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# INDIA'S ECONOMIC DIPLOMACY IN THE GLOBALISING WORLD: PRACTICES, PROCEDURES AND SIGNIFICANCE OF DOUBLE TAXATION AVOIDANCE AGREEMENT WITH MAURITIUS

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**Abstract**

In the globalising world, economic diplomacy has become the key instrument for maintaining and conducting relations among nations. At the same time, in the realm of interdependence, economic diplomacy is acting as a barrier in bridging the disputes to maintain healthier relations. In other words, economic diplomacy is acting as a thin film to not let disputes turn into hurdles for conducting relations among nations. India, which believes in partnerships now relying immensely on economic diplomacy more than ever before after the independence. Recently in 2017, India after long-standing negotiations with Mauritius finalised the amendment in Double Taxation Avoidance Agreement (DTAA) that was signed in 1982 which is considered to be one of the major achievements of India's economic diplomacy. In this background, the research paper tried to analyse why economic diplomacy emerged as a key instrument for India? How the DTAA has emerged? What are the practices, procedures and significance of the DTAA? How India's economic diplomacy provided an opportunity to amend DTAA with Mauritius for fixing loopholes in the agreement and why it is necessary for India to do so? The basic argument of the paper is that amending DTAA with Mauritius is an example of India's emerging economic diplomacy which represents 'cautious economic strategy". The study is analytical and

exploratory with a systematic review and involves inductive method. The study is conducted by considering secondary sources like journals, books, periodicals and some primary sources like statements given by the officials on the government websites and documents.

Key Words: Governance, Foreign Trade Policy, Double Taxation Avoidance Agreement (DTAA), Economic Diplomacy, Cautious Economic Strategy, Globalisation

**Introduction**

Before globalisation, the traditional approach of economic diplomacy sustained, however, now the modern approach gained significance to meet the necessary requirements (economic advantage for strategic purposes). Economic diplomacy is a multi-hued activity, easy to describe in broad brushstrokes, but harder to pin down with precision. From the perspective of members of diplomatic, commercial and trade services, including the customers or users of these services, 'economic diplomacy is a plural set of practices', all aimed at advancing the home country's external economic interests which frames the larger economic strategy.

In such a demand, the practicality of economic diplomacy as a whole is important and must be intertwined in the theory which creates a balanced approach. The methods that the countries use are mostly aligned to needs and opportunities. Diplomacy is nothing but a process that continuously adapts and evolves and transforms (Rana and Chatterjee 2011). After the liberalization process, the role of non-state actors, embassies, and their collaborations has been increasing involving tremendous changes in the negotiation processes. The agendas are much clearer and more or less coordinating along with the other national interests. Thus, economic diplomacy emerged as a facet to deal with the inter-state relations and as a barrier bridging disputes to maintain peace in an economically interdependent world.

**Evolution of India's Economic Diplomacy**

The evolution of Economic Diplomacy could be understood in three stages- before liberalization, after liberalization and post- great recession 2008-2009. Economic diplomacy as a whole includes-

1. Foreign trade promotion and management, including the negotiation of trade agreements and WTO issues, mobilization of foreign investments, in all their variants and the agreements that pertain to taxation, investments, handling external/internal aid (both incoming and outbound so as also technical aid).
2. Managing relations with international multilateral institutions such as the World Bank, IMF, regional banks.
3. Pursuing economic dialogues and partnerships at the international and regional forums, be it at the UN, or at other global and regional institutions (G-20, G-77, and others)
4. Projecting the country's image to promote and enhance the trade relations.

The role of domestic politics is another major issue as it is creating a sort of imbalance, which is being led to static economic negotiating process. Though, as said earlier in the paper that economic diplomacy is being used as a barrier in bridging disputes so as to continue or normalize the relations for economic benefits, it was not always the case which reflected in recent Dokhlam confront with China. It is to be noted that economic diplomacy can be used for strategic security partnerships and on the other hand strategic security partnerships could be used for gaining economic benefits (U.S. and India strategic partnership).

The external policy objectives are accommodated in the domestic decision-making process in the institutions that play a key role in that process (Rana 2013). In India, the absence of harmony between different institutions is still a disturbing factor in the economic negotiation processes and also in the decision-making processes. The coherence between the three ministries that are involved in economic diplomacy and negotiations are the Ministry of External Affairs, Commerce Ministry, Finance Ministry. The job of the commerce ministry is to handle foreign trade, the Indian commercial officers are appointed in the embassies abroad are funded by the commerce ministry. However, they come under the control of the ambassador on the consultant and come under the control of the External Affairs Ministry. So there is this kind of dual role, that the commercial officers play. When it comes to the World Bank and International Monetary Fund, all related issues are handled exclusively by the Finance ministry. MEA does not play any role in these negotiations. In such conditions, there is a major drift between MEA and Commerce ministry at trade organizations like WTO. When it comes to aid given by India, it is mainly handled by MEA through its new agency called Development Partnership Administration (DPA). When it comes to Double Taxation Avoidance Agreement (DTAA), it is handled by the Finance Ministry and being a powerful ministry it usually never let any other institution play a role in the related issues.

**Amending Double Taxation Avoidance Agreement (DTAA) with Mauritius**

India and Mauritius signed the DTAA in 1982 to fulfill its' strategic interests in the Indian Ocean region and also to enhance the already existing close cultural ties. The agreement provides for an exemption of capital gains tax to a resident of Mauritius on the transfer of Indian securities. Soon enough, the misuse of the agreement was observed by the Indian Tax Officers especially the tax exemptions to the shell companies made a severe negative impact on the income tax department (Vardhinik 2016). The impact was clearly observed on the stock markets, foreign inflows and other aspects and eventually a circular was issued by the government of India in 2000 to al the tax officers. Mauritius eventually became one of the top destinations of foreign investment to India. Mauritius ranked top in the Foreign Direct Investment (FDI) in India accounting 33% of total FDI and it ranked second after the U.S. in the portfolio investments. The major issue of 'round-tripping' of money by Indians via Mauritius continued to increase (Forbes 2016).

As huge investments were poured in Mauritius making it as a major major financial center, Mauritius wanted to protect the agreement. On the other hand, while having friendly relations with Mauritius, India found tough time at the initial stages of renegotiating the amendment of the agreement and it was not that easy for both to come to a solution. India followed the policy of 'reiteration' in all the discussions with Mauritius because for India cordial relation with Mauritius for 'strategic advantage' in the Indian Ocean is as important as financial advantage. At the same time, the flux between different decision-making and judicial authorities in India created deep confusion like Authority for Advanced Rulings (AAR), Central Board of Direct Taxes (CBDT), Supreme Court (Kotha 2017).

Eventually, in June 2016, India and Mauritius signed a 'protocol' to amend the DTAA and finally amended it in April 2017. The amendment made compulsory for every Mauritian entity to pay capital gains tax while selling shares in a company in India (Vardhinik 2016). Thus, the amendment is considered to be one of the crucial achievements of India's economic diplomacy without compromising 'strategic interests'.

**Conclusion**

Though there were discrepancies between the decision making bodies within the country and which also included various domestic political issues, India managed to streamline its diplomatic efforts to finally amend the DTAA with Mauritius saving its economic advantage. India

showcased its efficacy in properly intertwining domestic politics and economic diplomacy while safeguarding its strategic interests in the Indian Ocean region and marked as one of the major milestones in the emerging economic diplomacy representing India's 'cautious economic strategy".

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