actually almost double the official figure, with imports from India coming to Pakistan via third countries, such as Dubai. Most Favoured Nation (MFN) status would facilitate direct imports into Pakistan from India instead of indirect routes that translate into higher transport costs. India had granted MFN status to Pakistan in 1996; but the latter has not reciprocated. Last year (2014), Pakistan agreed on a non-discriminatory market access (NDMA) programme in place of the MFN regime. However, Pakistan gradually increased the number of items permissible for trade with

India, and now maintains a 'negative list' of 1,209 items which may not be legally imported from India into Pakistan. Major sectors included in the negative list of Pakistan are auto, steel, paper & boards, plastics, textiles, electrical machinery and pharmaceuticals. Pakistan's agriculture and automotive sectors have often forcefully lobbied against MFN status, arguing that they are still too young to compete with the onslaught of cheaper Indian products. Pakistan imports 57 per cent of its auto-related raw materials from Japan, contributing to large import bills.

In order to enhance bilateral trade, some more initiatives – like opening up the Wagah-Attari border around the clock as well as barter trade in the disputed Kashmir area – are fruitful. Barter trade was halted in February 2015 when a truck driver from Pakistan was arrested for drug trafficking.[16] Following negotiations between the authorities on both sides, India and Pakistan have agreed to resume barter trade through the disputed Kashmir area.

Pakistan removed the ban on the import of diesel from India in the year 2009; but it continues to debar the import of petrol. The high cost of petroleum products imports from the Gulf have made the Pakistani government interested in importing them from India. Given severe power shortages in Pakistan, and the open access power transmission possibilities in India, there is also renewed interest in pursuing mutually beneficial cross-border power transfer between the two countries. Pakistan is also ready to import gas from India. In 2012, India had offered to export up to 5 million cubic metres of gas per day to Pakistan for an initial period of five years. Pakistan has also agreed to a pricing formula for the import of natural gas from India. The agreement follows discussions last August between GAIL India and the Inter State Gas Systems (ISGS) of Pakistan.[17] India will import LNG, and send it to energy deficient Pakistan via a pipeline between Jalandhar and Wagah. In this year's Budget, Finance Minister Arun Jaitley has granted basic custom duty exemption of 5 per cent on re-gasified LNG for supply to Pakistan.[18] However, Pakistan declined to sign three multilateral pacts with the eight members of the SAARC during the 18th SAARC summit citing incomplete "internal processes". The agreements aim to boost road trade and electricity sharing, including across Pakistan's heavily militarised border with India.

Afghanistan

Afghanistan is India's strategic gateway to resource rich Central Asia, by-passing Pakistan. India is making distinct economic initiatives to further its strategic interests in the region, and to maintain its grip over regional politics. It offered a US$ 2 billion aid – the largest India has ever given to another country – to build key infrastructure projects ranging from road, power, telecom and others, to connect Afghanistan internally and with the region, facilitating cross-border transit, trade and investment. It also implemented small rural development projects to help many impoverished communities across Afghanistan. Thousands of Afghans have benefited from India's higher education and technical training assistance programs. India's investments in Afghanistan – including in hydro-power projects and mining – are worth more than US$ 10 billion.[19] Currently, bilateral trade between India and Afghanistan is over US$ 600 million.

India built a 218 km road connecting Afghanistan with Chabahar port in Iran. Another rail link is proposed to be opened from the Bandar Abbas port in Western Iran to pave way for US$ 11 billion Hajigak iron and steel project promoted by Indian companies in central Afghanistan. The new Mining Bill in Afghanistan paved way for Indian investment in steel. After winning bids for three iron ore mines at Hajigak in Afghanistan in 2011, a consortium of seven Indian steel makers (led by SAIL) had proposed US$ 10.8 billion investment in Afghanistan to set up a 6.2 mtpa steel plant in two equal phases, along with an 800 MW power plant, besides creating the required infrastructure. However, the AFISCO revised proposal is of US$ 1.14 billion for setting up a 1.5 mtpa steel plant and the creation of necessary infrastructure in order to reduce the vulnerability of the project.

India's Regional Policy

For the past few years, India has made constant efforts to reach out to its neighbours by funding infrastructure projects to improve connectivity between India and its others neighbours in South Asia. It has already announced zero duty access for the least developed countries in the SAARC region, and has constantly pruned its sensitive list along with doses of economic aid. The present Government has made unambiguously clear that the prime focus of India's economic diplomacy will be India's immediate neighbourhood. The Prime Minster invited leaders of Afghanistan, Bangladesh, Bhutan, Maldives, Nepal, Pakistan, and Sri Lanka to his swearing ceremony, made Bhutan and Nepal his first international travel destinations, and resolved a seven-decade long territorial dispute with Bangladesh in December 2014. At the SAARC summit in November 2014 in Nepal, India backed three pacts to enhance connectivity and energy cooperation in the region.

The four principal tools of economic diplomacy that are deployed by state are trade, investment, aid, and cross-border production networks. India's economic diplomacy in South Asia has focused on trade and aid. Since SAFTA, is not an agreement on services or investment, or any other form of economic cooperation, it falls short of promoting trade in a region where services form a large proportion of most economies. Though, India has been an active donor in the region, less significant efforts have been made in the area of increasing FDI flows, and almost negligible attempts have been made at creating cross-border production networks.

Cross-border production networks are the strongest forms of economic interdependence and integration that exist in the world today. These allow the benefits of information and communications technologies segment their supply chains horizontally across multiple geographies mostly at the regional level to profit from the respective comparative advantages of different economies. The most obvious examples of states that have benefited from these types of networks – and have also been consequently drawn closer to its neighbours – are China, Mauritius and Japan. They have shifted their production bases in neighbouring countries when rising labour cost decreased their comparative advantage in some industries, like sugar, textiles, and light engineering goods. Japanese FDI funded the manufacture and assembly of industrial components and the final products in various ASEAN countries. In this process, the investment-trade nexus received a stimulus to generate greater intra-regional trade in ASEAN, currently around 25 per cent. A single product assembled and exported from China is likely to embody knowledge intensive designs from Japan, capital or skill intensive inputs from South Korea, Taiwan, Hong-Kong or Singapore, and labour intensive inputs from one or more of the ASEAN 4 countries (Indonesia, Malaysia, Philippines and Thailand).

Economic activities abroad do have a political connection and, probably, a public dimension as well. While India has successfully leveraged its political contacts to serve its economic interests around the world, it has been slow to manoeuvre its economic power to cultivate its geopolitical and strategic interests especially in the Indian subcontinent. While seeking economic partnerships with neighbouring countries, India has till date neglected to foster the type of economic interdependence in South Asia that is most conducive to security: that is, one that maximises the cost of disruption to all parties involved. Indian firms have not made efforts at creating supply chains in South Asia due to the lack of connectivity in the region, similarities in comparative advantage, the continued prevalence of non-tariff barriers, and the absence of intra-industry trade. Cheap, rapid and reliable transport links is an imperative of well-functioning supply chains, which are grossly lacking among the South Asian nations.

Now, when a focused diplomatic approach towards India's neighbourhood seems likely, the role of Indian business becomes vital in furthering regional integration and cohesion. Corporate India is already a significant global player, with businesses in oil to tea located across the world, and making direct investment abroad of about US$ 105 billion. Indian business needs to be mobilised to move beyond individual corporate objectives, and undertake to make joint efforts with the government to achieve strategic national objectives. The government also needs to take the states along for the fruitful conduct of economic diplomacy with neighbouring countries. The States play an integral role in facilitating and enabling cross-country and cross-border trade.

India needs to expedite the agreement on investment liberalisation and facilitation, along with the agreement in services trade with South Asian Nations. It also needs to adopt the philosophy of preferential sourcing from the region. Regional imports of similar quality need to be preferred over those imported from far countries. Secondly, Indian investment proposals need to project counter-trade obligations within the region. These can take the form of buy backs. About 8–10 per cent of world trade by value is in the form of counter trade. According to U.S. Department of Commerce estimates, about 20 to 25 per cent of world trade is now barter and corporate barter is now a US$ 20 billion industry. Joint ventures, with netback buying arrangements as well as counter trade would show India's commitment in promoting goods from the SAARC countries, and also help them to improve their Balance of Payments. Investment facilitation and liberalisation agreement in SAFTA would enable India to internalize their comparative advantages into its production process, and would also help it to establish regional production structure by promoting intra-industry trade among neighbouring countries.

Textile and apparel products constitute 75 per cent of exports in Bangladesh, 45 per cent of exports in Sri Lanka, 55 per cent that of Pakistan, and 12 per cent that of India. However, there is relative specialisation in product variety in disaggregated items. India and Pakistan have a strong textile base, and are important sources of raw material whereas Bangladesh and Sri Lanka are competitive apparel manufacturers. India has unique advantage in the production of variety of both natural and manmade fibres. However, the clothing sector in Bangladesh and Sri Lanka is over-dependent on imports for its supplies of textile materials. Also, most producers lack design, marketing, and product development skills. Pakistan imports textile machinery from European countries. India can assist in building horizontal supply chains, with it supplying machinery and raw material as well as leveraging its export network in synthetic textiles across 150 countries in the worlds; Pakistan can supply textiles; and both Srilanka and Bangladesh serve as lucrative offshore locations for the manufacture of textiles and apparels for export to the world market, especially to the high value added fashion industry in Thailand.

Indian investment in natural resources and labour intensive sectors in Bangladesh and Sri Lanka can have horizontal linkages with Indian industry for higher value additions. In Bangladesh, Sri Lanka, Nepal and Bhutan, it should focus on skill intensive sectors – like light engineering goods, consumer durables, food processing, and IT. India can invest in the frozen food sector with new technology and equipment in Bangladesh, and contribute to increasing production and export earnings in Bangladesh. Investment in the processing of marine products can have horizontal and vertical linkages across India, Bangladesh and Myanmar. Machinery parts, consumer durables, semi-conductors, cell phones and telecommunication services are some of the prospective areas in Bangladesh.

Sri Lanka's extensive deposits of high quality base minerals for electronic products makes investment profitable in transformers, switches, plugs, holders, electric boards, panels, electrical wires etc., and can be horizontally integrated with Indian industry in producing energy efficient electronic, electrical, and mechanical goods. India is also becoming a new player in the global and Asian production network for some auto-parts and electronics component sectors.[20] It can play a vital role in internalising the comparative advantage of its neighbouring countries and horizontally integrating them in a regional production network.

Indian investment in agricultural commodities, consumer durables, electronic and electrical items in Bangladesh and Myanmar can serve the North East region and Bhutan. Besides, India is a vast country, and some parts – like the North East – can be more economically served by a neighbouring country than by its own mainland. India can source imports from Bangladesh to serve its North Eastern regions with equivalent exports from its mainland in a swap trade model. Swap arrangements, with no trade creation in case of agricultural commodities and other sensitive commodities to cut internal transport, can reduce the restriction imposed by a large negative list in Free Trade negotiations as well as promote regional trade.

Financial cooperation can include currency swap agreements, the pooling of reserves among central banks, exchange rate coordination mechanisms, regional supervisory institutions, regional payments agreements, and the establishment of regional development banks and regional bond markets to boost access to long-term financing. India needs to increase the role of the

Indian rupee in the region to catch up with the growing influence of the Chinese renminbi. While the Indian rupee is traded in Nepal and Bhutan, and India shares a currency swap agreement with Japan, options for similar swap agreements with other South Asian countries would facilitate trade and investment without putting pressure on the Balance of Payments of smaller countries.

Conclusions

In the past few years, India has made constant efforts to reach out to its neighbours by funding infrastructure projects to improve connectivity between India and its others neighbours in South Asia. Its economic diplomacy in the Asia region has focused on trade and aid. However, a new beginning is being made in invigorating regional energy cooperation and trade and, thus, there is a need to conclude agreements on services and investment facilitation. India can play a vital role in internalising the comparative advantage of its neighbouring countries and horizontally integrating them in a regional production network. India's economic diplomacy needs to convert conflict zones into active commercial hubs by facilitating cross border trade, capacity building of its neighbouring countries in different sectors, and adopting counter trade and swap trade models to neutralise the large negative list. Creating common large economic stakes would lay conducive grounds for a more cohesive and coordinated neighbourhood for India**.**

Notes

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