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India's politics of international development

African trade and regional aid

[Sayed Nasrat](#) | January 15, 2016

As one of the emerging BRICS economies, India's high economic growth is related to its foreign activity, including in Africa. Yet, despite its high domestic poverty and being a recipient of development aid itself, India also provides aid to Bhutan, Nepal and Afghanistan. In doing so, India has strategically manoeuvred itself within a changing global aid landscape.

As well as receiving aid, developing countries are increasingly providing aid to other less-developed countries. Like traditional donors, they do so for a mixture of reasons such as diplomatic relations, commercial benefits, poverty reduction, and cultural or humanitarian assistance. According to [Hisahiro Kondoh](#), no donor country has a single aid purpose. In fact, donors combine aid purposes, even though the comparative weight of each purpose might vary.

India, as a one of the world's fastest emerging economies, is one of those donors with multiple objectives. One of the broader aims of Indian aid is to increase its geopolitical influence in two regions: South Asia and the developing countries of Africa. Both regions are important for India to further expand its own economy and overtake China's influence and investment, and in terms of diplomatic relations, securing natural resource availability and finding markets for goods.

As argued by [Carmody](#), the engagement of the BRICS (Brazil, Russia, India, China and South Africa) in Africa's development can be described as a strategy of South-South or 'horizontal' cooperation: emerging economies investing in developing countries. This economic expansion of the world's fastest growing economies is taking place in Africa, where particularly China took the lead, currently accounting for [more than half](#) of the BRICS' trade with Africa.

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While India's trade with Africa has grown [substantially](#) over the past decade, its development aid is targeted mainly toward countries in its own region, particularly Afghanistan. This can be considered remarkable, especially given that India is a large recipient of foreign aid itself and because of the many Indians living in poverty. So why has India decided to invest in Afghanistan?

Traditionally, the vast majority of Indian aid goes to South Asian nations: Afghanistan, Bhutan and Nepal are direct aid recipients of India. Unlike Bhutan and Nepal, Afghanistan is important for India for two main reasons: its strategic location and the business potential for Indian companies. This is why, since the engagement of the international community in Afghanistan in 2001, India has disbursed over USD 2 billion in development aid in Afghanistan.

Regardless of the aid effectiveness issues, one can ask why aid recipient/donor India does not spend the money for its own national development instead of helping Afghanistan. Despite the changing global landscape, India is giving aid to Afghanistan for two very traditional reasons: diplomatic relations and commercial interests.

Diplomatic relations

Historically, India and Afghanistan have close cultural and political ties. After the Russian war in 1989, India was among the countries that recognized and supported the Afghan government, until the emergence of the Taliban in 1996. Unlike Pakistan, Saudi Arabia and the United Arab Emirates, India never recognized the Taliban government.

Immediately after the US-led coalition invasion in 2001, Indian diplomatic ties grew up again, diplomatic missions were reinstated, and billions of dollars were invested as foreign aid for the reconstruction and development of the country. President Karzai visited India more than any other country during the 13 years of his administration. India was the first country with which the Afghan government signed a Strategic Partnership Agreement (SPA). Signed in 2011, the SPA requires India to contribute to long-term political, security, and development programmes in the country.

According to [Gareth Price](#), a senior research fellow for the Asia programme at Chatham House, India's foreign policy is the stability of Afghanistan, in contrast to its anti-Pakistan strategy. India does not want Afghanistan once again become a hot-bed of extremism. India believes that instability in Afghanistan will lead to instability in the region. The US also wants India to take a greater active role in the development of Afghanistan. On the other hand, the closeness of diplomatic ties between India and Afghanistan have always been a source of tension for Pakistan. Pakistan considers the increasing role of India in Afghanistan as a threat to its own political, security and economic development.

Indeed, Pakistan can play a very influential role in initiating peace talks between the government of Afghanistan and the Taliban leadership. Immediately after the establishment of the National Unity Government in September 2014, President Ashraf Ghani shifted Afghanistan's foreign policy from Russia, India and Iran to Pakistan, China and Saudi Arabia. He also worked to maintain close political ties with Islamabad to facilitate an immediate peace deal with the Taliban. The shift in policy sent Delhi confusing signals, but has not undermined Indo-Afghan diplomatic relations.

Commercial interests

To facilitate its rapid economic development, growth and competition in the global market, India is looking for access to abundant natural resources. This is the main reason why India's imports from Africa [mainly come](#) from LDCs with low manufacturing capabilities, but high endowments of natural resources. Yet, India is still looking for other suppliers, which is one of the reasons why India is looking to improve its political and economic partnerships with resource-rich Afghanistan and Central Asia. In order to connect Central Asia with South Asia, India identifies Afghanistan with its policy to 'Connect Central Asia' (CCA) as a regional trade and transit centre. Hence, India has scaled up its cooperation for the development of Afghanistan. The following activities are some of examples of this cooperation.

In 2011 a group of Indian steelmaking companies headed by the Steel Authority of India Limited won a concession to develop the Hajigak iron ore deposit in the comparatively peaceful Bamyán province of Afghanistan. Besides mining, the companies extracting iron ore are required to invest over USD 10 billion in building steel and power plants. A year later, the Delhi Investment Summit on Afghanistan was held in India to attract more foreign investment and promote regional economic cooperation.

Moreover, Afghan President Ghani in his first visit to Delhi implored Indian companies to invest more in Afghanistan, especially

in telecommunications, fertilizer and energy. The President guaranteed transparency and accountability and suggested that Indian businesses enter into joint ventures with the Afghan private sector. This form of business agreement is a practical way for Afghani companies to reach regional and global markets.

Due to India's high level of commercial interest in Afghanistan, Prime Minister Modi is insisting on the development of the Chabahar port in Iran to connect India with Afghanistan and Central Asia. This port will not only reduce Afghanistan's trade dependency on Pakistan (Karachi and Gwadar ports), but also boost economic ties with India. The economic development policies of both the Modi and Ghani administrations indicate that Indo-Afghan trade volume will reach billions of USD in the next few years.

Another multi-faceted project for India to connect itself with Central Asia through Afghanistan is the TAPI (Turkmenistan, Afghanistan, Pakistan and India) project, which was approved in December 2015. TAPI is a natural gas pipeline project to supply India with gas from Turkmenistan via Afghanistan and Pakistan. The project will bring economic and political benefits to the participating countries. Consequently, positive relations between Afghanistan and Pakistan will be promoted. And, furthermore, interactions between Pakistan and India will be improved. Overall, TAPI will be a great contributor to regional security and stability.

Therefore, India's aid to Afghanistan is worth the investment in terms of the financial benefits and the stability of the region, both of which are advantageous to the Indian economy. India has found a global finance model in which it can profit from receiving and sending aid at the same time.

Photo credit main picture: Narendra Modi (via Flickr)