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EDITORIAL ANALYSIS

India's Foreign Policy Under Financial Strain — Strategic Ambition vs Fiscal Reality



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 The Indian Express

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INTERVIEW ANGLE

"Can India sustain its strategic ambitions — BRICS presidency, G7 engagement, neighbourhood diplomacy — while facing fiscal constraints and oil price shocks?"

WHY IN NEWS

India is simultaneously chairing the **BRICS presidency (2026)**, managing the fallout of the **Iran-US war** on its oil import bill, and sustaining development aid to its neighbourhood — all while the **defence budget has risen 15% to Rs 7.85 lakh crore** and the fiscal deficit target remains tight at 4.4% of GDP. The Indian Express editorial examines the growing tension between India's global ambitions and its fiscal capacity.

THE SCALE OF INDIA'S FOREIGN POLICY FOOTPRINT

India's diplomatic footprint has expanded dramatically over the past decade. From hosting the **G20 presidency in 2023** to chairing **BRICS in 2026**, India is now a permanent fixture in every major multilateral forum. But each of these roles carries significant financial costs.

G20 to BRICS — The Price of Prestige

The **G20 presidency (2023)** cost India an estimated **Rs 4,100 crore**, including Rs 3,500 crore spent by the India Trade Promotion Organisation (ITPO) on infrastructure and beautification, and Rs 416 crore by the Ministry of External Affairs on summit logistics. The **BRICS chairship in 2026** — India's fourth (after 2012, 2016, and 2021) — adds another layer of expenditure across **200+ meetings** planned through the year.

India's theme for BRICS 2026, "**Building for Resilience, Innovation, Cooperation and Sustainability**", aims to position India as a bridge between the Global South and established powers. But bridging comes at a cost — hosting delegations, running working groups, and maintaining a diplomatic apparatus across 125+ member and signatory nations.

Development Aid — The Neighbourhood Premium

The MEA’s budget for **2026-27 stands at Rs 22,118 crore**, of which **Rs 6,997 crore (31.6%)** is earmarked for the Overseas Development Partnership portfolio. The allocation reveals India’s neighbourhood priorities clearly.

COUNTRY	AID ALLOCATION (2026-27)	FOCUS AREAS
Bhutan	Rs 2,288 crore	Energy, infrastructure, capacity building
Nepal	Rs 800 crore	Connectivity, post-earthquake reconstruction
Maldives	Rs 550 crore	Water, sewerage, housing
Mauritius	Rs 550 crore	Metro Express, hospital, housing
Sri Lanka	Increased allocation	Post-crisis economic stabilisation
Afghanistan	Increased allocation	Humanitarian aid, education

India has extended **over 300 Lines of Credit worth USD 32 billion** to 68 countries — a scale that rivals traditional development agencies. However, the editorial notes that many LOC projects suffer from **slow disbursement and poor completion rates**, raising questions about whether India is getting strategic value for its development spending.

THE OIL IMPORT SHOCK — FISCAL KRYPTONITE

The **2026 Iran-US war** has fundamentally altered India’s fiscal calculus. While India’s oil import bill had been declining — falling **12% to USD 80.9 billion** in April-November 2025-26 due to lower crude prices — the **Strait of Hormuz crisis** has reversed this trend.

How Oil Prices Hit Diplomacy

India imports **85-88% of its crude oil requirements**. Every **USD 10/barrel increase** in crude oil prices:

- Adds **USD 12-13 billion** to the annual import bill
- Widens the **current account deficit by 0.3% of GDP**
- Reduces fiscal space for non-defence, non-subsidy spending — including diplomacy

India’s **Strategic Petroleum Reserve (SPR)** — with a total capacity of **5.33 MMT across three locations** (Vishakhapatnam, Mangaluru, Padur) — provides only **9.5 days of crude oil coverage**. As of March 2026, reserves are **only 64% full (3.37 MMT)**, exposing a critical vulnerability.

SPR FACILITY	LOCATION	CAPACITY (MMT)
Vishakhapatnam	Andhra Pradesh	1.33
Mangaluru	Karnataka	1.50
Padur	Karnataka	2.50
Total	—	5.33
Phase II (planned)	Chandikhol (Odisha) + Padur expansion	6.50

The Phase II expansion to **11.8 MMT by 2029** is progressing slowly — land acquisition at Chandikhol (400 acres sanctioned) is underway, but construction has not begun. The editorial argues that the **Hormuz crisis proves India’s SPR is dangerously inadequate** compared to the IEA-recommended 90-day cover.

DEFENCE VS DIPLOMACY — THE BUDGET TRADE-OFF

The defence budget for **2026-27 stands at Rs 7.85 lakh crore** — a **15% increase** over the previous year and the **highest allocation among all ministries** at 14.67% of central government expenditure. At approximately **2% of GDP**, it still falls short of the **2.5-3% recommended** by the Parliamentary Standing Committee on Defence.

Where the Money Goes

COMPONENT	ALLOCATION (RS LAKH CRORE)	SHARE
Revenue expenditure (salaries, pensions)	~4.80	~61%
Capital expenditure (modernisation)	~3.05	~39%

The editorial highlights a structural problem: **over 60% of the defence budget** goes to revenue expenditure (pay, pensions, maintenance), leaving limited room for force modernisation. Simultaneously, MEA’s budget at Rs 22,118 crore is barely **2.8% of the defence budget** — a ratio that exposes how India’s diplomatic capacity has not kept pace with its military ambitions.

THE CHABAHR DILEMMA — WHEN GEOPOLITICS MEETS THE BALANCE SHEET

The **Chabahar Port** in Iran — India’s flagship connectivity project to access Afghanistan and Central Asia — has become a casualty of fiscal and geopolitical pressures. India’s **2026-27 budget allocated zero funds** for Chabahar, with the government stating that its **financial commitment of approximately USD 120 million** has been fully transferred.

The **US sanctions waiver** for Chabahar operations expires in **April 2026**, and government-nominated directors of **India Ports Global Ltd (IPGL) resigned en masse** following sanctions, with the company's website taken down. The editorial calls this a “quiet retreat from a strategic investment that India championed for over a decade.”

The Broader Pattern

India's foreign policy is increasingly caught between:

- **Strategic ambition** (BRICS presidency, Quad, IMEC corridor, neighbourhood first)
- **Fiscal constraints** (4.4% deficit target, high oil imports, defence modernisation needs)
- **Geopolitical pressure** (US sanctions on Iran, tariff threats on BRICS members)

BOTH SIDES OF THE ARGUMENT

Those Who Argue India Is Overextending

- India's development aid disbursement rate is poor — many LOC-funded projects in Africa and South Asia remain incomplete years after sanction
- The G20 presidency's Rs 4,100 crore expenditure did not produce proportionate strategic returns
- Hosting BRICS while the US threatens **25% tariffs on countries doing business with Iran** puts India in an impossible position
- India's SPR at 9.5 days is a fraction of Japan (140 days) and South Korea (90 days) — money spent on multilateral prestige could fund energy security

Those Who Argue Diplomacy Is an Investment

- India's **G20 presidency delivered the African Union's inclusion** as a permanent member — a structural shift in global governance
- Development aid creates **infrastructure lock-in** — countries dependent on Indian-built ports, railways, and power plants become natural strategic partners
- BRICS presidency allows India to **shape de-dollarisation debates, NDB lending priorities, and Global South reform agendas** from the chair
- India's diplomatic network (the world's sixth-largest) generates **intelligence, trade access, and evacuation capacity** that cannot be measured in annual budgets

WAY FORWARD

Short-Term (1-2 years)

- **Accelerate SPR Phase II** to reduce vulnerability to oil supply disruptions — target 15-day coverage by 2028
- **Audit all LOCs** for completion status and strategic value; redirect unspent allocations to high-priority projects
- **Diversify oil sourcing** beyond the Gulf — increase imports from Guyana, Brazil, and the US to reduce Hormuz dependency

Medium-Term (3-5 years)

- **Create a dedicated Diplomatic Reserve Fund** within MEA's budget to handle presidency-year costs without distorting annual allocations
- **Link development aid to trade reciprocity** — ensure LOC-funded projects use Indian contractors and equipment, creating a self-financing loop
- **Raise the MEA budget to 5% of the defence budget** to bring diplomatic capacity in line with military capability

Long-Term (5-10 years)

- **Reduce oil import dependence to 70%** through domestic production revival (OALP rounds), biofuels, and green hydrogen
- **Build an India International Development Cooperation Agency (IIDCA)** — a dedicated institutional body (like USAID or JICA) to professionalise development assistance
- **Establish a sovereign wealth fund** from disinvestment proceeds to finance strategic overseas investments without burdening the fiscal deficit

UPSC RELEVANCE

India's defence budget 2026-27, SPR locations and capacity, MEA budget allocation, BRICS presidency history, Lines of Credit programme.

MAINS GS-II:

India's foreign policy — balancing strategic ambition with fiscal constraints; neighbourhood diplomacy; multilateral engagement (BRICS, G20, Quad).

MAINS GS-III:

India's energy security; oil import dependence; fiscal deficit management; defence economics.

★ FACTS CORNER — KNOWLEDGEPEDIA

INDIA DEFENCE BUDGET 2026-27:

Total allocation: Rs 7.85 lakh crore (15% increase over 2025-26)

Share of GDP: ~2% (Standing Committee recommends 2.5-3%)

Share of central government expenditure: 14.67%

Revenue vs capital split: ~61:39

MEA BUDGET 2026-27:

Total: Rs 22,118 crore (up from Rs 20,516 crore in 2025-26)

Overseas Development Partnership: Rs 6,997 crore (31.6% of MEA budget)

Neighbourhood aid: Rs 4,548 crore (65% of development portfolio)

Bhutan: Rs 2,288 crore (largest recipient)

INDIA'S LINES OF CREDIT PROGRAMME:

Total LOCs extended: 300+ worth USD 32 billion

Countries covered: 68

Administered by: Export-Import Bank of India (Exim Bank)

OIL IMPORT VULNERABILITY:

Crude oil import dependence: 85-88%

Oil import bill (Apr-Nov 2025-26): USD 80.9 billion (12% decline YoY)

Impact of USD 10/barrel price rise: USD 12-13 billion additional import cost; CAD widens by 0.3% of GDP

STRATEGIC PETROLEUM RESERVE (SPR):

Phase I capacity: 5.33 MMT (Vishakhapatnam 1.33 + Mangaluru 1.5 + Padur 2.5)

Coverage: ~9.5 days of consumption

Current fill: 3.37 MMT (~64% of capacity)

Phase II: 6.5 MMT at Chandikhol (4 MMT) and Padur expansion (2.5 MMT)

Phase II target: 11.8 MMT by 2029

IEA recommendation: 90 days of import cover

G20 PRESIDENCY 2023 — COST:

Total beautification and infrastructure: Rs 4,100 crore

ITPO expenditure: Rs 3,500 crore

MEA summit expenditure: Rs 416 crore

BRICS PRESIDENCY 2026:

India's fourth chairship (previous: 2012, 2016, 2021)

Theme: "Building for Resilience, Innovation, Cooperation and Sustainability"

Members and signatories: 125+ countries

CHABAHAR PORT:

India's financial commitment: ~USD 120 million (fully transferred)

US sanctions waiver: valid until April 26, 2026

Operator: India Ports Global Ltd (IPGL) — directors resigned post-sanctions

2026-27 budget allocation for Chabahar: Zero

OTHER RELEVANT FACTS:

India's fiscal deficit target for 2026-27: 4.4% of GDP

Strait of Hormuz: ~33 km wide; handles ~20 million barrels of oil daily (~20% of global traded oil)

IMEC (India-Middle East-Europe Corridor): Announced at G20 New Delhi Summit (September 2023)

India's diplomatic missions worldwide: ~180+ (sixth-largest network globally)

Sources: [Indian Express](#), [PIB](#), [PRS India](#), [Business Standard](#)



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