

India's Changing Global Priorities and the Role of the Act East Policy

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There is an enduring link between foreign policy and national development. Since we live in an increasingly integrated world, cause and effect are quickly transmitted globally, and nimble footed decision making can make a huge difference for desired outcomes. The foreign policy of any country is a subset of a nation's national policies, and is symbiotically linked to national goals and objectives as defined by its political order. It follows the priorities set by the government of the day, but also transcends ideological leanings of parties in certain domains that remain non-partisan. For a country like India, foreign policy is driven, substantially, by the demands of development and security. For authoritarian nations like China, foreign policy is the preserve of a select few in the higher echelons of the Chinese Communist Party. Unlike the public debate in democracies, it basically remains a top down decision making.

The link between foreign policy and national development is exemplified by the narrative of how, for instance, the IITs and IIMs were established. Post-independent India needed engineers and professional managers for new industries, and a large number of Public Sector organisations during the 1950s and 1960s. The then Planning Commission decided to tap foreign expertise in setting up the IITs and IIMs. Indian diplomats of that era were instrumental in making this collaboration happen by connecting with foreign governments and institutions to facilitate the setting up of these institutions which have helped the course of development enormously. Moreover, they have also provided management professionals not just in India but also to global corporations.

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There are many more such examples in almost all sectors of our country's development – the Green Revolution, Food security, White Revolution (self-sufficiency in milk and milk products), Energy Security, Space, Steel, Mining, Manufacturing, Services, Defence, acquisition of technologies, IT, etc. The quiet and sustained efforts of Indian diplomats over the decades have contributed to the progress in all these fields, in the overall context of national development.

International Order

The international order after World War II was crafted by the victors, primarily the USA, which emerged as the strongest military and economic power. In the financial domain, this period saw the creation of the Bretton Woods institutions such as the World Bank and the IMF, the US dollar as the international currency, and the international trading order fashioned by GATT and its successor the WTO and related institutions. After the failure of the League of Nations in the post World War I period, lessons were learnt in crafting the successor organisation, the United Nations, in an era which saw the use of nuclear weapons. Never before had such a weapon of mass destruction been created or used. The development of nuclear weapons had an enormous impact on the international order. Such weapons have never been used again.

The communist revolution in China, the emergence of hundreds of new independent nations from the death throes of colonialism, the Cold War, the war in Vietnam, Non-Alignment, Bipolarity, and rapid growth in international trade came to define the international order from the 1950s to the 1980s. Rapid advances in healthcare and new medicines led to an explosion in global population. It is instructive to note that, at Independence, the average life expectancy in India was 27; today its approaching 70. The most rapid growth in population took place in China and India, the only two countries today with a billion plus population in each.

Technological Changes

We live in a world of change and globalisation, wherein technology and innovation are the principal drivers of change. In the last six decades, the most important vector that has influenced almost all aspects of human civilisation is technology. This inexorable advance and the pervasive influence of technology will continue, and affect all aspects of the economy and our

own lifestyles. Technology has changed the international order in a fundamental manner and will continue to do so, sometimes in very disruptive ways.

The advances in robotics, Artificial Intelligence, Block chain data protection, 3-D printing and manufacturing, will usher in a 4th Industrial Revolution that will reduce the role of human labour. How do we adjust and adapt to these inexorable changes? Will manufacturing return to the developed world with the development of robotics? Countries are already talking about phasing out petrol and diesel vehicles in the next 3-4 decades. India's Transport Minister has announced that India will move into an era of 100 percent electric vehicles by 2050.

Digital age

One overwhelming aspect of technology is Cyberspace, and the explosive growth of the digital economy. We are using thousands of applications on our smart phones to do a range of economic activities that no one imagined even a decade ago. The social media has taken the world by storm, particularly the younger generation which is tech-savvy and hooked to their smart phones. This transition from the era of manual typewriters and telex to digital processing has taken less than three decades. This phenomenal shift has occurred during a relatively short timeframe.

The head long rush in technological innovation and its adaptation as economic instruments in the last three decades will certainly demand a radical change in mindset for the future workplace. Cyberspace will increasingly dominate the global economy. The internet economy of the G-20 countries has crossed US\$ 4.2 trillion. No one can ignore the magnitude of this change. In India, mobile users have crossed a billion, and internet users around 400 million. Smartphone users are about 1/3rd of mobile phone users. This market cannot but increase.

Take another example of technology overwhelming the status quo: the Post and Telegraph department. No one could have foreseen that societies could manage without postal stamps, letters, telegrams, money orders, and similar services. The Post and Telegraph sector is coping, though gradually, as change comes slowly to all services in the public sector. Today, the vast network of this sector is adapting to the last mile delivery of products from e-retailing companies in the rural areas. The impressive reach of a postman into homes in the remotest corners of India is a great boon for the physical delivery of services, making this an exciting area for further growth.

Disequilibrium

Change is inexorable. Nations have moved up and down in the GDP scale over the last 200 years.¹ The international order is currently undergoing a phase of power disequilibrium. The era of empires, revolutions, imperialism, colonialism, and wars that marked the passage of the last three centuries is now history. The structure of the current global order is highly integrated technologically; it is intimately connected with digital information flowing at the speed of light in all directions. The gradual and inexorable shift in the centre of gravity of geo-political and geo-economic power towards Asia, away from the power centre based on the trans-Atlantic alliance, is now well underway.

The Rise of China

Geo-politically and geo-economically, the most significant global change by far, and which has had the most impact on the international order, has been the amazing transformation of the Chinese economy. India's economic progress has also been impressive. But it is China's spectacular rise that has shaken up the international order in a fundamental way. Never in human history have we seen a massive transformation of a country as large as China. The scale and impact of this change has been astonishing. This has led to a shift in the global economy that has diminished the hegemony of the developed Western economies. The economic transformation of China is clearly the most significant development since the economic reforms started in China in 1978. China's economy soared, and has since overtaken that of Japan. With GDP around USD 10 trillion in real terms, it is catching up with the USA.

Today, China is the largest merchandise exporter in the world, running huge trade surpluses with almost all major economies. China's Belt and Road Initiative [BRI], formerly OBOR/MSR, is a geo-economic and geo-strategic blockbuster, though there are serious doubts about China's ability to finance the BRI in the long term, given the debt burden of Chinese banks. China's military modernisation, particularly its naval expansion, should leave no one in any doubt about its intention to become a great power, and dominate the Indo-Pacific region. With economic power shifting to Asia, there is the inevitable power shift, with China flexing its economic and military muscle. The BRI has attracted many Asian countries to sign up, expecting huge Chinese investment for infrastructure development, thereby moving firmly into China's

geo-economic orbit and into its sphere of influence. India has opposed the BRI because one section of it, the CPEC, goes through Pakistan Occupied Kashmir [PoK]. It is matter of sovereignty, although India is not in a position to prevent it.

Multipolarity

The disequilibrium in the international power structure is likely to lead to a multi-polar world, with 3-4 dominant powers but no single superpower. The management of this emerging international system will devolve on some large countries with demographic and economic heft. In this future landscape, the USA, China, France, the UK, India, Russia, Brazil, Germany and Japan will increasingly play balancing roles. India will become a huge market for energy, goods, and investment. Such a future will have a substantive domestic impact as well as on India's relations with the outside world. One such multilateral grouping is the G-20. Comprising the top 20 countries in the world as per their GDP, the G-20 is now a regular forum for discussing global economic and fiscal policies. The G-7, a club of the most developed countries, has only one Asian country, Japan. China and India, the two fastest growing economies today are not in the G-7. This makes the G-7 less credible today.

Two recent events are likely to have significant impact in Asia. First, the confirmation of President Xi Jinping as the General-Secretary of the CCP and China's President, after the recent conclusion of the 19th Communist Party Congress, as the most powerful Chinese leader ever in China's history as a Communist nation. The restriction on two terms for China's General-Secretary has also been rescinded. Thus, Xi Jinping will remain the sole leader of China for another decade. While reassuring the world that China's foreign policy will be peaceful and independent, Xi Jinping has reiterated that China will uphold international justice and will seek to build a "common destiny for mankind." China's deeds, rather words, will be watched carefully. China will continue to pose a huge foreign policy challenge for India. The disputed border and the China-Pakistan strategic alliance directed against India will remain the most enduring challenges well into future.

The second significant event is the massive electoral victory of Prime Minister Shinzo Abe of Japan. To meet the challenges posed by a powerful and hegemonic China, Abe's Japan is poised to play a crucial role, in concert with India and the USA, in the Indo-Pacific region. China's aggressive role in Asia is likely to cement growing ties with the Asian democracies. India's

closer strategic ties with Japan and the USA are being propelled by both economic and strategic factors. India and Japan are working on an ambitious programme, the Asia Africa Growth Corridor (AAGC), with a Japanese commitment of US\$30 billion and an Indian commitment of US\$10 billion. The project is aimed at building capacity and human resource development in Africa as well as developing infrastructure and institutional regional connectivity. China's BRI is not the only big connectivity project, though, *prima facie*, it is the best funded²²

Future Challenges

When reviewing India's challenges in the changing international scenario, it is not difficult to identify India's domestic issues of poverty, education, health, access to water, climate change, and environmental degradation and related issues, as enduring challenges that the country has to overcome. The primary goal of all policy, whether domestic or external, is the transformation of India into a developed and prosperous society. Meeting external challenges is ultimately dependent on how successfully India deals with domestic challenges.

Recognising this trend, India re-oriented its foreign policy quite some time ago, moving away from the traditional political domain towards economic diplomacy. While traditional economic diplomacy of promoting merchandise exports continued, the canvas has been broadened. Technology spotting, encouraging FDI, facilitating inflows of technology, climate change, and other areas of vital interest to our national development have become priority domains.

For India, the management of relations with China has been an important foreign policy challenge, not just on the economic front but also in the politico-security domain, because of the unresolved border dispute as well as the China-Pakistan nexus. While China has become one of India's largest trading partners, as a result of which many Indian small and medium industries have been driven out of business. India continues to suffer from the huge trade deficit with China that stubbornly refuses to go away, posing a permanent challenge to India's foreign and economic policy. China uses non-tariff barriers to block imports that can compete with Chinese products and services. India has adopted the policy option that can be described as a combination of cooperation, competition, and avoidance of conflict. The recent faceoff between Indian and Chinese troops on the Doklam plateau and its peaceful resolution is a good example of conflict avoidance.

One significant impact of the rise of China is the change that it has brought

about in the strategic orientation of Japan, in both its economic and security dimensions. Other Asian countries have been impacted in a similar manner, providing opportunities that India has to factor into its policies, giving foreign policy a crucial role in leveraging these opportunities. There is a slow and steady move towards increased cooperation between the large democracies like Australia, India, Japan and the USA [the Quad] as well as countries like Indonesia and Vietnam. These trends can create geo-political and economic opportunities that India can leverage.

Energy Security

Another crucial area for national development, with a key role in India's foreign policy, is Energy Security. India's economic growth is hugely dependent on imported energy. This dependence is likely to increase to almost 90 percent of our requirement in the next decade and beyond. Fortunately, for a variety of reasons, principally the success of "fracking" technology in the USA and minimal cut back in production by the oil producing countries, there is a supply glut in the market, and oil prices have dipped to a historic low. This situation is a huge boost for India's balance of payments. This situation of low oil prices may not last for long. The shift to renewable energy sources from the traditional fossil fuels has begun as a direct result of Climate Change factors. The consumption of energy will grow manifold, and the fields of solar and wind energy as well as other renewable energy resources will be an active arena of the economy, providing opportunities for business.

One of India's foreign policy objectives has been to tie up long term oil supply contracts, taking advantage of low prices. The Gulf countries host an Indian Diaspora which is almost 7 million strong. Their wellbeing has been one of India's top priorities. India is the world's largest recipient of foreign exchange remittances [approx. US\$ 62 billion], mainly from the Indian Diaspora.

Changing Economic Order

There are changes in global economic governance that are occurring gradually. The Bretton Woods institutions like the IMF and the World Bank have been used to perpetuate the economic and financial hegemony of Western developed countries, in what is now called the liberal economic order and protection of the global commons. The skewed policy of generous and mild disciplines on European countries for economic structural adjustment programmes, and imposing punishing financial disciplines on Asian and African countries, has

led to the search for alternate financial institutions. These Western dominated institutions have resisted change for far too long, and carried on with their neo-colonial approach to developing countries. The IMF has now accepted the Chinese currency in its basket and the weighted voting method has also accommodated a higher quota for China and India. This trend will continue, as the inexorable shift in geo-economics begins to impact these institutions.

New financial institutions - like the BRICS New Development Bank and the Chinese promoted Asian Infrastructure Investment Bank (AIIB), of which India became a founder member - are giving countries in Asia more options. The international system built up by the victors of World War II led by the USA is now under challenge. While more and more countries are exploring trade and oil deals which are not designated in US dollars, even today, oil is quoted in US \$ so that the energy market remains tied to the US currency.

The uncertainty in the international economic and security situation will pose challenges for Indian foreign policy and national development strategies in the coming decades. The scramble for resources is now entering the planet's seas and oceans. This has been referred to as the "Blue Economy" which brings in aspects of environment, marine, and coastal economy. The broad thrust is on sustainable development. India will, however, expect continuing contest among nations in this domain. Chinese attempts to develop and occupy islands in the South China Sea is basically to ensure that China can claim sovereign rights to exploit marine resources, apart from the strategic objective of controlling the Sea Lanes of Communications. India has been focussing on the Bay of Bengal and the Indian Ocean and the rim countries to promote economic and security cooperation. The Indian Ocean is a vital area of strategic interest to India.

Look East Policy/Act East Policy -- Why?

The "Look East" Policy [LEP], now renamed the "Act East Policy" by the current government, was one of the early foreign policy shifts that took place as a result of the changing international order. The LEP is now more than two decades old. Any nation that undertakes course correction in its foreign policy by exploring new options, does so inevitably under a certain set of circumstances, both internal and external. This usually happens when the international power equilibrium is disturbed by external cataclysmic events, such as the collapse of the Soviet Union, or the less cataclysmic and more gradual disequilibrium created by the rise of China. When the world enters such phases of disequilibrium in the international power structure, it forces

nations into making policy changes to protect its perceived national interest. Internal developments also impact upon foreign policy.

The renewed vision to seek closer relations with countries in India's extended eastern neighbourhood was quintessentially India's response to domestic economic challenges and the changing international order, marked by a unipolar world brought about by the collapse of the Soviet Union and the end of the Cold War. Thus, the economic reforms of 1991 and the opening up of India's economy provided the impetus for reworking India's foreign policy. Faced with multiple problems, economic and political, India adopted two parallel new policy tracks: a domestic policy path of economic liberalisation and the external policy path of the LEP to help expand India's trade and investment with the dynamic ASEAN region. These two choices have transformed India's economy and foreign policy in the past twenty years. The LEP was a logical outcome of domestic compulsions and a changed external environment.

The renaming of the LEP as the "Act East Policy" [AEP] is a recognition of the fact that India's trade has shifted eastwards – over 50 percent now. The logical pull factors include Bangladesh, Myanmar, and the countries of the ASEAN. Another compelling reason for India's AEP option is the failure of SAARC to actualise the South Asian Economic Union. South Asia trades much more with the rest of the world than within the region. Intra-regional trade in South Asia is only around 5 percent of the total trade of the SAARC countries.

The ASEAN region, along with India, together comprises combined population of 1.85 billion people, which is one fourth of the global population. Their combined GDP has been estimated to be over US\$3.8 trillion. Investment from ASEAN to India has been over US\$70 billion in the last seventeen years, accounting for more than 17 percent of India's total Foreign Direct Investment (FDI). India's investment in ASEAN during the same period has been more than US\$40 billion.

Fractured South Asia

There are ambitious connectivity proposals that are being held up by the non-cooperation of Pakistan which seeks to hold all progress among SAARC countries to its bilateral disputes with India. Thus, Pakistan has become the biggest obstacle to trade flow, connectivity, and almost everything that could give India access to the Central Asian countries. The Turkmenistan-Afghanistan-Pakistan-India [TAPI] gas pipeline project has been in limbo, despite agreements. Turkmenistan, a landlocked country, is rich in gas deposits,

and Afghanistan, India and Pakistan are all energy deficit countries and thus logical consumers.

This has led India towards exploring sub-regional initiatives in the east with Bangladesh, Bhutan, and Nepal, popularly known as the BBIN countries, as part of the AEP. The power sector, transmission lines, transportation by waterways, and coastal shipping have emerged as new connectivity links. The electricity grid of Bangladesh, Bhutan, and Nepal are now connected with India. Power is imported and exported as per Power Purchase Agreements, and can also be bought from the Indian National Power Grid. Railway connectivity projects are underway that will provide transportation links via Bangladesh to Agartala. India is exporting almost 700 MW of power to Bangladesh. The logic of the AEP option is compelling and, therefore, BBIN and BIMSTEC have become default policy options.

AEP's fundamental objective is to promote and create connectivity for trading corridors with Myanmar and Thailand, both member countries of the ASEAN. Thus, India has pursued the Trilateral Highway Project with Myanmar and Thailand, the Kaladan Project with Myanmar, and the development of the Sittwe port in Myanmar, as well as other connectivity projects. The political and security situation in the north-eastern states and Myanmar are problematic, and create challenges for these policies to be implemented. These foreign policy initiatives have a direct bearing on the development of India's north-eastern States. The strategic dimension of these options becomes clear when one considers that it is to the East that seminal changes - like the rise of China and its muscular intervention and hegemonic intentions in the South China Sea - that have caused concern among some ASEAN countries and Japan.

Future Outlook

India's policy options in this changing international order will essentially be to push for a multipolar global order. This would challenge the world vision of China which has its sights on challenging the USA, and muscling its way as the new Asian hegemon, and eventually a global one. The pushback to China's aggressive posturing has begun already. The challenge is to manage this change without conflict. Many theorists of international relations have predicted that USA and China will inevitably fall into the "Thucydides Trap", and end up in a conflict. Thucydides was a Greek historian who wrote about the rise of the city state Sparta which challenged the power of the established city state Athens in ancient Greece. Thucydides postulated that conflict is inevitable

when a rising power challenges an established power. While this may be historically true to some extent, to extrapolate and conclude the inevitability of conflict in the current era is premature, since massive destructive power remains available in the armouries of nuclear weapon states.

There is no appetite for any large scale conflict in the current international order. There will be competition and cooperation. World leaders meet frequently in a variety of global fora and these frequent interactions help to defuse tensions. A China-centric international order cannot be stable. China has no history of being a global hegemon. China's "Middle Kingdom" mentality was regional, and limited to China's periphery even in sub-regions which have been absorbed in Chinese territory. Moreover, China's authoritarian state structure which precludes democratic decision making and transparency is ill suited for a global role. China has no history of creating and protecting an international order based on maintaining public goods.

Thus, the current phase in the international order will require India to navigate by hedging, band-wagoning, and forming coalitions with like-minded powers to ensure that the international order moves towards a multipolar configuration. One can call this approach "Flexible Multipolarity". Avoidance of conflict will certainly be a main pillar of this policy for India. This will require building deterrence, both conventional and non-conventional; the judicious management of our periphery; going full speed ahead on domestic reforms, economic growth, job creation, spreading skills; as well as maintaining a stable social order. It is from domestic strength that we can build the sinews of our foreign policy options.

Notes :

¹ <https://www.youtube.com/watch?v=jbkSRLYSojo>

² <https://reconnectingasia.csis.org/analysis/competing-visions/>

