

INDIA STEPS UP MARITIME DIPLOMACY: NEIGHBOUR'S ENVY, OWNER'S DELIGHT!

by Vice Admiral Anup Singh (Retd), Senior Fellow



Oliver Cromwell, the well-known 17th Century English statesman, had famously declared that “a man-o-war is the best Ambassador”. That message – now a guiding dictum for maritime states – continues to gain weight with each passing era. While the foreign affairs establishment in each

country engages in crafting diplomacy that best serves to further national interests and external relations, navies have, since eons, engaged with their counterparts through the medium of the oceanic commons, delivering diplomacy without investment in formal conferences or the instrumentalities of give-and-take.

India has been no different in exercising maritime diplomacy through the use of its maritime forces. Since independence, the Indian Navy has been at the forefront of this effort, first through what were called “goodwill visits” and since the dawn of the new millennium, through “overseas deployments” or OSDs. More importantly, a series of bilateral exercises – as an annual event – have added heft to the business of diplomacy and strategic cooperation.



The very first of these was commenced with the United States in 1992, under the Kicklighter proposals and has since been staged as the *Malabar Exercise*. Last year, Japan was included as a regular participant in this series, and therefore now it is a multilateral (rather than a bilateral) exercise comprising the Indian Navy (IN), the US Navy (USN), and the Japanese Maritime Self Defence Force (JMSDF). Normally, the exercise alternates between the Indian and Pacific

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Ambassador Hemant Krishan Singh
Director General



Oceans. This year's edition – 20th since inception – took place between June 14 and 17, 2016, off Sasebo, Japan, preceded by a harbour phase between June 10 and 13, at Sasebo harbour which also hosts a US Military Base. The harbour phase involved briefings, professional interactions and ship visits aimed at preparing the three forces for targeting synergy in all facets of cooperative maritime security during the sea phase.



The “combined force” of the three navies presented itself as an impressive array of platforms. The IN provided four ships including the indigenously produced stealth frigates, *Sahyadri* and *Satpura*, its latest Fleet Support Tanker, *Shakti*, and an old yet still agile workhorse, the missile corvette, *Kirch*. The USN fielded the carrier *John C Stennis*, the cruiser *Mobile Bay*, destroyers *Stockdale* and *Chung Hoon*, a nuclear powered attack submarine (SSN), and a P-8A Poseidon maritime patrol aircraft (MPA). The JMSDF had its helicopter carrier (Japanese nomenclature: destroyer), *Hyuga*, a US-2 amphibious aircraft, and MPAs.



India's MoD announced that the exercise represented "another significant step in strengthening mutual confidence, interoperability, and the sharing of best practices between the Indian, Japanese, and US Navies". The United States concurred, emphasising "..... each iteration of the exercise helps to advance the level of understanding between the navies' sailors, and is a continuing process over time." Amongst all bilaterals and multilaterals held in the Indo-Pacific, it is *Malabar* which evokes the maximum interest. This is because of the politico-diplomatic messaging that this multilateral among three like-minded, powerful maritime democracies conveys. To China, this display of amity amongst impressive maritime forces ruffles feathers, particularly when it is conducted in the Pacific every alternate year. China finds the exercise provocative and a deliberate demonstration of a "coalition" against its growing military prowess. On its part, India has made itself clear that there is neither a coalition, nor any design behind such exercises, but the continued realisation of its long held belief that practice makes one perfect – with the aim of achieving seamless interoperability with like-minded nations for maritime security contingencies including natural and man-made disasters.

Last year, when Japan was made a permanent invitee to the *Malabar* series, the Chinese foreign ministry spokesperson Hua Chunying had responded to a question on China's reaction as follows:

"You mentioned India is having naval exercises with US and Japan and you ask whether China is concerned. I think you are thinking too much. Everyday a lot of activities take place around the world. We cannot connect every activity with China. We are not that fragile and we are having sound relationship with both India and the US. We hope that relevant activities will contribute to the regional stability, they will contribute more positive energy for that."

This year, however, the reaction was shorter and more nuanced. At a Chinese Foreign Ministry briefing on June 8, spokesperson Hong Lei said:

"The Chinese side has noted the report. It hopes that this drill is conducive to regional peace, security and stability."

At sea, China did what it is best known to do these days. It sent one of its dedicated surveillance vessels to "snoop" on Malabar in typical cold war style. First reported by the *Stennis*, the Chinese spy ship tailed the US carrier at close range from the South China Sea. Thereafter, it was reported to be following the IN ships for some time. This achieves little except creating suspicion about China's real intentions.

The scope, tenor and content of *Malabar 2016* was deeper than its previous editions, as has been the intention of all three nations. The more robust their relationship and confidence, the better the chances of maintaining peace and pre-empting

challenges in the Indo-Pacific, be they security of sea lines of communication (SLOCs), fighting transnational crime, or providing humanitarian assistance and disaster relief (HADR). If these exercises annoy China so be it!

India's maritime diplomacy effort is increasingly getting aligned with its "Act East" policy. On the way to Japan for *Malabar*, two of the four warships, the *Satpura* (with the Fleet Commander embarked) and *Kirch* visited Cam Ranh Bay, Vietnam (the envied seat of the Red Banner during the cold war). Vietnam is another strategic partner of India, and defence cooperation including specialised training as well as professional interactions are conducted with Vietnamese personnel on a regular basis. The idea is to build capacities and enhance capabilities of the Vietnamese Peoples Armed Forces.

While the Fleet Commander took two ships to Vietnam, the other two, *Sahyadri* and *Shakti*, visited Subic Bay, Philippines (rival base of the stars & stripes navy during the cold war). Once again, professional interaction and bilateral exercises were conducted to further interoperability and mutual understanding between the two maritime forces, aimed at enhancing security and stability in those waters which are crucial to the global economy and regional peace.

Just after *Malabar*, three of the four ships visited Busan, RoK, confirming the fast strengthening economic and defence cooperation between India and South Korea.

After Busan, this flotilla headed for Vladivostok, Russia, to conduct the annual India-Russia bilateral exercise *Indra*, strengthening India's long-standing strategic partnership with Russia.

And as this commentary goes to print, the fourth IN ship, *Satpura*, would have arrived in Hawaii, to represent India in the mother of all multilateral naval exercises: the Rim of Pacific or RIMPAC 2016 – a biennial conducted by the US Navy off Hawaii.

So, who says our navy does not venture into the South China Sea? Evidently, the Indian Navy's Eastern Fleet Commander shepherded an impressive Task Group of four warships – three of them indigenously designed and developed, and the fourth a comprehensive fleet support ship – to both the South and East China Seas. The purpose: provide strategic heft to India's "Act East" policy, strengthen strategic partnerships, and create synergies for interoperability amongst like-minded navies.

India ably uses its increasingly capable navy in the diplomatic role in its friendly and benign form. However, if a challenging situation ever arises, the IN will be well positioned to show its more muscular side in defence of the country's national interests across the Indo-Pacific. As the international relations theorist Ken Booth has argued, a Navy is best suited "as an instrument of state policy".

ASEAN Unity: Under Pressure but Surviving

by Antara Ghosal Singh, Research Associate



The June 14th Kunming Special Foreign Ministerial meeting, marking the 25th anniversary of ASEAN-China relations, has created much controversy following retraction of a “strongly-worded”¹ ASEAN joint statement,

which was apparently released by the Malaysian foreign ministry. The statement warned against rising tensions in the waters of the South China Sea, without naming any particular country. But within hours of its release, a Malaysian ministry spokesperson recalled the statement for amendments. No updated joint statement was issued thereafter, while some ASEAN countries issued their individual statements. The incident sparked speculations and raised uncomfortable questions about ASEAN cohesion in the face of Chinese threats.



Special ASEAN-China Foreign Ministers' Meeting at Kunming, China, June 14, 2016

Source: www.philstar.com

The buzz in strategic circles is that the ten ASEAN foreign ministers did reach consensus on an ASEAN statement which was supposed to be read out by Singapore's Foreign Minister Vivian Balakrishnan (who is also the ASEAN country coordinator for dialogue relations with China) at a joint press conference scheduled at the end of the meeting. But at the last minute, the Chinese side proposed a 10-point “consensus”, which ASEAN could not accept. As a result, the joint press briefing was called off and the ASEAN ministers decided to issue their joint statement separately. However, that effort was also stymied by China which reportedly

applied diplomatic pressure on Cambodia and Laos to backtrack on their earlier endorsement of the ASEAN joint statement². This supposedly led to a situation where some ASEAN members, reacting to Chinese heavy-handed posture, chose to express their resentment by leaking the joint statement to the international media.

Joint Statements versus Chairman's Statement

This is not the first instance where disagreements over the South China Sea issue have stymied consensus of ASEAN meetings. On November 4, 2015, ASEAN had once again failed to issue a joint statement at the 3rd ASEAN Defense Ministers Meeting-Plus (ADMM-Plus) meeting in Kuala Lumpur³ which invited much media speculation over the issue ASEAN unity.

Further investigation points out that since 2015, except in the case of the US⁴ and New Zealand⁵, ASEAN members have mostly issued ‘Chairman's Statements’ and not ‘Joint Statements’ with international partners, especially on regional and international matters. Be it the last ASEAN-Japan summit⁶, the ASEAN-China summit⁷, the 10th East Asia Summit⁸, the 5th East Asia Summit⁹ Foreign Minister's meeting⁹, the 22nd ASEAN Regional Forum¹⁰ or the 26th¹¹ and 27th ASEAN summit¹², ASEAN has mostly conveyed its position on the South China Sea issue through the instrument of a ‘Chairman's Statement’. Unlike Joint Statements, ‘Chairman's Statements’ are not consensus documents and hence do not require the agreement of all ASEAN members for them to be issued.

Interestingly, unlike last year, the Joint Statement issued after the high-profile US-ASEAN Summit held in Sunnylands, California in mid-February, 2016 carried absolutely no mention of the South China Sea issue and the related security concerns emanating from the region¹³. Although President Obama, in his post summit press conference, mentioned that he had discussed with his ASEAN counterparts “the need for tangible steps in the South China Sea to lower tensions including a halt to further reclamation, new construction and militarization of disputed areas”¹⁴, the Sunnylands Declaration dodged the controversial South China Sea question.

ASEAN- United or Divided?

The 45th ASEAN Foreign Ministers' Meeting held in Phnom Penh on July 13, 2012 is often considered ASEAN's "darkest moment" for its failure to issue a concluding joint statement for the first time in its history, exposing the collapse of ASEAN cohesion over the South China Sea. Since then, ASEAN members have made deliberate efforts to avoid a rerun of the fiasco and maintain a unified voice at all international platforms. However, looking at the recent developments, it can be argued that ASEAN unity might have begun to crumble in the face of the escalated great power rivalry between the US and China in the Asia Pacific.

With the final ruling on the South China Sea case, brought forward by the Philippines, just around the corner, the U.S. and its allies, including the Group of Seven (G7) nations¹⁵, have been cautioning China against the potential 'Great Wall of Self-Isolation'¹⁶, while building pressure on Beijing to respect the verdict of the court. On the other hand, Beijing has initiated diplomatic manoeuvres vis-à-vis countries in the region to rally support for China's rejectionist stand on the issue by leveraging China's trade and economic advantages as well as offers of Chinese financing for infrastructure projects. Unilaterally or otherwise, Chinese foreign ministry has claimed that more than 60 countries endorse China's position on the South China Sea¹⁷ issue. China's "unilateral"¹⁸ declaration of a "Four-Point Consensus" on the South China Sea Issue with three ASEAN nations - Cambodia, Laos and Brunei in April, 2016, carried adverse implications for ASEAN unity. Furthermore, the bloc's failure to issue joint statements at important regional summits (as noted above) and its deliberate choice of issuing "Chairman's Statements" following interactions with international partners further undermine the notion of ASEAN unity.

Interestingly, there is a counter narrative to the 'end of ASEAN unity' discourse as well. Some scholars¹⁹ argue that failing to reach consensus in the last slew of events or "agreeing to disagree" does not imply buckling under pressure, but rather "wrestling back control of a situation threatened by irreconcilable differences between the major powers"²⁰. At the June 14th Kunming meeting, even though ASEAN withdrew its intended joint statement, it also did not endorse the 10-point agenda proposed by China. Similarly, with the US, the ten member bloc unanimously decided to steer clear of the South China Sea issue in the Sunnyland Declaration. In the same vein, they argue that the joint declaration at the 2015 ADMM Plus summit was scrapped owing to disagreements among some Plus countries and not among ASEAN members. Further referring to the Joint Statements by ASEAN foreign²¹ and defence ministers²² (which have dealt at length on ASEAN's position on the South China Sea dispute), it can be argued that ASEAN is still preserving its unity and neutrality in the face of competing pressures from the Plus countries, particularly from the United States and China.

ASEAN Unity and India's Stand

As for India, it has always endorsed the idea of ASEAN centrality and reiterated its support for ASEAN's efforts in building a region that is "politically cohesive, economically integrated and socially responsible"²³. India under Prime Minister Narendra Modi has intensified bilateral exchanges with the countries in the region through the 'Act East Policy'²⁴ and is actively promoting the ASEAN Connectivity Agenda through the ASEAN-India Maritime Transport Agreement and ASEAN-India Air Transport Agreement. India has also announced one billion dollar line of credit for ASEAN Member States to undertake connectivity related projects, inter-alia, for realising the Master Plan of ASEAN Connectivity²⁵.

A cohesive and unified ASEAN and a multipolar Asian order remain very much in India's interest. As PM Modi stated in his opening statement at the 13th ASEAN-India Summit, "ASEAN is providing both inspiration and leadership for regional cooperation and integration. And, from India's perspective, ASEAN values and leadership will remain central to integration across Asia and Pacific. India, therefore, looks forward to ASEAN leading the way in defining the regional architecture in the Asia Pacific region."²⁶

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FDI Norms for Defence Tweaked Again

by Amit Cowshish, Senior Visiting Fellow



For the second time in less than two years the government has liberalised FDI (foreign direct investment) policy. With the changes, announced on June 20, India has become a more open economy for FDI, as, but for a small negative list, most of the

sectors are now under the automatic approval route.

Several sectors ranging from food products manufacturing to single brand retail trading have been liberalised but the most nuanced change has been in the defence sector.

Prior to the latest round of changes, FDI in defence was permitted up to 49 per cent under the government route and, beyond that, with the approval of the Cabinet Committee on Security (CCS) on case-to-case basis, wherever it was likely to result in access to 'modern' and 'state-of-art' technology in the country.

The requirement of 'state-of-art' technology has now been dropped and a new provision has been added which will enable the government to approve proposals for FDI beyond 49 per cent even for 'other reasons to be recorded'.

By making these changes the government has made it easier for itself to approve proposals for FDI beyond 49 per cent as it will no more be necessary for a case to be made out by the

investor that the proposal entails access to 'state-of-the-art' technology and for the government to satisfy itself that the technology being offered indeed meets that criterion.

It is true that FDI beyond 49 per cent is still linked with the condition that it must entail access to 'modern' technology but this term is far less restrictive than the term 'state-of-art'.

In fact, the provision for accepting FDI proposals for 'any other reason' adds greater flexibility as it opens space for approving a wider range of proposals based on such considerations as creation of a large number of jobs or setting up of manufacturing facility in backward regions.

The global majors should now feel more comfortable making investment in India as they will be able to set up joint ventures with a majority stake or even wholly owned subsidiaries in the defence sector, retaining management control with them.

The Indian private industry which had not been very warm to the idea of further changes in the FDI norms for defence may find it comforting that the present relaxation is not unfettered. Even so, it may now have to cede some turf to joint ventures with majority shareholding by the foreign companies.

Contributors**Vice Admiral Anup Singh (Retd)**

Senior Fellow

Antara Ghosal Singh

Research Associate

Amit Cowshish

Senior Visiting Fellow



Delhi Policy Group
Core 5A, First Floor
India Habitat Centre
Lodhi Road
New Delhi 110003

Phone: +91 11 41504646/4645

Website: www.delhipolicygroup.org

Email: dg@dpg.org.in; dgoffice@dpg.org.in

The industry may also be curious to figure out how the Ministry of Defence (MoD) harmonises new FDI norms with the existing procurement procedure which lays emphasis on manufacture of defence equipment by Indian entities under various acquisition categories: 'Buy (Indian Designed, Developed and Manufactured)', 'Buy and Make (Indian)', 'Buy and Make', and 'Make'.

Barring 'Make' projects, in which entities with more than 49 per cent foreign investment are not eligible to take part as per the provisions of Defence Procurement Procedure 2016, all other categories are technically open to Indian companies, irrespective of the extent of FDI in them, as long as they comply with the licensing norms for defence products.

This could pose a dilemma for the government for it may have to deal with situations in which the Indian companies with FDI restricted to 49 per cent pitch for the same project for which the foreign companies may prefer to set up a wholly owned subsidiary or a joint venture with a majority stake in it.

Take for example, the reports that India and the United States may collaborate for coproduction of Lockheed Martin F-16V or Boeing F/A-18 fighter aircraft in India. The deal, if struck, would involve technology transfer for local production of the fighter jets in India.

Apart from the state-owned Hindustan Aeronautics Limited (HAL) some other private sector entities would naturally be interested in the project. On the other hand, with the easing of the FDI norms, the US companies may prefer to go in for joint ventures with a majority stake in them, or even create a wholly owned subsidiary through M&A for local production of the aircraft.

Similar situation could arise in respect of other projects such as the third aircraft carrier, or pathfinder projects on digital helmet mounted displays and biological tactical detection system, for which India and US have been in dialogue for some time.

Such situations could become more complex if and when MoD adopts the 'strategic partnership model', which it seems very keen to introduce to promote the prime minister's vision of 'Make in India'.

Under this model MoD will pre-select Indian entities and associate them on a long term basis with strategic projects involving licensed production, life-time sustenance, and even up-gradation/life-extension of defence equipment.

While the norms to be followed for selecting the strategic partners are yet to be finalised, it is unlikely that entities with majority stake by the foreign companies or wholly owned subsidiaries would be eligible.

This could lead to some conflict of interest between the foreign and Indian companies, and consequently, hamstring government's ability to decide on proposals for FDI beyond 49 per cent.

MoD will need to avert this if it has to improve its performance in attracting FDI, which has been dismal so far with the foreign investment in defence constituting not even 0.01 per cent of the total FDI received by India since April 2000.
