

## **India's Changing Geopolitical Environment**

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Ladies and Gentlemen.

Why did we choose this topic? Because things are changing in a fundamental way around us. And they affect our chance to transform India into a modern developed country in which each Indian could achieve their full potential. So I thought I should speak about those changes and how we might respond to them, using them to promote our national interests.

Let us first consider the changes that we see around us in our immediate neighbourhood, the Indian sub-continent, then at our extended neighbourhood, east and west, and finally at the world order as a whole.

### **I. The Indian sub-continent**

The first decade and a bit of this century were probably the **best decade in the subcontinent's history** in terms of **economic growth, democratisation, connectivity and intra-regional cooperation** — with one major exception, Pakistan, and, possibly, the Maldives whose future is unclear at present. For all the other countries in the sub-continent from Afghanistan to Myanmar this has been a period of unprecedented and sustained economic growth, of growing connectivity with each other, of settling internal conflicts and democratisation, and of cooperative relations with India. This is true of Sri Lanka (with the end of the civil war, restoration of democratic norms), Nepal, (where the 12 year insurgency ended, Maoists mainstreamed and democracy brought in), Bangladesh (which is coming to a reckoning with its past, fighting extremism, growing faster than ever, and working closely with India), Bhutan (which was ahead of the curve in driving change herself), Afghanistan (compared to an abysmal earlier condition), and Myanmar (where predictions of doom have been belied). This is not to say that all their problems have been solved. Each of us, India included, has major internal political issues and is in need of structural adjustment of their economies to cope with the new global and regional economic situation. But overall, the base has been laid, if we choose to build upon it, to continue progress towards integrating the subcontinent, building connectivity and habits of

cooperation and making the institutions we established in this period, like SAFTA, the South Asia University, and others, work much better.

The **exception**, as I said, is **Pakistan**, not just because she is on the cusp between West and South Asia, and suffers the ailments of both, but as a matter of conscious choice by the Pakistani establishment of the kind of state and society they are building, of their instruments, such as political Islam and jihadi tanzeems and terrorists, and of the calculated use of tension in their relationship with their immediate neighbours, India, Afghanistan and Iran. **Pakistan today exhibits many of the same features as are causing turmoil in West Asia** — weak state structures, religion in politics and over politics, building nationalism on ancient or manufactured animosities, sectarian violence, an outsized military (in terms of its political role, its claim on national resources, and relative to the real security threats the country faces), a lack of popular participation and belief in the political system, weak economic prospects, and so on. At the same time Pakistan is trying to tap into the economic vitality and consolidation of East Asia, led by China. The China-Pakistan Economic Corridor, from Gwadar port through the Karakoram mountains to Xinjiang is one such an attempt. But it needs the promise of a specially raised division of the Pakistan Army to defend it and those who try to build it.

Over the last two years, **Pakistan has benefited from the changing situation** in Asia to make herself relevant to other states. A China stepping out into a regional and global role seeks partners, and Pakistan is a willing though needy one, as the US\$ 36 billion China-Pakistan Economic Corridor Project announced by President Xi represents. The US desire to withdraw peacefully from Afghanistan requires an accommodation with the Taliban that Pakistan offers to broker. And differences in the Middle East between Saudi Arabia and Iran, Shia and Sunni, and the fight against Daesh offer Pakistan space and leverage. Even though choosing sides is never easy, Pakistan seeks to be all things to all sides, making herself useful and offering herself as an ally — joining the 34-member coalition led by Saudi Arabia while reassuring Iran that Pakistani troops will not serve abroad, and offering herself as an honest broker between them.

But none of these address the fundamental dilemmas of Pakistan: the role of the Army; religion in politics; religious extremism and the spread of Wahhabi ideologies; the declining writ of the state and the army; and the fragmentation of society — all of which cause or are directly linked to India's difficulties with Pakistan. As a result, **Pakistan's capacity to sustain a normal relationship with her neighbours**, whether India, Afghanistan or Iran, **has steadily declined**

India has consistently sought to find a *modus vivendi* or to normalise relations with Pakistan in our own interest. **Today**, we are **in another phase of renewed hope**, as a result of PM Modi's reaching out to PM Nawaz Sharif most dramatically with a Christmas Day "drop-in" on Lahore. This, however, was followed within five days by the Jaish-e-Mohammad cross-border attack on the air base at Pathankot on Jan 1-2 night, repeating a pattern that we have got used to. **The more serious the India-Pakistan dialogue, the**

**more likely and severe cross-border terrorism is.** Despite this, the **prospect is that the dialogue process will continue** with several engagements foreseen in the coming months. It is still an **open question whether the optics of India-Pak dialogue can be converted to substantive results**: restoring the ceasefire, controlling and eliminating cross-border terrorism, enabling normal MFN trading, and implementing past agreements such as bringing the perpetrators of the Mumbai attack to book. But the **risks of the relationship deteriorating into open conflict are slight**, to my mind. That would be in neither side's interest. Indeed, both should have other more important things to do, developing their own economies and societies.

## II. West of India

There is a clear **dichotomy** between what we see **to our east, and was is to the west** in our extended neighbourhood. While the Asia-Pacific is building on its economic success in the last three decades, strengthening connectivity and its role in the world, the extended Gulf and the Levant are descending into turmoil.

Consider what we see in **West Asia**:

- A **collapse of state structures** and **elimination of sovereign borders**: This is as true of Syria, Iraq and Saudi Arabia as it is of Afghanistan and Pakistan, and is exemplified by ISIS and its territorial domain.
- The **breakdown of the geopolitical balance**, first upset when Iraq was taken out of the equation by the Gulf Wars, then by Turkey's attempt to work through the Muslim Brotherhood in other major states, and more recently by the assertive Saudi use of Salafi/Wahabi groups in Syria and force in Yemen. The major beneficiary has been Iran, whose influence and presence has grown from the Mediterranean to the Persian Gulf coasts.
- The rise of sectarian violence and ancient animosities which strengthen the first two trends.
- **Economic stagnation** or recession, particularly in single product oil exporting countries hit by low oil prices, which gives extreme, radical and terrorist organisations fertile conditions for recruitment among the youth.

Is there a way forward in West Asia that is not catastrophic? Judging by what we have seen we cannot look to the traditional Western dominated world order, established powers like the US, or the UN, for solutions. What we have seen in the last decade is a disastrous record of Western interventions and UN ineffectiveness in country after country — Iraq, Libya, Syria, Yemen and so on. To my mind the **geopolitical problem could theoretically be fixed** if the **four major regional states, (Iran, Turkey, Egypt and Israel)**, understand their mutual vulnerabilities and agree a regional order. They could do

so in theory as they have the capabilities required, but try getting to sit around the same table. They have yet to display the wisdom that such an outcome would require. Instead, Egypt is internally preoccupied; Israel works in (unacknowledged) concert with Sunni Arab regimes against what it sees as an Iran-Irak-Syria-Hezbollah Shia axis; and, Turkey ploughs its lonely furrow with Daesh and against the Kurds. The net result is a **geopolitically polarised** region. To add complexity, even an agreement among the Big Four to forego interference in other states' affairs would not guarantee a solution to the **problems of internal political order** that plague the region, namely, weak state structures and the role of religion, (both of which are linked). The prospect is therefore for more turmoil. The best one can hope for is some degree of managed turmoil.

Turmoil to our west affects India directly, through our diaspora and energy security, and indirectly, through Pakistan and Afghanistan. You know the figures. Over seven million Indians live and work in the Gulf and Levant, they send over US\$ 35 billion home in remittances every year, and we get over 70% of our oil and gas supplies from the region. India's stakes in the region are very high, for if these are disrupted our quest to transform India will be disrupted. The turmoil has, however, also created opportunities for us — we are receiving counter-terrorism cooperation from regimes in the region that was not possible some years ago; the demand from regional partners for defence cooperation, particularly maritime security is growing; and we are better placed to deal with the possible radicalisation of individuals in our diaspora in these countries. I have no doubt that sooner rather than later **India will have to make real political and military contributions to stability and security in this region** that is so critical to our economy and security. What has inhibited us since the seventies have been limited capabilities and the fact that other states were providers of security in the area. Now that both those limiting factors are changing, our approach and behaviour should change in defence of our interests.

We have been fortunate that **the appeal of radical West Asian ideologies and groups has been limited in our plural society**. Most of the Indians whom we know were attracted to Daesh were brought to our attention by their own family or community. What should worry us is the fact that ten years ago we could say proudly that there was no Indian in Al Qaeda. Today we can no longer say so. But compared to other societies in South and South East Asia, we have not done badly in dealing with such radicalisation, **even though in our case much of it has outside state sponsorship and a base in Pakistan** where the military and others in the establishment still see terrorism as an equaliser in their attempt to seek parity with India. State sponsorship of cross-border terrorism is alive and well in South Asia.

The explanation for the limited radicalisation of Muslims in India probably lies in the history of Islam in India. **Islam came to India in many forms at many places and at different times**, — as trading communities along the coast which assimilated local customs and beliefs, as groups and tribes of migrants, some as invaders in the north and west, and in multiple other ways over several centuries. This meant that separate Muslim communities had very little in common in their social customs and practices and were relatively well

assimilated into the broader society. The **pluralism within the community** is its strength, which **enables it to resist radicalisation**. This is also why Salafi and Wahabi attempts to homogenise the beliefs and practices of Muslims are so dangerous and have not succeeded in India and Bangladesh to the extent that they have in Pakistan.

## Europe

Looking further west, there are fundamental changes in Europe which are obscured by Cold War rhetoric and frameworks that are still used to explain events there. The Eurocrisis and the flood of migrants have had profound geopolitical consequences for Europe. We may be watching the **end**, and certainly a fundamental **change, in the European integration project, a closing of borders within and around Europe, and a distinct turn to chauvinism** and parochialism as a result of present and prospective economic stagnation. The effects are clear in the marked changes in Europe's relations with Russia, the world and among the European powers..

We **may even be seeing the end of trans-Atlantic unity**, of the Western unity that we have got used to since WWII in 1945. This in itself was a historical aberration, forced by the Cold War bipolarity and expressed in NATO. The attempt to negotiate a TTIP is an attempt to continue the old ways in the economy. Ten years ago it would have been inconceivable that the **TPP in Asia** would be **negotiated before the TIPP** across the Atlantic. But changing relative weights in the global economy, and the effects of domestic recession or stagnation are making the TIPP a harder negotiation. Politically, **before 1945, Europe's internecine and trans-Atlantic wars and conflicts were called World Wars**. Now that is no longer possible or necessary. My point is that Europe is reverting to type, with the return of geopolitics in the classical sense of a struggle for mastery between great powers, with the difference that this is now one more regional hot spot, but at a time when there is no settled world order within which it can be managed or find resolution.

## III. Looking East

The **geopolitical changes of the greatest significance for India are those taking place to our east**.

The overwhelming phenomenon when we look east is the **rise of China**, which has **masked** the simultaneous, if less spectacular, rise of **India, Indonesia, Korea, Vietnam** and others.

The **major geopolitical challenge for India** in today's situation is dealing with the **consequences of the rise of China and of Asia** more generally. China has risen in a crowded geopolitical space, where her other neighbours, like Korea, Indonesia and India are also rising. The balance of power in Asia is shifting so rapidly that the **Asian order**

**must and is changing** before our eyes. China's rise has occasioned internal and external balancing throughout the Asia-Pacific. Asia-Pacific has seen history's greatest arms buildup ever in the last few decades and informal coalitions have formed to balance the rapid accumulation of power by China. A **Chinese leader said recently, "the US world order is a suit that no longer fits"**.

This moment of fundamental change opens up both **opportunities, (especially for those like India who would like to improve the status quo), and risks, (particularly for those who built and managed the existing order to their own benefit like the US).**

India's answer, in the last few years is to both cooperate and compete with China in the periphery that is common to us both and on broader global issues. As for the bilateral issues that divide us like the boundary, trans-border rivers and China's activities in Pakistan-occupied-Kashmir, we have found ways to manage differences in the last thirty years while growing the relationship. China is now India's largest trading partner in goods and over 11,000 Indians study in China. We have little to gain and much to lose if we treat our relationship with China as a zero-sum game. Since both countries have major internal reform and structural adjustment to undertake, **the present pattern of cooperation with competition should continue** for the foreseeable future, **but** there are new factors which suggest that **India and China need to find a new equilibrium.**

The **geopolitical challenge** that we now face is **two-fold**: One is the **emergence of a new order in the Asia-Pacific**; and the other is **structural adjustment** in the Chinese and, therefore, the world economy. Both have major implications for India-China relations and India's prospects.

Since the 2008 world economic crisis, which is still with us, we have seen the emergence of a new continental order in the Asia-Pacific, where China seeks primacy and will certainly be one of the dominant powers. Russia now works politically with China to make this possible. We see the signs in their coordination in Central Asia, Afghanistan and elsewhere. **Eurasian consolidation**, expressed in the One-Belt-One-Road concept, **is already a reality** through a network of pipelines, roads, railways, fibre-optic cables, and so on, all of which lead back to China, and which are largely financed by China. It is consolidated through institutions like the Asian Infrastructure Investment Bank and the Shanghai Cooperation Organisation, and through financial arrangements and the increasing use of the RMB or Yuan in the settlement of China's trade. (By one account 30% of China's trade is now conducted in RMB.)

The **maritime order**, on the other hand, **is contested, as is the global commons** in outer, cyber space and the high seas. This in itself is a marked change from sixty years of unchallenged US dominance. The contest expresses itself in different forms. The rise of Chinese maritime capability has provoked responses by other powers in the region. Increased cooperation in defence, intelligence and maritime security among China's neighbours — India, Japan, Vietnam, Australia — is one. The other is an unprecedented

arms buildup in the Asia-Pacific in the last twenty years, the greatest ever in history, primarily in their navies and air forces.

India now faces a very different situation from what we have got used to and benefited from over the last twenty years to grow at an average of over 6.5%. We can **no longer assume** that **others will guarantee the safety of the sea lanes** that carry our foreign trade and our energy supplies. Nor can we assume that a benign international order will keep the peace. We will have to **decide how far we wish to assume new responsibilities**, and how far we are willing to compromise on strategic autonomy and work with others on these security issues. At the same time, many more powers, facing the same uncertainty, are and will be willing to work with India in this effort, as we already see in maritime security and counter-terrorism.

**India** has so far sat on the fence on the emerging continental order and on contestation in the maritime domain and the global commons around us. We have not taken a position on the One-Belt-One-Road initiative. We cannot do so for much longer. We **must now choose**. My personal preference is clear. We should use the infrastructure and institutions that are being created to further India's transformation. Infrastructure is value free, it is its use that makes it a threat or an opportunity. We can convert the challenges into opportunities for India if we act now.

### The World & the Chinese Economy

The other defining issue is **structural adjustment** in the Chinese and world economy.

We have already seen the short term effects of what happens in Chinese stock exchanges on our markets, the effects of the global crisis and China's slowdown on world oil and commodity prices, currencies and stock markets. Each of the major economies and groupings needs, recognises and says that it must make basic structural adjustments. But **what we see** instead **are individual attempts to maintain privilege, to change the rules to suit one or other** group of countries, and **rising protectionism, chauvinism, and intolerance** in both developed and emerging countries. In the last five years, this has produced "beggar-my-neighbour" policies which **will only worsen the disorder** that we see around us.

While all the major economic powers recognise that they must structurally adjust their economies, the **Chinese** are the only ones with an announced **plan** to do so. They intend to move from an investment led, export driven economy to domestic demand, market led and consumption driven model. But that **transition is likely to be bumpy**. The transition has to be managed on top of real estate and asset inflation, and a US\$ 28 trillion debt burden caused by the Chinese government pumping in investment to avoid the consequences of the 2008 crisis. George Soros thinks that it cannot be managed smoothly and that **China's problems have never been more intractable**. He argues that China

can carry on with her present policies for three years or so, exhausting her reserves of foreign currency and her people's trust. In that time, **China** will exert a negative influence on the rest of the world, **reinforcing deflationary tendencies** that are already present. Others think that the oversize role and power of the state and the accumulated wealth of thirty years of double digit growth make it possible for China to manage a soft landing. China is increasingly displaying some of the symptoms of a developed economy, with an ageing population, rising wage rates, plateaued productivity, and possibly the "**Japanese disease**", of a long period of stagnation. A Chinese friend described it as senility in youth! Whichever way the Chinese economy develops, we are likely to see the Chinese RMB further devalued, making Chinese exports even cheaper, which will challenge our economy even further and make the success of "Make in India" less likely. Though China might settle to 3-5% growth in the future, that would still add India's annual GDP to China's every few years, and would diminish our prospects in the Chinese market, which is one of our largest today.

Besides, **prolonged stress in the Chinese economy** is likely to make it harder for the Chinese leadership to make the compromises that the rest of the world will demand in the **increasingly assertive policies** China has followed since 2008, whether in the South China Sea or, in our case, her rhetoric on settling the India-China boundary. As the legitimacy brought by high and historically unprecedented growth fades, the Chinese Communist Party is likely to **turn increasingly to nationalism**. This is **both an opportunity and a challenge for India**. While it makes settling our differences with China more difficult, it also means that the China alternative is less attractive to foreign investors and manufacturers, and that other powers will seek partners in balancing China's rise and behaviour.

The **rest of the world** is hardly sitting still in the face of these changes. Their reactions, ranging from higher standards and implicit protectionism in the TPP and TIPP, to the closing of Europe, to the raising of interest rates in the West, will also make our task that much more difficult to access markets, technology and capital for India's transformation. In the last three years or so we are watching "**on-shoring**" by both the **US and China**. A larger and larger proportion of the global manufacturing and value chains that pass through China is moving to China from South-East Asia. The same is beginning to be true of some high-technology and high-value manufacturing which is moving back to the US.

Looking further ahead, **cheap energy and digital manufacturing are likely to further revolutionise** the economics of manufacturing in favour of the established industrialised countries. A robot, unlike human labour, will cost much the same wherever in the world it is operated, thus eliminating a major source of competitive advantage that emerging economies have used so far. And new sources of fossil fuels, and the technologies for renewable fuels clearly belong to the same established powers. It therefore seems to me that we have a **window of about ten years** at most to industrialise India before the economics change drastically. At the same time, as in any disruptive technological changes, early adopters and **the quick can benefit considerably**. Mastering the coming



high technologies for renewable energy and digital manufacturing could play to India's strengths in highly skilled and educated manpower, if we turn our minds to it now.

#### IV. World Order

I have tried to describe what I see as fundamental changes in the regions and domains that directly affect our economic well being and security. But are there **corresponding changes in the world order itself and in how it is run?**

**Not yet**, because there is always a **lag** in changing reality on the one hand, and our habits and institutions on the other. The latter are still controlled or shaped by previous power holders jealous of their privilege, and often in denial about change. What we, therefore, see, instead, is not so much a changing world order as a **fragmenting** of the order as it existed before 2008. International governance at the global level is extremely fragile. Survival, or the absence of failure, as at the COP in Paris last December, is today hailed as a great victory!

Today's situation is probably best described as **generalised fragmented disorder**. This is a world that will reward the agile and the nimble who adjust rapidly to change, not those who try to replicate the past and carry on on the basis of habit and old experience. To my mind this world is **as much of a challenge as an opportunity** for a country like India that wants to change the reality that we have inherited. I only hope that we once again show the wisdom to **seize the day**.