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(Published as a Chapter (pp. 234-260) in August in Lancy Lobo, Mritunjaya Sahu and Jayesh Shah, eds., *Federalism in India: Towards a Fresh Balance of Power*, Jaipur: Rawat Publication, 2014).

## **Federalism, Regionalism and States' Paradiplomacy in India**

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Broadly speaking, the term 'paradiplomacy', that is, 'parallel diplomacy' is used in academic literature for the involvement of subnational governments in foreign affairs with a view of promoting their own interests.<sup>1</sup> Subnational paradiplomacy, especially in economic sphere, has become a worldwide phenomenon in the recent times. As the global trend shows, central governments often try to accommodate the transnational economic interests of their constituent units. India is a federal system where states enjoy a considerable degree of autonomy. The economic globalization and regionalization have made it possible for the constituent units of India to interact with their respective investors in foreign countries in a *de facto* sense if not in a *de jure* sense (Jha 2004: 164, 2011). Compared to other countries, including some of our neighbours (China, Japan, etc.), subnational paradiplomacy in India is still at an incipient stage. However, paradiplomatic initiatives by states, of late, have begun gathering momentum. It is evident from the states' high-profile investment-promotion activities abroad. Such activities indeed have helped some states in their economic development besides reducing their economic dependency on central government. States in India so far have adopted a host of instruments that fall under paradiplomacy. They include putting pressure on the central government to sign or not to sign a treaty affecting their regions/interests, pressing the centre for facilitation of their trade negotiations with external bodies,

Fund (IMF) and Asian Development Bank (ADB), showcasing states' achievements, providing incentives to attract foreign investments, participating in international forums such as World Economic Forum, visiting abroad for trade prospects, hosting foreign diplomats, ministers and even heads of state and organizing conferences and seminars, wooing NRIs using their diasporas and setting up sister cities and twin cities, border *haats*, among others.

Aside from economic gains, states' paradiplomatic activities can arguably also be useful for the purpose of addressing some of the long-standing problems with our neighbouring countries such as water-sharing, terrorism, and illegal cross-border migration, environmental protection, among others. Further, it can also be used by the centre as part of soft diplomacy that can complement the national foreign policy. Nevertheless, paradiplomacy presents challenges too. It is taking place in unplanned and scattered manner without the central government coordinating with states in systematic way. For example, some state governments may lack the skills to exercise responsible foreign policy; they rather may complicate national foreign policy making.

Given the increased subnational international activities, no systematic study has, so far, been conducted to assess the extent of the forays made by states into Indian foreign policy in the recent times. There is hardly any debate or discussion either in academia or government over the need for a greater role of states in India's foreign policy. The study examines the factors responsible for the development of paradiplomacy in India. It also focuses on responses of the centre towards subnational diplomacy. Further, it also underlines the potential gains not only in economic terms but also in political and cultural terms from paradiplomacy. Furthermore, the study also highlights challenges to national foreign policy on account of states' international activism. It calls for an institutionalized mechanism for states' paradiplomacy.

### **Federalism and Paradiplomacy**

The studies on subnational paradiplomacy began in the 1970s in the form of case studies on the external activities of constituent units of the federal countries such as Canada, United States and Australia. Theoretical works on paradiplomacy were carried out by scholars with a predominantly academic background in federalism. Therefore, most of them understand in the first place the subnational governments' diplomacy as a result and attributes of the vast transformations that are taking place within federalism and intergovernmental relations. Thus, they primarily study the impact of paradiplomacy on federalism and intergovernmental

relations rather than paradiplomacy as a new political phenomenon. Notwithstanding the fact that subnational paradiplomacy also takes place in nonfederal countries, until today this federalist dimension has played a leading role in studies on paradiplomacy (Duchacek et al. 1988, Hocking 1993, Aguirre 1999, Kincaid 2002, Michelmann 2009, Cornago 2010). With this respect, it is imperative to examine the following questions:

Does being part of a federal system help the subnational governments to engage in paradiplomacy? In other words, does federalism as an institution help subnational governments in their quest for paradiplomacy? Indeed federalism helps because it constitutionally divides power between the central government and its constituent units. But not necessarily subnational governments participate in foreign policy only in the federal country (Cornago 2010: 17). Even in federal countries, foreign policy is normally one of very few areas, along with defence and monetary/fiscal policy that does not come under the jurisdiction of subnational governments. However exceptions do exist such as Argentina and Spain, among others. In a federal system, the state enjoys an absolute autonomy in several areas well protected by the Constitution. Thus, federalism, as an institution, may help the constituent units of a country influence/participate in foreign economic policy (Kincaid 2002, Hocking 1993). Constitutionally speaking, however, states and local governments are not legitimate international actors in most of the federal countries in the world including India.

As per the constitutional division of subjects under the Constitution of India, most of the sectors that are important for liberalization process fall within the jurisdiction of state governments. They include industrial infrastructure, power, development, agriculture and irrigation and social sectors such as education and health. Indeed, while the central government has a primary role in the formulation of liberalization policy, the implementation of the policy, however, cannot be feasible without seeking the support of states. Thus, states become important actors and without their support the centre cannot reap the benefits of the foreign economic policy. Despite the adoption of India's new economic policy (NEP) in the early 1990s with some state governments playing an important role in the foreign policy formulation in the form of paradiplomatic activities, however, states' role appears to be quite limited as compared to other countries. Leave aside countries with federal set-ups, Indian states are playing weaker role in this regard than provincial/subnational governments even in unitary countries such as China, United Kingdom and Japan, among others. It can, however, be argued that subnational international activism is gaining momentum in

India and that India's federal structure would, in fact, prove to be an asset in helping the constituent units in terms of developing paradiplomatic activities.

### **Globalization, Regionalism and Development of Paradiplomacy in India**

Aside from federalism, globalization and regionalism remain important factors behind the rise of states' paradiplomacy in India. First, once coalition governments became dominant at the national level in India, the influence of states on national government became increasingly pronounced. Second, the adoption of economic liberalization in the early 1990s gave the Indian states unforeseen opportunities to engage in activities that fall under paradiplomacy (Chelliah, 1996).<sup>2</sup> The quest for trade and investment forced them to look across the border. Further, coalition formation at the national level led to the empowerment of the states at the expense of the centre. On the other side, economic globalization has provided with conducive environment for the states to play a key role in foreign economic policy, particularly with regard to seeking foreign direct investment (FDI) and the promotion of foreign trade. However, it would not be wrong to say that the centre is still constitutionally strong, but it has become politically weak.

During the pre-liberalization era, industrial development of the states was largely determined by the central government, often in a partisan manner. Sarkaria Commission, which was constituted to examine the centre-state relations in the 1980s, observed that this was a major complaint of states. Karnataka, a state not governed by the Congress Party when the commission was making its inquiries, cited instances of industries not being located in Karnataka for political considerations. The most glaring example was the relocation of the Indian Telephone Industries, a public sector unit factory that manufactures electronic telephone exchanges, to Gonda in Uttar Pradesh. The move was pursued by the central government despite the fact that the best infrastructural facilities for producing the exchanges were available in Karnataka. The relocation of the public sector unit was influenced by political considerations, and Karnataka government also noted that private sector corporations, such as Glaxo, the Tata Electric Locomotive Company and Tractors India wanted to set up their industrial units in Karnataka and were asked by the centre (led by the Congress Party) to locate their plants elsewhere. Kerala government argued that no objective criteria had been followed in deciding regarding the location where the investment in the public sector by the central

government would occur (Chhibber and Kollman 2004: 139–140). Contrast this to the post-liberalization period, one can at once notice a paradigm shift in the centre–state relations in India.

Regional parties led by charismatic and in some cases development-oriented regional leaders have become important national players, while the central leadership can no longer take them for granted. Leaders openly admit that ‘regional parties are not only looking after the problems of their respective regions, they are also involved in deciding the national problems’.<sup>3</sup> A foreign policy analyst has observed,

With the Delhi *darwar* at its dysfunctional worst, power is flowing away from Delhi to state capitals, where some strong men and women are ruling. India’s external partners tend to see this with much greater clarity than the domestic observers ... If Mamata has the last word on India’s policy towards foreign direct investment in the retail sector, why won’t outsiders go to Kolkata? If Gujarat and Bihar are places where you can get things done, aren’t the Chinese communist leaders smart enough to woo the chief ministers of the two states? (Rajamohan 2012a)

There is a growing tendency among some state governments that have some broad motives for developing stronger external economic relations, such as the need to project their image abroad, growing pressures to compete in the international economy and the desire to assert their autonomy vis-à-vis the central government (Agarwal 2012).<sup>4</sup>

### ***Defining Moment in Paradiplomacy***

The ‘defining moment’ in paradiplomacy occurred in 1993 when the Government of India’s most industrialized state Maharashtra entered into negotiations with Enron, Texas energy giant. It signed the largest contract in history with the company on a power purchase agreement. Here, a weak central government played a supportive role because it was compelled by Maharashtra to provide the sovereign counter guarantee against its own better judgement. This is considered as a paradigm shift in the centre–state relations in India as the lead player happened to be the state rather than the centre, and this was the result of the opening up of the Indian economy, which enabled the state to exercise a considerable control over the issue. This is, however, not to say that the decision was a rational one (Rudolph and Rudolf 2001: 1542). During the United Front government’s term in office, West Bengal Chief Minister, Jyoti

Basu played an unprecedented role in the resolution of the Ganges water issue between Bangladesh and India. His six-day official visit to Bangladesh and the negotiations he held there finally paved the way for the water sharing treaty between the two countries in December 1996.

***Growing Tendency among States for Paradiplomacy and the Centre as a Facilitator***

Historically, some states in India—implicitly or explicitly—influenced the foreign policy making of the central government occasionally. Recently, there is a growing tendency to involve relevant state governments in diplomatic discussions, which were previously conducted mostly between the central government and the country in question. The centre has now realized that regional leaders can help provide a greater understanding because of the common cultural ties between their states and the people across the border. On his trip to Bangladesh, the Indian PM was accompanied by a number of chief ministers of northeast regions. Recently, at the International Labour Meet at Geneva, Labour Minister of India was also accompanied by his state counterparts from Bihar, Haryana and Andhra Pradesh (Times of India 2012).

The central government is encouraging border states to take measures such as opening border *haats* for making border villages more prosperous through an improved market accessibility to their locally produced goods. The centre has also facilitated states' direct financial assistance related negotiations with overseas banks. In the 1990s, the World Bank officials decided to develop lending relationships directly with select states such as Andhra Pradesh, Karnataka and Tamil Nadu. This was a significant change from the bank's earlier practices. In order to encourage the states to pursue market-oriented reforms, the centre asked the World Bank to provide financial aid to lagging states that were performing poorly with respect to human development indicators. As a result, the World Bank shifted its focus to Bihar and Uttar Pradesh, among India's economically weakest states. Explaining this, Kirk (2011) underlines the central role that New Delhi played by encouraging the World Bank to make its lending available to states that were being left out of India's growth trajectory. The World Bank President claimed that the bank was directly dealing with some Indian states, a major departure from the established norm and has caused some concern within India because it is seen as violating Article 292 of the Constitution, which allows for a state to borrow only within the territory of India. However, this is apparently being interpreted flexibly by the centre, because it has

endorsed and accepted the loan proposals forwarded by states and has requested the bank to sanction them. Sridharan (2003: 476) argues,

When I spoke to state-level policy-makers in India they pointed to a noticeable change in the attitude of the Central government—the Department of Economic Affairs within the Ministry of Finance is now encouraging the states to take the initiative in accessing external assistance. There is no doubt that the responsibility for providing the sovereign guarantee for the loans still rests with the Centre, and these negotiations have to adhere to certain basic norms, but the states have been empowered to negotiate with the multilateral institutions. In other words, in their negotiations with the external agencies the presence of the Finance Ministry official is not seen as overbearing, as was once the case.

The centre has established India Trade Promotion Organisation (ITPO) and it has also encouraged states to set up regional trade promotion centres in state capitals and major cities. This has led to the intensification of paradiplomacy relations at vertical levels, anchored in bilateral agreements, between Indian states and foreign countries. States have come to acquire an important say in the national government's negotiations with World Trade Organisation (WTO). The Union government has advised all the state governments/union territories to set up WTO cells and appoint nodal officers to effectively coordinate various WTO-related matters. Accordingly, a number of states have established WTO cells. The main objective of the cells is to carry out research and provide inputs to the state governments for taking up state-specific issues with the Government of India to be negotiated with WTO. The centre is also encouraging northeastern states to open border *haats*.

In short, the central government has recognized and, to some extent, favoured this increasing international activism of states. These developments can be seen as an act of legitimizing subnational paradiplomacy by the central government.

### ***Aggressive Promotion of States Nationally and Globally***

When it comes to the question of aggressive promotion of a state, both nationally and globally, Gujarat has perhaps no parallel in India. The state is leaving no stone unturned to showcase its achievements on various fronts to the global investors. A glance at the Gujarat

government's website ([www.vibrantgujarat.com](http://www.vibrantgujarat.com)) (which is daily updated) shows how aggressively the state is projecting itself as the best possible FDI destination in the world.<sup>5</sup> Diplomatic delegations from several other countries, including the United Kingdom, United States, Australia and Singapore, have already visited the state in the run-up to the event and expressed interest in intergovernmental and business partnerships.

A number of states are taking a leaf from the book of Chief Minister Narendra Modi in terms of promoting a pro-business atmosphere and showcasing their states' achievements. Recently, chief minister of Madhya Pradesh had gone on a tour to Japan, South Korea and Singapore for inviting industrial investment and promoting exports from the state. Trying to capitalize on its surplus government acquired land, P. K. Dash, additional chief secretary of Commerce, Industry and Employment, Government of Madhya Pradesh, argued: 'Land acquisition is not a problem in our state. The government is sitting on 20,000 hectares which would be available for industry' (Bhattacharya 2012). Till recently, Bihar, Madhya Pradesh, Rajasthan and Uttar Pradesh were known as the 'Bimaru' states. But these states are trying hard to leave this image far behind by seeking external investment. They compete with each other in providing potential investors with numerous incentives such as special economic zone (SEZ), some guaranteed return on investment and reimbursement of value added tax.

Aggressive promotion of states for seeking investment was perhaps nowhere more visible than at Pravasi Bharatiya meet. As one newspaper reported 'the third Pravasi Bharatiya Divas congregation in Mumbai would be remembered more for chief ministers than NRIs'. The chief ministers from Uttar Pradesh, Rajasthan, Punjab, Gujarat, Chhattisgarh, Maharashtra, Kerala and Karnataka had literally queued up to woo prospective investors to their states (*The Economic Times* 2005).<sup>6</sup> Kerala surprised the Gulf Diaspora with its plans to start a budget airline to the Gulf region. According to Chief Minister Oommen Chandy, the state is in the process of seeking centre's permission for starting it. With about 15 lakh Keralites in the region, the cash-strapped Kerala government hopes the airline will be a profitable venture (*The Economic Times*, 2012).

Some chief ministers have become very popular with foreign investors and they are being accorded honour provided previously only to the head of a nation. These CMs head several business teams abroad several times in a year. They are aggressively pitching in their states not just nationally but also globally for the sole purpose of attracting more

and more capital investment and promoting states' exports. Several forward looking states are organizing global business Summits to advance their business interests.<sup>7</sup>

States are becoming increasingly aware of the fact that in the present globalized market economy, they cannot be solely dependent on the centre for generating resources to achieve their developmental goals. They are, therefore, looking for external sources to meet their needs. In order to reap the benefits of the market economy, states require huge financial resources to develop sound infrastructure base. But they are constrained by revenue raising limits, given that they do not have independent borrowing powers. No wonder, therefore, states are forced to look for foreign investment. This has turned most chief ministers of the states into salesmen who advertise their state's unique endowments to their foreign audience (Sridharan 2003).

State governments signing memoranda of understanding (MOUs) with external agencies have become a regular affair. Some states have gone to the extent of inviting foreign companies to take over and run some municipal services, for example, in Andhra Pradesh and Tamil Nadu. Some states have also been exploring the possibility of boosting tourism-related business with foreign countries. For instance, Kerala tourism officials have finalized plans with Singapore Airlines subsidiary Silk Air to bring tourists from the Australasian region to India. The state, of late, has floated the idea of having its own airlines.

The increasing clout of states is understandable from the fact that recently Secretary of State, Hillary Clinton chose Chief Minister Mamata Banerjee's Kolkata as the first stop of her India tour to advance US foreign policy interests. In a televised interview, before meeting with Banerjee, Clinton had urged that India permit FDI in multibrand retail trading and for an 'amicable' water-sharing arrangement with Bangladesh regarding Teesta River—issues stalled by Banerjee's opposition (Chellaney 2012).

Chief Ministers of Bihar and Gujarat visited China to explore trade and investment opportunities.<sup>8</sup> They were accorded a red carpet welcome by the Chinese government. Their visits attracted a huge media attention in India. Chief minister of Gujarat was received at the Great Hall of People, where normally heads of national governments are received and accorded such honour. As per media reports, Gujarat CM was not only invited by Japan but also treated him almost at par with the head of a nation.

### ***State Leaders at International Forums***

Through their participation in international gatherings such as the World Economic Forum held annually in Davos, Switzerland, developments taking place in some reform-oriented states are being brought to the attention of international audiences. Maharashtra CM, Chavan, recently headed a high-level delegation to the World Economic Forum's annual event at Davos. In November 2010, Chief Minister Prem Kumar Dhumal of Himachal Pradesh had been invited by the Governor of California, Arnold Schwarzenegger, for participation in 'Governors' Global Summit on Climate Change' (*Tribune* 2010).

States have acquired a considerable say in WTO negotiations. They have persuaded the centre to be more transparent and inclusive in its deliberations with external entities such as WTO (Jenkins 2003). Recently, at the International Labour Conference hosted by the International Labour Organization (ILO), Geneva, Union Labour Minister of India was accompanied by Labour Ministers of Haryana, Andhra Pradesh and Bihar (*Times of India* 2012). These developments indicate the emergence of parallel diplomacy, in which states have become additional players in a sphere that is usually the preserve of the central government.

In November 2011, speaking at the World Economic Forum's 'India Economic Summit' hosted by Maharashtra, Chief Minister Chavan said that he would sign memoranda of understanding with 32 companies that were ready to invest over 500 crores each in two months before the end of the year (*The Economic Times* 2011). At the summit on 'The New Role of the States: Catalyst for Growth', chief ministers of Maharashtra, Kerala, Madhya Pradesh and the Premier of British Columbia, a Canadian Province, discussed a host of issues concerning paradiplomacy.<sup>9</sup>

### ***Foreign Trade Offices in India***

Increasingly, there is a realization among the investors that the states in India are becoming autonomous players in crafting foreign economic policies suited to their own needs and that the old way of approaching the central government to pursue trade relations at the state level is no longer useful. Not surprisingly, therefore, various state capitals have witnessed the setting up of a number of foreign trade offices in major cities such as Mumbai, Delhi, Bangalore, Ahmadabad, Chennai, etc. Several subnational governments of foreign countries are also setting up foreign trade offices in India.

Taiwan has a trade office in New Delhi rather than a full-fledged embassy. Some years ago, it had sought permission from the Ministry of

External Affairs (MEA) to open a subsidiary office or consulate in Chennai because several Taiwanese companies have substantial investments made in Tamil Nadu. Worried about the reaction of Beijing, MEA backed off. Finally, Taiwanese government asked the then DMK government in Chennai to use its political clout with UPA (Malik, 2012).

### ***City Twinning/Sister Town***

‘Sister town’/‘twin cities’ is a recently evolved concept. It is when two cities are considered to be in an agreement with respect to promoting cultural and commercial ties. Bangalore, Jaipur, Delhi, Mumbai, Chennai, Lucknow, etc., have sisters/twins abroad (Wikipedia). Government of India is encouraging Indian cities to develop twinning link with other cities (Government of India). Twinning agreement signed on 20 December 1996 between Leicester and Rajkot was first such twinning undertaken by a city in India. The Leicester–Rajkot twinning association is one such voluntary organization that aims to further a link between two cities. City twinning supports exchanges between cities, it can be business, culture or education. Under this agreement, both sides agreed to carry out, promote and support exchanges and cooperation in a wide range of areas of common interest in the public, private, voluntary and community sectors aimed at deepening links between local people in the two cities in the fields of education, training, culture, leisure, economy, science youth and women’s issues, voluntary and grassroots developments and civic management. Recently, there was a proposal put forth by the Vadodara Municipal Corporation (VMC) to sign a twin city agreement between the Chinese city, Chengdu and Vadodara under the aegis of United Cities and Local Government (UCLG) (The Times of India 2012).

### **States’ Paradiplomacy and Development in India**

States’ paradiplomacy has the following gains: In the economic sphere, it can lead to international funding, as well as foreign investments and increased exports of locally produced goods. In the political sphere, agreements can empower state public policies and disseminate best practices as well as carry the needs of subnational governments to the international system—through networks of cities and bilateral agreements, for example. In the cultural sphere, subnational governments can seek/sign agreements with foreign countries to increase tourism.

The implications of paradiplomacy on the economies of some states such as Gujarat, Maharashtra, Tamil Nadu, Andhra Pradesh, Haryana, Delhi and Karnataka, among others, are unquestionably

immense. Various industries in these states have grown, developed and also expanded. FDI in various states has led to a growth in trade and exports. With increased volumes of FDI, these states have registered phenomenal growth rates in the recent times. The success stories of some of these states have been globally acclaimed. States are competing with each other in terms of attracting investment—domestic as well as foreign. In their competitive horizontal federalism, they are adopting a number of strategies such as organizing global summits, making foreign trips, showcasing their growth stories to their potential investors and providing a number of incentives. These strategies have helped states such as Maharashtra, Karnataka, Andhra Pradesh, Gujarat and Tamil Nadu tremendously. Other states such as Bengal Bihar, Orissa, Kerala, Madhya Pradesh, Haryana and UP are also resorting to these paradiplomatic activities to woo foreign investors (Srivastava 2012). FDI giants such as Maharashtra are facing a stiff competition from several states that are vying each other to attract investments.<sup>10</sup> States are busy formulating new industrial and investment policies. A number of states have set up a single-window clearance systems. They are trying to upgrade the infrastructure bases of their less developed regions so as to attract investments.

Although most of our states are engaged in the so-called paradiplomacy, they exhibit differential capacities to do so. Gujarat, Tamil Nadu, Maharashtra and Andhra Pradesh represent coastal states that are particularly crucial for promoting external trade. There exist multiple factors that make these states attractive destinations for FDIs:

- (i) They are strategically located, providing easy access to external markets.
- (ii) These states possess the most robust infrastructure with an extensive network of railways and roads, and the highest number of airports (international and domestic) in the country.
- (iii) A large pool of high-quality manpower is abundantly available in these states across various sectors.
- (iv) The governments in these states have also been proactive in introducing sector-specific policies for the promotion of investment and growth.
- (v) They have also witnessed the establishment of foreign trade offices by various countries for facilitating mutual trade.

Tourism is one of the biggest industries in the world with a capacity to employ 200 million people worldwide. A projection of tourist

inflow around the world will be in the range of 1.6 billion spending US\$ 5 billion a day by 2020. It goes without saying that India has an immense tourism potential that has not been effectively exploited so far. States' paradiplomacy in this regard can play a significant role. A subnational paradiplomacy can help an FDI laggard state such as Bihar to realize its tourism potential. In 2011, CM of Bihar visited China. During his meeting with provincial leaders, it emerged that China was keen to establish its relationship at a level where a province of China can have a relationship with a state in India. Culture can be one of the most important areas for regional cooperation between Bihar and China. It is felt that Chinese provinces can provide a considerable support for projects aimed at preserving historical patrimony (including numerous buildings of historical value in Gaya, Bodh Gaya, Rajgir, Nalanda, etc.), and thus contributing significantly to Bihar's tourism potential development. Countries such as China, Japan and other Asian countries have recently promised to invest in Bihar to develop its religious tourism.

In short, states in India are involved in foreign economic policy, particularly with regard to seeking FDI and the promotion of foreign trade. Under the previous command economy model, this subnational economic paradiplomacy was not possible. The relationship between the centre and the states, notwithstanding the dominant position enjoyed constitutionally by the centre, has been neither confrontational nor can it be considered cooperative. Of late, the centre has informally allowed states to engage in economic paradiplomacy.

### ***Border States and Paradiplomacy***

India shares its geographical borders with Pakistan in Kashmir, Punjab, Rajasthan and Gujarat in the north and west and with China and Nepal in the north-central states of Uttar Pradesh and Bihar. With Bangladesh, it shares its boundary in the eastern state of West Bengal and the small northeastern states to the east of Bangladesh and with Sri Lanka in Tamil Nadu in the south (a littoral border) (Dossani and Vijaykumar 2005). Considering the commonalities existing with respect to ethnicity, religion and stages of economic development, border states have a great incentive to undertake paradiplomatic initiatives.

Northeast India shares 98 per cent of its geographical border with Myanmar, Bangladesh, China and Bhutan. Thus, building transport and trading corridors at various border points can make essential subsistence items much cheaper in this region. It has been observed that due to higher transport costs, people in the region pay a very high price for

goods coming from the industrial metros such as Delhi, Mumbai and Kolkata. The opening of transport connectivity and trading routes within the Forum of Bangladesh, China, India and Myanmar (BCIM) neighbourhood can substantially relieve the burden in the frontiers of northeast India, whose market turnover is estimated at US\$ 50 billion. India's willingness for closer trade and economic ties with its eastern neighbours has opened up possibilities for the entire northeast states to engage themselves in paradiplomacy. India can draw lessons from China, which has taken full advantage of Yunnan's geographical location and its cultural affinities with China's neighbours, in its efforts to strengthen ties with Southeast Asia. Baruah (2005) has critiqued the role of central government for not facilitating northeast region's paradiplomacy.

It was in Yunnan's capital Kunming that experts, scholars and business people from China, India, Myanmar and Bangladesh got together for initiating the BCIM forum. Yunnan's provincial government plays a far more active role in attracting foreign investments to the province than northeast Indian states. It plays a role in the institutions of the Greater Mekong Subregion. But there is little room for India's northeastern states in the Mekong–Ganga Cooperation forum or BIMST-EC (Bangladesh, India, Myanmar, Sri Lanka, Thailand Economic Cooperation). The difference is quite ironic given that China's political system remains centralized and authoritarian while ours is democratic and federal.

India can take advantage of the history and culture of the northeastern states and their shared cultural ties with Southeast Asia as a soft power resource. In Southeast Asia, there is a growing awareness of the Indian northeast. It has been reported recently that 3,200 km trilateral highway linking India, Myanmar and Thailand, funded by Asian Development Bank (ADB) and the World Bank will become a reality by 2016. It will play a crucial role in boosting trade and investment flows between the three countries, creating jobs and other benefits (*Times of India* 2012).

It has long been recognized that subnational paradiplomacy has a huge potential to address some of the long-standing problems ranging from water sharing to terrorism, and illegal migration to environmental protection that confront India and its neighbours such as Afghanistan, Pakistan, Sri Lanka, Bangladesh, Myanmar and China. A foreign policy analyst argues that the central government in India must get its chief ministers involved more actively in the pursuit of foreign policy interests. Some chief ministers of states bordering sensitive neighbours

have already acquired an indirect role in the shaping of India's regional policy. Instead of treating this as an exception to the rule, the central government should consider it as an opportunity to make India's regional policy more effective (Raja Mohan 2011; 2012b).

There is a demand for closer economic interactions between Tibet and India's Ladakh regions of Jammu and Kashmir and of China's Yuan province with northeastern states. Horizontal paradiplomacy between subnational governments of India and China can help generate a great deal of goodwill and also reduce tensions between the two countries. Indian markets to China's south provide Tibet and indeed other western Chinese provinces with additional options. Indian states of Uttar Pradesh, Bihar, Jammu and Kashmir, Himachal Pradesh, Uttarakhand, Sikkim and northeastern provinces will have numerous opportunities for economic growth if they are linked to Chinese economy overland through Nepal and Tibet regions. States such as Bihar and UP have very little opportunity for external linkages except equally weak and even smaller economies of Nepal and Bhutan (Jacob 2011). In Arunachal Pradesh, there exist several traditional routes for trade but are not accessible on account of security considerations. In Tripura, many projects related to irrigation, flood control and embankment building have been stopped since 2007 following objections from Bangladesh. These are some areas where states' paradiplomacy can be successful, given the failure of national diplomacy to sort out the differences.

Myanmar is considered a significant part of India's Look East Policy for the simple reason that it is the only Southeast Asian nation with which India shares its land border. Four of our sensitive northeastern states (Arunachal Pradesh, Nagaland, Manipur and Mizoram) share 1,600 km of land border with Myanmar. Cross-border ethnic links with Naga and Mizo tribes inhabiting both sides of India–Myanmar border can be an asset for paradiplomacy.<sup>11</sup> Concerted efforts directed towards integrating the northeast provide innumerable possibilities in terms of bringing about a significant economic transformation. The vast hydroelectric resources can be harnessed for exporting electricity to the neighbouring countries. An integrated plan for harnessing hydrocarbon resources with a grid of pipelines to move gas and petroleum products into the entire region is another possibility (Khanna 2005). Similarly, two Punjabs can benefit immensely from cross-border trade. There is a growing awareness that subnational governments' involvement in paradiplomacy can also contribute to an enhanced regional security and eliminating trust deficit between hostile neighbours (Raja Mohan 2012b).

In brief, border states especially the northeastern states of the country share their borders with various countries such as Myanmar, Bangladesh, China, Bhutan and Nepal and their proximity to countries east of India demands that their economies benefit more from cooperation between the economies across their borders. In this manner, states could play a role in regional diplomacy. Regional leaders have been suggesting that New Delhi take them on board while conducting economic diplomacy, particularly with respect to the neighbouring countries. Often it has been observed that the centre acts on the views of 'specialists', intelligence officials and members of the foreign policy and defence establishments. It would be appropriate to design a foreign policy unit comprising the Minister for External Affairs and his representative as well as the chief ministers of the northeastern states that can advise New Delhi on how to move forward on a host of issues, ranging from trade and security to migration and navigation. It is also noteworthy that the centre has encouraged an open approach to borders with respect to both the east and west. In the East, there has been a push for enhanced connectivity between the northeastern provinces and Bangladesh. In the west also, there is some progress made regarding the opening up the borders with Pakistan, for example, in Kashmir and the two Punjabs located in India and Pakistan respectively (Maini 2011).

### ***Border Haats***

Opening of Border *haats* (local marketing centres) between India's border states and Bangladesh has been quite successful. There is a proposal to establish more border *haats* to foster trade relations between India and Bangladesh. These *haats* would benefit both countries, especially the people living along the border areas. Recently, Tripura traders have demanded more such border *haats* (*Business Line* 2012). *Haats* would permit people to sell locally produced vegetables, fruits, spices, fish, poultry, minor forest produce, products of local cottage industry, small agricultural household implements, second-hand garments, melamine products and processed food items. According to Commerce Minister of India, 'an estimated \$20 million worth trade will take place annually between India and Bangladesh through Border *Haats* (*Business Line* 2011). There is also a proposal to establish border *Haats* between Myanmar and India.<sup>12</sup>

### **New Trends**

Subnational paradiplomacy can take place both vertically and horizontally. Indian states are new to this (horizontal) intersubnational cross-border trade. Several foreign countries including subnational governments have begun establishing trade offices in India's developed states. Visits of state/provincial delegations led by their governors/premiers to states' capitals in India are becoming a regular affair in the recent year. Last year, a 12-member delegation from Gansu province of China visited Bihar for exploring trade and other opportunities. However, states in India are not allowed to open trade office abroad. But given the global trends, days are not far when states in India will also have trade offices abroad. However, states are allowed to host representatives from subnational/national governments of foreign countries.

Chief minister of Bihar, after his return from a four-day official visit to Bhutan in 2011, put forth a proposal before the centre to make the state a partner in the hydel power projects of Bhutan and sought permission to have an equity stake in them so that the power-starved state can get an assured supply of power from the neighbouring country. The upcoming institution such as Nalanda University (NU) in Bihar, like in the past, can become a prominent promoter and facilitator of cultural exchanges and bonding between India, especially Bihar, and East Asian and Southeast Asian nations. Recently, Thai Prime Minister has talked of a Chennai–Dawei corridor, which will connect India's emerging industrial hubs in southern India with the continental Southeast Asia, China and other thriving East Asian markets (Raja Mohan, C. 2012c). These developments are an indication that Indian states in future will engage in interprovincial diplomacy abroad. A number of countries in the world including China and Japan have taken full advantage of states' paradiplomacy in their efforts to strengthen ties with Southeast Asia. India could do the same with the northeast.

### **Challenges from Paradiplomacy**

Paradiplomacy also presents challenges. For example, states may lack the skills to exercise responsible foreign policy especially in the political sphere, given the fact that states do not have trained diplomats; regional influence moreover may complicate national foreign policy. The irony is that most of India's neighbours are hostile. Thus, states' paradiplomacy is likely to pose a threat to the country's sovereignty and integrity from forces of terrorism, insurgency and separatism often supported by some of India's hostile neighbours. How to reconcile the demands of a

globalizing economy that relies on greater elbowroom to security concerns is a policy dilemma we face today.

States' paradiplomacy especially in the political sphere can affect the national foreign policy negatively. With respect to both Teesta river treaty and the US-led resolution on UN General Assembly, the national interests were subordinated to regional interests and the centre abdicated its national responsibility by keeping its alliance partner in good humour. Bhambari (2012) maintains, 'India is likely to pay a very heavy price if it makes foreign policy a football game where "regionalists" begin to dictate and decide the directions of policy'. Here association of the federalism with populism is responsible for two foremost states in prevailing over the centre to toe their lines. But the danger is that centre can do a great disservice to the nation by allowing itself to be dominated by parochial regional interests. Thus, states' political paradiplomacy has evoked negative reactions. Singh and Mishra maintain that it is important that demands of states on the foreign policy front should be seen in a larger perspective. They argue,

When West Bengal demands that the Central government cannot conclude an agreement on the issue of waters of a river that flows through the state to Bangladesh, it also needs to consider the implications on other states and related security issues. The North Eastern States could have benefitted with more river water transport from the north eastern region of India to Bangladesh, opening the gates for more commerce. Bangladesh has proactively cooperated in controlling militant activities in North East, particularly Assam, which now gets compromised over the rift on Teesta waters (Singh and Mishra. 2012: 8-9).

Paradiplomatic activities motivated by nationalism can inflict a greater harm on our national interests. As some policy analysts have stated, 'There are regions and sub-nationalities in the country that have not yet fully accepted the unity of the country. Under such circumstances, it might be rash to grant constituent units such freedoms' (Mattoo and Jacob 2009: 185).

While there is euphoria and media hype over FDI-induced development, there are also concerns that it is resulting in an uneven development. For example, despite impressive growth rates, Gujarat has failed to reduce malnourishment levels, while Uttar Pradesh and Bihar,

among the most backward in the country, have done better in improving the lot of their marginalized Dalits and tribals. Like Gujarat, Karnataka is the other state.<sup>13</sup>

### **Conclusions**

In this chapter, I have argued that paradiplomacy is a multifaceted phenomenon; it can both complement and contradict our national foreign policy. It has become a worldwide phenomenon no longer confined to the developed countries alone irrespective of the existence of federal or unitary structure because of the twin forces of globalization and regionalization. However, states/provinces/constituent units in federal countries have advantages to engage themselves in paradiplomacy as compared to their counterparts in unitary countries.

Paradiplomacy has indeed made some states especially developed states in India economically more fiscal independent. Huge gains have been registered with respect to the flows of FDI. Maharashtra, Karnataka, Andhra Pradesh and Gujarat are the examples. Border regions would arguably gain as their economies benefit more from the economies across their borders. Paradiplomatic activities of states can lead to potential gains not only in economic terms but also in political and cultural terms. It can perhaps also be useful for the purpose of addressing some of the problems with our neighbouring countries such as water-sharing, terrorism and illegal cross-border migration, environmental protection, among others. Further, it can also be used by the centre as a form of soft diplomacy that can complement the national foreign policy.

Subnational paradiplomacy in India, however, takes place in an unplanned and scattered form without the central government coordinating and collaborating with states in a systematic manner. Despite the fact that there is a felt need for the centre to respond to states' international activism by creating coordinating agencies, thereby legitimizing the states' paradiplomatic acts, the centre in India has so far supported states informally without creating institutions meant for facilitating or promoting states' paradiplomacy. Indian states thus have adopted quite a distinct form of subnational paradiplomacy (Mattoo and Jacob 2009: 185). Instead of overseas representation and mission around the world, states' paradiplomacy has been largely the result of a variety of informal economic schemes which have helped the rich states.<sup>14</sup> There have been commendable attempts of late by some of the economically backward states in creating a pro-business environment leading to competitive federalism. On the one hand, there is a euphoria over

investment-driven growth and on the other hand, there are also concerns that FDI-induced economic growth has not been inclusive. An increasing urban–rural divide and the ever widening gap between the rich and poor in some of India’s developed states are a glaring testimony to this fact. This calls for a more pro-active role on the part of the central government in terms of accommodating regional interests in national foreign policy in a systematic way and at the same time ensuring interstate as well as intrastate inclusive growth. While states’ economic diplomacy has been informally supported by the centre, political paradiplomacy practised by some of the states has often put the centre in an embarrassing situation. There are two ways through which states’ economic paradiplomacy can be supported by the centre. First, a constitutional amendment can be made in order to incorporate states’ role in foreign economic policy making. However, this is not a very practical approach as very few countries in the world practise it. Second, delegation of powers to states as in China, United Kingdom, Japan, Brazil and so on and setting up institutions meant for cooperating and coordinating with states in their paradiplomacy. The centre could invent a system where safeguards can be placed so that any untoward happening in the name of paradiplomacy affecting national interests could be checked. States should be made agents and partners of the national government in foreign policy formulation.

The overall argument of this chapter is that rather than seeing paradiplomacy as a threat, the central government in India should embrace it as a means (soft diplomacy) and an opportunity to manage and ultimately resolve some of the major cross-border problems. The potential of paradiplomacy especially with respect to the border regions of northeast India remains untapped, given the lack of political will at the central level. China has, since long time, been using its provinces to establish interprovincial relationships with their counterparts in other countries.<sup>15</sup> It has shown a great deal of interest in the internationalization of the vast majority of its provinces, not only through market integration, or the establishment of informal relations across the border, but also by authorizing its governors to sign international agreements and to receive and send international missions all over the world (Zhimin et al. 2010). The experiences of provincial governments in Japan reveal that they can serve as valuable arms of the national government for accessing external markets (Jain 2005). The centre in India can delegate to states a number of foreign economic policy-making powers and responsibilities, which states can undertake with their own resources. This, in turn, can also reduce Delhi’s

workload. Trade and investment promotion activities of states and transnational economic engagement of state-owned companies albeit of their own economic interest would deepen India's relations with foreign nations. 'Despite the moderately increasing role of the states in decision making on foreign policy, it is curious that there is hardly any discussion of the need to give a greater role to the state governments in the country's foreign relations' (Mattoo and Jacob 2009: 185).

A systematic study of the paradiplomatic activities of various states in India is overdue. This study could only hint briefly changes brought about by states through their international economic activities. A more thorough examination is still awaited.

## Notes

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<sup>1</sup>The term 'paradiplomacy' was introduced by a Canadian scholar Soldatos. The US scholar Duchacek further developed it (Duchacek et al. 1988, Michelmann and Soldatos 1990). Paradiplomacia.org is an online magazine designed to promote the international projection of provincial and local governments. It seeks to enhance the international relations of local governments in order to connect cities, towns and regions for an enriching and sustainable trade. The term paradiplomacy was not used until recently in India (Indian Express 2012). There is no consensus among the academia as to which term is more convenient for defining the subnational governments' external activities. Paradiplomacy, state diplomacy, constituent diplomacy, subnational diplomacy, regional diplomacy, subnational foreign policy, etc., are used as synonyms for the involvement of subnational governments in foreign policy. I prefer the use of paradiplomacy in this chapter for it has become a very popular term today.

<sup>2</sup> The NEP opened up new vistas for creative and innovative activities by the subnational governments.

<sup>3</sup> *Times of India*, 13 April 2000

<sup>4</sup> Narendra Modi's speech in Japan recently is a testimony to the fact.

<sup>5</sup>The Gujarat government has/is tried/trying hard to tell its success story to external investors through 'Vibrant Gujarat Global Investors' Summit'. In January 2013 the state government started posting advertisements on the websites of international publications such as *Washington Post* and *Wall Street Journal*. The state government has been using social media websites such as Facebook, and search engines such as MSN and Yahoo for promoting and showcasing its achievement. US-India Business Council in Washington and Australia-India Business Council based in Sydney are the official partner organizations, while Japan and Canada are the official partner countries of the Vibrant Gujarat Global Investors' Summit', 2013.

<sup>6</sup> Mulayam Singh Yadav, who was CM at that time, announced the setting up of an investment commission headed by himself in order to bring all government departments under one umbrella to provide a single-window clearance for potential investors. He invited NRIs to participate in the development of Kanha Kunj in Brindavan and build international convention centres at Agra and Varanasi. Rajasthan CM, Vasundhara Raje Scindia, requested NRIs to contribute to the state's development through adoption of monuments, villages and schools. She also intended to make Rajasthan a year-long tourist destination.

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<sup>7</sup> Kerala organized ‘Emerging Kerala 2012’, the flagship global connect programme of the state government at Kochi from 12 to 14 September 2012. Other states that have organized/are organizing state summits in 2012 to promote states globally include Bihar, MP, Maharashtra, Karnataka and Haryana, among others. World Economic Forum meet that was being held in national capital is being held in state capitals. In 2013, Gurgaon, national capital region of Haryana hosted the annual World Economic Forum meet. The first-ever ‘Goa Investment Forum 2012’, to attract industries to Goa, was held in Panaji on 30 June 2012.

<sup>8</sup> The Government of the People’s Republic of China and the ruling Communist Party of China (CPC) accorded an unprecedented importance and the highest level of protocol to the chief minister going beyond the established norms.

<sup>9</sup> Over the last 26 years, the World Economic Forum India Summit was held in India’s capital, Delhi. Maharashtra became the first state to host the summit in 2011. In 2012 Haryana hosted WEF India Summit. The shift from the national capital to state capitals is clearly mentioned on the website of WEF: ‘Last year’s summit in the state Maharashtra validated our model going forward to incorporate the important role which states are playing in shaping India’s political and economic landscape’ (WEF, India Summit, 2012).

<sup>10</sup> Even when Maharashtra succeeded in attracting an investment of Rs. 1 lakh–crore since April last year till date, it lost big-ticket investments—including Maruti and Peugeot—to neighbouring Gujarat. Even smaller states such as Chhattisgarh and Uttarakhand besides Orissa are giving a run to Maharashtra (*Business Standard*, January 14, 2012).

<sup>11</sup> Dean (2005) gives the example of a community known as Kachin in Upper Myanmar, Singpho in Assam and Arunachal Pradesh and Jingpo in Yunnan, China. According to her, the community has ‘creatively adjusted to the dominating international system of the states’ by incorporating into their self-definition references to the three ‘host’ states of China, Myanmar and India. Despite being citizens of three different states, they are ‘united through a tight unique kinship lineage network of various spatial trajectories and social bonds, a commonly recognized *lingua franca* and a variety of tangible ethnic features’.

<sup>12</sup> The chief ministers of Meghalaya and Arunachal Pradesh, Minister for Industry and Commerce of Tripura and Minister for Public Health Engineering of Assam along with delegation members separately called on Foreign Minister of Bangladesh, Dipu Moni and discussed strategies for enhancing cooperation in trade, border management and other areas of mutual benefit.

<sup>13</sup> These are some of the conclusions of India’s human development report. ‘Human Development Index: Gujarat worst’, *Indian Express*, 21 October, 2011.

<sup>14</sup> However, there is a silver lining as some of the poorer states are also trying to catch up with developed states.

<sup>15</sup> Chinese provinces have developed a sophisticated provincial foreign affairs management system. It is usually led by a small leading group on foreign affairs, headed by either the governor or the provincial party secretary. Under the provincial leadership, the provincial Foreign Affairs Office (FAO) and the Foreign Trade and Economic Cooperation Commission (FTEC) are the two major bureaucratic organs dealing with provincial foreign relations. FAO, which is under the dual leadership of provincial leaders and the Ministry of Foreign Affairs in Beijing, deals with political affairs at subnational levels and coordinates the overall provincial foreign relations.

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FAO is responsible for implementing the national foreign policy locally, arranging the reception of foreign VIPs and for the overseas visits of provincial leaders, administering passport and visa matters of provincial official business travel abroad, organizing and promoting activities with sister cities and provinces of other countries, administering consular affairs and foreign media affairs, and guiding foreign affairs-related work of other local government departments ( Zhimin and Junbo, 2009).

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