



Delhi Policy Group

Advancing India's Rise as a Leading Power



DPG POLICY REPORT

Foreign, Security and Trade Policy Challenges of 2021

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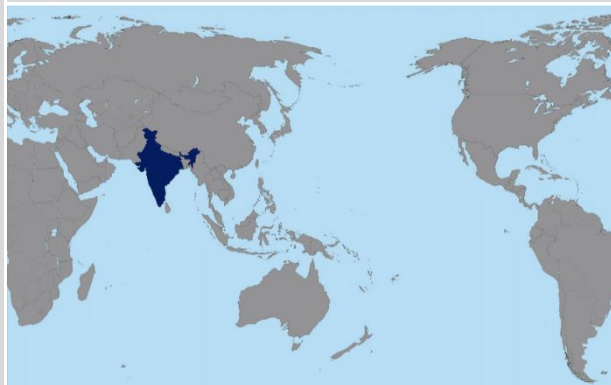
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Volume VI, Issue 2

JANUARY 19, 2021



Delhi Policy Group

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www.delhipolicygroup.org



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DPG Policy Report Vol. VI, Issue 2 January 19, 2021

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India and the Major Powers

by

Hemant Krishan Singh

2020 has been a turbulent year and 2021 promises to be no better.

State of Play

World order is not a natural condition in a system of nation states; it requires to be enabled by great powers and supported by multipolar consensus. Levels of global uncertainty are unprecedented today, marked by weak and unreformed multilateralism, retreat of globalisation, populist resistance against globalism and the rise of assertive nationalism. Realist considerations of national interest predominate. There is shrinking room for fence sitting amidst growing great power rivalry.

The Indo-Pacific, which was already at the heart of structural shifts in global power, is now facing even more flagrant challenges to rules-based order, a trend accelerated by China's coercive regional transgressions as well as the devastating Covid-19 pandemic which originated in Wuhan.

New stabilising partnerships anchored by leading Asian powers and supported by the US will have to emerge to deal with the strategic, technological and economic challenges posed by authoritarian China and shape the institutions of a stable, open and inclusive regional order. The new order in Asia will be multipolar, not US-centric.

The United States

As US President-elect Joseph R. Biden assumes the most powerful office on the planet, it remains unclear from his recent pronouncements – or those of his incoming foreign and security policy team – that he is ready for what will be the principal challenge of his administration: resisting the global transition to a post-American era and the advent of Pax Sinica. The world has moved on since Biden was last in office as Barack Obama's Vice President. The balance of power between regions and nations has moved away from the Euro-Atlantic to the Indo-Pacific. And China is now a formidable peer competitor – a challenger, rival and adversary – ready to seize this moment to displace the US in Asia and eventually across the globe.

America remains the most important global power, but neither can its leadership be taken for granted nor is its unquestioned primacy of the post-Cold War unipolar moment likely to return. It will also not be easy for a bitterly divided America to reassume leadership of the historical West. Its European allies are already forging their foreign and trade policy independently and lack a geostrategic objective beyond commerce when dealing with China.

US influence in Asia may benefit from a change of tone and the revival of alliances, but will depend on the demonstrated credibility and effectiveness of the US strategy towards manifest challenges to Asian security and stability. That requires the continued and robust example of America's diplomatic pushback and deterrent power in the Indo-Pacific, which has become increasingly visible over the past year under the Trump administration. Any signs of retrenchment of the current US posture in the Indo-Pacific will be watched with concern by regional states and guide their decision making. This is all the more so as there is no clear indication thus far of what Biden's China policy will eventually be, or of his approach to the Free and Open Indo-Pacific and the incipient balancing architecture of the Quad.

The early declassification by the outgoing Trump National Security Council (NSC) of the "US Strategic Framework for the Indo-Pacific" establishes high and transparent benchmarks for the Biden administration's policy towards this critical region, including the role and importance of India and a US commitment to be India's preferred security partner. It has been followed by the announcement that Biden will appoint Asia Pacific policy veteran Kurt M. Campbell as the "Indo-Pacific Coordinator" to oversee China and Indo-Pacific policies at the NSC. That is of course a welcome development. But while the Trump NSC's approach towards the Indo-Pacific is clear and unequivocal, Campbell's recent public [commentary](#) is not without a nuance of Kissingerian ambivalence.

We will have to wait and see what finally emerges as the Biden Indo-Pacific policy and its implications for India. Meanwhile, caution would be well advised.

The Biden administration is set to lay special emphasis on climate change. This may address a domestic political need but is unlikely to deliver major dividends in terms of America's global standing. The real security and strategic challenges which the US faces lie elsewhere.

Biden also appears to be committed to convening a summit of democracies. The climate for this venture is hardly opportune. US grandstanding on human rights and democracy is unlikely to find much traction, not least as the power of America's democratic example stands eroded by the hyper-partisan turmoil

of its domestic politics, its disputed election process and its woeful handling of the pandemic emergency. A better option may be to wait for Britain to convene a D-10 summit (G-7 plus India, Australia and South Korea) proposed for June this year.

There is every likelihood that domestic convulsions and disarray will consume much of America's energy in 2021, limiting the bandwidth for foreign policy. The inward re-distribution of American power will continue to deepen. The burden sharing argument with allies and partners will persist as the US becomes more selective about what it does abroad. The temptation for the Biden administration to fall back on elements of the "leading from behind" Obama playbook may become hard to resist.

Biden promises to heal America's bitter political sectarianism, but with the now Democratic party controlled Congress already leading the charge for political recrimination and retribution – and the divisiveness of the "progressive" agenda of identity politics, cancel culture and racial grievance – he will be starting on the back-foot.

The Biden team is promising a "clean break" from certain Trump policies, but America's friends will hope that in the area of foreign and security policy, Trump's unpredictability and America First approach will not give way to strategic hesitation and uncertainty.

China

Authoritarian and revisionist China is now a risen great power, but it has a serious problem with the deficit of trust, which has deepened significantly after the Covid-19 outbreak. China shows little understanding of the right of countries to preserve their sovereign interests when these do not conform to China's wishes, yet demands deference and expects others to fall in line with its so-called "community of shared future of mankind".

China believes that the strategic balance in Asia has shifted decisively in its favour. The military gap with the US has narrowed, providing China an opportunity to leverage its military, economic and strategic power to dominate Asia.

Proponents of economic interdependence with China, both in the US and among its Asian allies, are still in denial that the China challenge requires to be confronted in its entirety and across multiple domains. Piecemeal approaches, separating geopolitical and security issues from economic considerations, only

provide China with more leverage and create greater vulnerability for its Asian neighbours.

Japan

Former PM Shinzo Abe's sudden departure has left behind a void. His successor, Yoshihide Suga, is off to a bumpy start, with a foreign policy orientation that is more Asia Pacific than Indo-Pacific. Japan's economic interdependence with China continues to grow, alongside concerns about the US regional posture under Biden. It is almost inevitable that Japan will need to develop greater military deterrence on its own, including counter strike capabilities vis-à-vis North Korea.

In this period of leadership transition, neither India nor Japan can take their special partnership for granted. Japan can make a vital difference to India's participation in global supply chains which are currently witnessing diversification and regionalisation. This must be the top priority in bilateral economic relations, particularly at a time when India is also pushing forward domestic manufacturing with production-linked incentive schemes in a number of priority sectors.

India

Faced with formidable challenges, India's foreign policy and security establishment is struggling to overcome default habits of non-alignment and strategic ambiguity. India's ambitions as a standalone power and leading node in a multipolar world have suffered a major setback over the past year with an unprecedented, Covid-19 induced, economic recession and an expansionist adversary's military intimidation in the Himalayas.

China has no interest in accommodating democratic India's rise, and its relentless strategic encirclement of India continues to narrow our strategic space in South Asia and beyond. The underlying presumptions which have defined India-China relations for a generation have all but collapsed. It is time to recognise that India can engage and accommodate China all it likes, but there will be no reciprocity or relief from the latter's geopolitical assertions. This is all the more so as India is now the last man standing between China and its hegemonic ambitions in Asia.

It is argued that maintaining peace and tranquillity along the disputed borders with China bought India time to build economic power and asymmetric military deterrence. More realistically, it lulled us into complacency even as the

power disparity with China widened. India now faces the prospect of a real two-front threat – and a second “live” border to defend.

China’s ongoing incursions in Ladakh have a clear strategic purpose: bleed a weaker India economically; oblige India to deploy the bulk of its available military resources in continental defence; and weaken India’s ability to expand maritime power to safeguard its economic lifelines. India must not fall for this trap. It has no option but to augment its deterrent capability in both continental and maritime domains.

India must also pursue strategic balancing maritime security partnerships with the Quad countries, France and other regional players. Can we really set aside our “non-aligned” reticence once and for all? The US Navy is said to be considering the revival of its First Fleet with responsibility for the eastern Indian Ocean, to be based in Singapore, Australia or elsewhere. India should welcome this prospect and progress interoperability and maritime domain awareness exchanges with US INDOPACOM with greater urgency.

Finally, India needs to move forward more purposefully with making its higher defence structure more effective. As an earlier [DPG policy brief](#) analysing the first year of the Chief of Defence Staff (CDS) and the Department of Military Affairs (DMA) has argued, the work of the DMA should primarily be related to defence policy formulation and capability accretion, rather than procedural matters like service conditions and personnel issues. Similarly, the charter of the CDS must allow him to focus mainly on defence strategy, military advice to the national leadership and doctrinal direction to the armed forces to meet imminent and future threats and challenges.

India-US Strategic Partnership

by

Arun Sahgal

India-United States (US) defence and security cooperation is an important component of their comprehensive bilateral partnership. From the US perspective, it is also a subset of a broader Indo-Pacific strategy to meet the multi-dimensional challenge from revisionist China.

In terms of regional geopolitics, China's dominance of Asia, through both inducement and coercion, is becoming a reality. Two contending power blocs are emerging, one led by the US and the other by China, which increasingly includes the Sino-Russian entente. The Indo-Pacific region is poised to witness intensified confrontation among these blocs as they jockey for power and influence.

For India, the critical reality is that aggregated US military power is visible only in the Western Pacific and East Asia, primarily in the maritime domain. China's comprehensive military and economic power, on the other hand, straddles both continental and maritime spheres over most of Asia, with the exception (so far) of the Indian Ocean. The Western Pacific orientation of US military power makes it difficult to create a favourable pan Indo-Pacific balance of power. More importantly, this leaves India standing alone to deal with the China challenge in the Himalayas and in the Indian Ocean, as well as with its collusive nexus with Pakistan.

US policy towards Asia under Biden could evolve in two directions. One, countering China through an Indo-Pacific strategy that leverages the heft of allies and partners. And second, as some Biden advisors have observed, to pursue a twin approach of competition and accommodation. The latter is reflected in the change in articulation of the Indo-Pacific strategy, from "*Free and Open*" with focus on maritime security and rules based order, to "*secure and stable*", essentially implying maintenance of regional stability without confrontation. In essence, this could shift the US approach from "deterrence" to "collaboration".

Thus, while there is broad bipartisan consensus in Washington D.C. on the need to confront the China challenge, it remains to be seen what the Biden administration's approach to the Indo-Pacific will eventually be.

As China's aggression in Ladakh shows no signs of de-escalation, and its assertions continue on land and at sea, India also faces difficult choices.

One option is strategic partnership and closer alignment with the US as part of its China deterrence strategy. This will inevitably impact India's relations with China as well as Russia.

The other option is to keep the window open for reconciliation and rebuilding relations with China, but this again is difficult given the near total absence of mutual trust and China's unwillingness to accommodate India's concerns, interests and ambitions.

The reality is that despite the obvious costs of India's strategic convergence with the US, the latter is thus far only supporting India's internal balancing efforts, i.e. through military capability enhancement and multi-domain information sharing. The Indian Ocean and South Asia clearly do not fall within the framework of US external balancing, which as mentioned earlier remains East and South East Asia centric, and as the US lacks credible security equities or architecture in this region. To elucidate this further, while South Asia and the Indian Ocean region may be seen by the US as important for maintenance of regional balance of power, they are not a strategic priority for advancing US interests in the Indo-Pacific.

It is critically important, therefore, to develop a clear understanding with the Biden administration on how India's core interests in both continental and maritime domains will be met through the bilateral comprehensive strategic partnership. That should be a priority for India in 2021, as it goes about strengthening security and strategic partnership with the United States and other Quadrilateral partners.

Eurasian Challenges in the New Decade

by
Nalin Surie

Making predictions is always complex, but this is even more so at the current juncture. A true black swan event in the form of a global pandemic that originated in Wuhan, China, has upended economies and societies the world over. Nations are spluttering back from the devastation of a financial and economic crisis and have been left reeling under waves of populism, calls for de-globalisation and geopolitical uncertainty, calling into question the existing status quo.

On January 1, 2021 Brexit finally happened after bottling up the EU for over three years. President Trump has lost his bid for re-election for a second term and has been impeached for a second time. Beijing has announced at the Fifth Plenum held in October 2020 that "Socialist China stands in the East with a more imposing posture." Terrorism and old conflicts continue without resolution.

These are among the factors that have created a major conundrum for Eurasia, a vast inter-connected landmass surrounded by major oceans.

Writing in the September-October 1997 issue of Foreign Affairs, the late Zbigniew Brzezinski spoke of Axial Eurasia: the world's axial supercontinent. He argued that in the long term, Eurasian stability would be enhanced by the emergence, perhaps early in the next century, of a trans-Eurasian security system. The core of such a new transcontinental security framework could, he had suggested, be a standing committee composed of major European powers, USA, China, Russia, Japan and India.

Much has changed since that article was written, although the long-term vision remains pertinent. For any such vision to have any chance of progress, the major changes in the world that have happened since 1997 need to be factored in; in particular, the response of the West to the collapse of the former USSR and the rapid rise of China and its determination to replace the USA as the world's most dominant power. In the latter context, perhaps the single most important is the one term unorthodox Trump presidency, which has intended to put "America First" and take on the China challenge for world leadership almost head on. This was accompanied by other non-conventional foreign and security policy moves. The latter will have considerable impact on US policies going ahead under President-elect Biden, especially in Eurasia. Mr. Biden has

promised to restore US leadership in international relations and restore the status quo ante on several issues. The devil will lie in the detail.

The fundamental problem is that the underlying trust that its traditional partners had for the USA has been seriously eroded. Will this be consciously restored? Will the US lean equally between the trans-Atlantic and the Indo-Pacific?

A trans-Eurasian security system, meanwhile, will have to bide its time.

Let us consider the key players, leading questions and their potential implications:

Europe: there are several important questions to be answered.

- Will NATO unity and credibility be restored?
- Will the developing European defense arrangements be accepted by the USA as an integral and supportive part of NATO or will they weaken NATO beyond repair?
- Can the EU become a major geo-strategic pole or will it remain an economic giant, driven essentially by the search for economic benefit?

Post-Brexit, EU integration processes are expected to strengthen. Whether the focus will be on internal issues or be more broad-based is not quite clear. Consensus building will perhaps remain difficult since the divisions between new members and the older ones remain.

Russia: remains an enigma in several respects.

- Can it improve relations with the USA under Biden?
- Can it work out a genuine partnership with the EU?
- Have its redlines for achieving this changed?
- What will a post-Putin Russia be like?
- How will Russia-China relations play out?

The Russia-China partnership has, seemingly out of compulsion on the part of Russia, taken on strategic overtones. But there are inherent contradictions. Thirty years after the end of the Cold War, will Europe and the US finally accept Russia as a truly cooperative partner? Will Europe step out and do that or will it continue to play second fiddle to the USA and drive Russia even closer to China?

Russia will remain an important player both in Europe and Asia in the coming decade, although its political direction could change.

Middle East: President Trump's moves have created more space for Israel in West Asia and the Gulf.

- Will the effort to contain Iran succeed or will there be a change of direction under President Biden, for instance by the USA rejoining the JCPOA in its present or amended form?
- How will Asia's oil producers, especially the Gulf countries, adjust to a world economy where dependence on fossil fuels will sharply reduce?
- The conflicts in Syria, Yemen and Lebanon are like powder kegs that can blow up again at any time. Will the involved parties and their outside supporters look for genuine solutions among the warring factions?
- Or will the humanitarian situation worsen and add to the problem of international migration?
- Will the Palestinians ever get their own homeland?

It is always difficult to make predictions about events in the Middle East. To hope that peace will prevail will not be adequate. Mindsets will need to change and attempts by outside forces to retain control will have to go if that is to happen.

Pakistan/Afghanistan: The epi-center of terrorism, the Pakistan-Afghanistan region, continues to be a source of constant danger and the withdrawal of US-led coalition forces from Afghanistan and the return of the Taliban could be even more ominous.

- Will the West finally recognise Pakistan for what it is: a mercenary system leveraging its geography and religion to undermine democratic states?

Central Asia: Will the stalemate over control of Central Asia between Russia and China continue? Much will depend upon US-Russia and EU-Russia relations.

ASEAN: It remains to be seen whether ASEAN can fulfil its promise of providing not only a secular and stable region of peace and prosperity or whether it will fall prey to Chinese machinations. Can ASEAN centrality in the region be ensured?

The Indo-Pacific: The proposed Indo-Pacific arrangements are intended to ensure that this critical geo-strategic and geo-economic zone remains a region

where international law and UNCLOS prevail and no country can establish hegemony. The QUAD partnership has a similar intent.

- Will the Biden administration sustain the efforts in respect of both these fledgling arrangements that the outgoing Trump administration was working to put in place?
- Or will pragmatism and short-term economic benefit prevail in dealing with the China challenge in the Indo-Pacific?
- In the latter eventuality, will EU states continue to show interest in bolstering the Indo-Pacific as visualised by the democratic states of the region and their partners?

If the rule of law is to prevail in the critical Indo-Pacific region, the USA will need to strengthen its presence and role in the region in association with other democracies and likeminded countries. It bears stressing that the proposed Indo-Pacific is not intended to inherently exclude any country. Those that seek hegemony deliberately do not recognise this.

China and China related

The rise of China and uncertainty of policies under the Trump administration has forced nations like Japan and the ROK to re-engage meaningfully with China, notwithstanding their problems with that country. Their future orientation will depend considerably on the approach of the Biden team to the security of these countries.

The DPRK's nuclear weapons program remains an unresolved challenge and is a cause for uncertainty, possible proliferation and even military conflict. China will continue to ensure that any settlement of this problem is not to its detriment.

For its part, China is projecting an image of growing confidence in the new year after ostensibly successfully fighting off the Covid-19 pandemic and growing its economy. At a study session of the Party School in early January 2021, Xi Jinping spoke of a new development stage of 30 years to complete socialist modernisation and argued that in spite of the complex international situation and profound changes underway, time and situation are in China's favour and in general opportunities outweigh challenges. Perhaps this is what explains China's aggressive behaviour during the last decade, not only in its neighborhood but also on the international stage. The situation that the US unenviably finds itself in gives China the belief that the window of opportunity to establish its pre-eminence beckons.

This, though, is not the whole story. The internal contradictions and problems, political, economic, social and security related within China cannot be wished away. These were clearly manifest in the outcome of the Fifth Plenum in October 2020 and the Central Economic Work Conference (CEWC) in December 2020. Nor can the external dependencies, challenges and trust deficit that China increasingly faces vis-à-vis the international community and its neighbors be ignored. China fears containment and regime change and that cannot be a sign of strength.

Can better behaviour be expected from China during this new decade? This appears doubtful, especially if China is able to divide its principal economic partners.

Geopolitics and economics

The geo-economic conundrum will be no less a major game changer. Global and regional value addition chains and connectivity channels have undergone changes in recent years for a variety of reasons, including the need to reduce dependence on China and compete with the opaque and China-centric BRI. This obviously rankles with China, especially on account of its continued dependence on the outside world to achieve its objectives of national rejuvenation and building a China-centric regional and global order. The decision by the CEWC to give active consideration to joining the CPTPP, notwithstanding the signing of the RCEP agreement, is only one such indication. This is also another signal to the incoming Biden administration, which is expected to reopen the question of the US joining the CPTPP and perhaps restoring the TPP which the Trump administration had rejected.

Implications for India

India can find itself well placed to extract benefit from this state of affairs. It has clearly demonstrated, in the face of Chinese military deceit and aggression in early 2020, that it will confront, militarily and otherwise, China's attempt to hobble India's rise. Indian redlines will not be crossed and India will continue to be an effective counterweight to the Chinese effort at dominating Asia and the Indian Ocean. India does not see the Indo-Pacific as a containment exercise. Perhaps China does not understand this because it has for long attempted to keep India boxed in and increasingly challenges India in its own periphery. This latter is a challenge India can and is overcoming.

At the same time, India's relations with the USA, the EU and its member states, Russia, the Gulf countries, Japan, ROK, Australia, with Africa, Latin America, Central Asia and others are progressing steadily based on trust, mutual benefit and shared interests/values. India's steady progress as a plural democracy, potential, non-threatening posture, growing capabilities and capacities that it is sharing while playing by the rule book make it an attractive partner. Equally important, India's successful campaign against the Covid-19 pandemic and economic recovery speak volumes for the strength of its systems and economy.

India's Maritime Frontiers

by
Lalit Kapur

For a nation blessed with an unencumbered coast and favourable maritime geography, India has historically paid remarkably little attention to its maritime frontiers. It articulated its [first integrated maritime outlook](#) (SAGAR) only in [March 2015](#). The acknowledgement that our maritime frontiers extend beyond the Indian Ocean came with articulation of India's Indo-Pacific vision in [June 2018](#). The maritime dimension will continue to occupy critical importance in India's strategic outlook in the years ahead.

China's aggression in Ladakh has shattered [long held illusions](#) about Asia's two giants setting aside their differences and finding a mutually beneficial way to peacefully rise together. It would be strategic folly to believe that Beijing's challenge will be limited to the Himalayas. Foreign Minister Wang Yi has identified six focal areas of [China's foreign policy in 2021](#), which, shorn of diplomatic-speak, can be translated into resource capture, advancing China's hegemony, continuing to create economic dependencies in Asia and beyond, capturing multilateral institutions, manipulating the media to propagate china's narrative, and imposing its "community with a shared destiny" vision on the world. China's burgeoning maritime power (reports indicate that it will field [four composite aircraft carrier task groups](#) by 2030, apart from around 80 modern submarines and a number of amphibious task groups) and expanding economic influence in the Indian Ocean hold out the prospect of it being able to not only throttle India's energy and trade lifelines in the years ahead, but also coerce other Indian Ocean nations into following its diktat. This adds a maritime threat to cross-border terror and territorial revisionism in the Himalayas neighbour as critical security challenges for Delhi.

India's strategy to counter China's hegemonic ambitions cannot rely purely on the continental frontiers, where India offensive options are limited to capturing inconsequential pockets of what is either disputed or occupied territory. To deter China, India must develop the ability to hold at risk something of considerable value, such as its energy and trade lifelines passing through the Indian Ocean. But this becomes meaningful only if India can at the same time ensure its own energy and trade SLOCs are kept open: any contest for denying each other the use of the seas will inevitably be prolonged and exhaust India before it exhausts China.

India must in addition also provide reassurance to regional nations that they will not face China's challenge alone. Failing this, regional support for India will dry up as states submit to coercion or inducement. It was understanding of this reality that led to the foundational pillars of SAGAR: defending India's own territories and ensuring a safe, stable and secure Indian Ocean. Both are important, not just the first.

A second reality comes into play from the fact that India seeks the status of an equal in its partnership with the US. By accepting India's role as a net security provider in the Indian Ocean and explicitly stating in the recently declassified [US Strategic Framework for the Indo-Pacific](#) that "India remains pre-eminent in South Asia and takes the leading role in maintaining Indian Ocean security", the US has not only accepted India's sensitivity in this regard, but also made it clear that the responsibility for countering malign Chinese influence in the Indian Ocean will primarily have to be borne by India. To be taken seriously as an equal partner, however, India must assume responsibility both for its own maritime defence and for deterrence and reassurance in the Indian Ocean. Interoperability, logistic support and reciprocal access arrangements with the US and other partners will always be necessary, but seeking the presence of the USN in the Indian Ocean on a routine basis for day-to-day deterrence and reassurance tasks places India in the position of a supplicant, not an equal partner.

Unless security planners build the requisite capability for this, India cannot generate regional confidence in its role as a net security provider in the Indian Ocean. This in turn dictates that India's Navy must be structured not just to deny China use of Indian Ocean sea lanes, but also to be able to control them. Submarines and land-based air power may pose a risk to China's trade, but it lacks the ability to protect India's own energy lifelines or the staying power to reassure neighbours.

The ongoing aircraft carrier versus submarine debate obfuscates the issues involved by losing sight of the fact that India needs both. The aircraft carrier and accompanying surface ships, ensuring the presence of adequate and not just symbolic integral air power, is an inescapable necessity for the escort tasks that go with being able to use the seas for our own purpose. The fact that it can also carry out strike missions associated with power projection is of secondary relevance.

Along with platforms (ships, submarines and aircraft), India needs domain awareness, presence and partnerships. The satellite surveillance programme, procurement and increased utilisation of long range maritime patrol aircraft,

white shipping agreements, mechanisms for tracking of merchant vessels and the Information Fusion Centre Indian Ocean Region indicate progress in building pan-oceanic domain awareness for the sea surface, though the numbers of surveillance assets are still far short of what is needed for effective domain awareness. The Indian Navy's [mission based deployment](#) in critical Indian Ocean areas provides the presence required to prevent fait accompli changes to the status quo. India's diplomacy has taken it a long way in establishing partnership visions, involving not just Australia, Japan and the US, but also ASEAN, Vietnam, Indonesia, Singapore, France and the UK. Access and logistics support agreements have extended India's reach.

The need now is to provide both the maritime sword arm and India's diplomacy the resources required to effectively implement the visions that have clearly been set out. The nation can no longer pay only passing attention to its maritime capability. It has two choices in the years ahead: strengthen the Navy's ability to provide the foundations on which its Indo-Pacific and Indian Ocean visions can be executed, or accept subordinating its sovereignty and freedom to Beijing's obscure vision of a common destiny and shared vision for mankind.

A clear indicator of whether India is serious about actualising its great power potential will be provided by allocations in the coming budget. These will be watched carefully by great powers and Indian Ocean neighbours, who will formulate their strategies on realist assessments and not empty visions.

India and the Regional Dynamic

by

Sanjay Pulipaka

To a large extent, India's rise as a leading power will be impacted by political developments in India's immediate and extended neighbourhood. It is precisely because India seeks to emerge as a leading power that its neighbourhood is today marked by an intense geopolitical contest. India will also have to leverage its strategic partnerships to ensure that the regional balance of power in its extended neighbourhood is tilted in its favour. In ensuring such a favourable balance of power, India will have to confront multiple challenges and build on numerous opportunities.

The recent developments indicate that the China-Pakistan axis will get further strengthened. This consolidation was evident in air force exercises such as [Shaheen](#) (Eagle)-IX involving China and Pakistan, conducted amid the ongoing Ladakh standoff. Pakistan was the leading [recipient](#) of China's defence exports in 2019, and in December 2020 Pakistan [acquired](#) dual-seat JF-17 fighter aircraft from Beijing. China and Pakistan will continue their joint hostile actions in Ladakh and in Jammu and Kashmir. Such coordination will also be visible on various international platforms, with Islamabad accusing India of human rights violations in Kashmir, and China using its clout to facilitate discussions.

India will continue to expend considerable diplomatic and military resources to fend off these challenges. While Pakistan can generate stress on India with its short-term tactical actions, it has thus far not demonstrated a desire to emerge as a stable economic power in the region. The prospect of CPEC kickstarting economic activity has not materialised, there is growing sectarian violence, and the country is moving from one debt crisis to another without a robust economic plan. As Pakistan reaches out to various multilateral agencies and other countries for economic aid, India and other like-minded countries can pressure Islamabad to abjure the use of terrorism as a geopolitical tool.

India will have to carefully monitor and navigate the political developments in its neighbouring countries. For instance, after the recent elections, Myanmar has a stable government, but the ethnic reconciliation process is yet to take-off. The collapse of the ethnic peace process will be detrimental to Myanmar and its neighbours such as India. Myanmar needs to overcome the challenge of ethnic reconciliation in the context of political stability.

Nepal, on the other hand, is going through political turbulence. While the Indian response to the political crisis in Nepal has not raised eyebrows, Chinese [interventions](#) have generated a sense of disquiet in Nepal and other countries in the sub-continent. Further, Nepal will continue to pose a significant challenge for India as some in Kathmandu believe that territorial disagreement with India constitutes an essential tool for possible electoral success. Amid raging political instability in the Himalayan neighbour, New Delhi must maintain a relentless focus on keeping the border open to facilitate easy movement of people and goods. There is a need to scale up connectivity projects such as transborder railway networks, new oil pipelines, and border road infrastructure expeditiously.

As Bangladesh celebrates 50 years of independence, Dhaka's economic performance has received considerable international appreciation. Soon, Bangladesh will graduate from the Least Developed Country (LDC) status and diversify its exports base in terms of destinations and commodities. It is such recognition that has prompted Bangladesh to [initiate](#) discussions on a Free Trade Agreement (FTA) with the Association of Southeast Asian countries (ASEAN) and to express willingness to [participate](#) in the India Myanmar Thailand (IMT) highway. India will have to work with like-minded countries to scale up connectivity projects with Bangladesh and enhance economic integration through regional frameworks such as BBIN and BIMSTEC.

After years of political unrest, the Maldives' democratically elected government is repairing the economy's health and is receiving considerable assistance from India. Male is also diversifying its external relations, evident from the Defence and Security Framework [signed](#) with the US and Japanese [assistance](#) for upgrading the Maldivian Coast Guard and Maritime Rescue and Co-ordination Centre. India needs to consolidate these gains, which requires that the Greater Male Connectivity Project ([GMCP](#)) and High Impact Community Development Projects ([HICDP](#)) are quickly operationalised.

China has adopted a two-pronged strategy in the sub-continent, which consists of aggressive territorial assertions and enhanced economic engagement. In addition to India, even a relatively small Himalayan country such as Bhutan was subjected to aggressive territorial assertions. Beijing has made new territorial [claims](#) such as on the Sakteng wildlife sanctuary, and new Chinese villages have [reportedly](#) cropped up inside Bhutanese territory. Despite these severe security challenges posed by China, Bhutan's leadership has shown tremendous political sagacity by not yielding to such pressures. India should encourage leading democracies in the world, after due consultations, to express solidarity with Bhutan.

China's regional economic engagement has been defined by a lack of transparency and debt-trap concerns. After gaining control of the Hambantota port in Sri Lanka, Beijing is [investing](#) in a tyre-factory with generous tax concessions near the port. China's economic engagement seems to be impacting the foreign policy of recipient countries. For instance, the Millennium Challenge Corporation (MCC), a US government agency, [withdrew](#) from Sri Lanka and Japanese funded projects have been [scrapped](#) by Colombo. Further, the India-Japan collaborative endeavour to develop East Container Terminal in Colombo has [encountered](#) numerous hurdles.

Despite such adverse impact of the Chinese economic engagement, it will be imprudent for India to compete with Chinese investments in the neighbourhood. However, India can consistently advocate for open, inclusive infrastructure projects and hasten the implementation of its own connectivity projects in the region. More specifically, there is an urgent need to develop inter-departmental synergies required for quick implementation of connectivity projects in the immediate and extended neighbourhood. India should also progress joint plans with like-minded countries.

The ever-volatile Middle East is emerging as an area of opportunity for India. Specifically, many Arab states in the Gulf region are showing a keen interest in developing full-spectrum [partnership](#) with India encompassing various areas such as defence, counter-terrorism and energy security. There has been a steady uptick in investment flows from the Gulf countries into India over the past year. A strengthened security and economic partnership with the Gulf states will fundamentally alter the geopolitical landscape in its western neighbourhood to India's advantage.

To sum up, building a favourable regional order requires purposive actions by India with the support of its strategic partners. The following are some of the areas which require priority action in the coming months:

1. India should nudge major powers such as the US to recognise and define a policy response to the growing China-Pakistan nexus.
2. Developing enhanced connectivity networks is the best insurance against negative spillover impact of political turbulence in the neighbourhood.
3. It is essential to institutionalise and scale up the BBIN and BIMSTEC regional frameworks.
4. Creating diplomatic frameworks that will encourage smaller neighbours to call out unwarranted Chinese territorial claims.

5. Coordinated actions by the Quad to push countries in the Indian sub-continent to adopt transparent and inclusive connectivity frameworks.
6. Further accelerating cooperative economic activities with the Gulf states to secure geopolitical gains.

India's Trade Policy Challenges

by

V.S. Seshadri

Among the several setbacks in its wake, the COVID-19 virus has also hurt India's merchandise exports which have experienced a 15% decline so far this fiscal. Except for pharma, base metals, ores and certain agricultural products that have escaped the impact, or may even have benefitted from it, the performance of other sectors has been dismal. India should be lucky if export contraction by the end of the financial year is limited to 10%.

What is worse, this comes on top of a plateauing of India's annual export revenues over the last ten year period at around US\$ 300 bn. All the tweaking that has gone on in terms of improvising export incentive schemes and interest subventions, or towards product upgradations, have brought meagre additionalities. Export shares of traditional sectors like textiles, garments and gems and jewellery were sliding even before the pandemic struck. Prospects for commodity based primary products like ores, naphtha, base metals and cotton, which together have a significant share in India's exports, get determined by global prices that have seen wide fluctuations. The somewhat growing segments of the export basket are limited to certain chemicals including pharma, machinery, auto parts and agricultural products. Electronics has also started showing nascent signs of growth, even as questions remain if this will be enduring.

India can ill afford to base its future development on this limited export base. And it is pretty evident from growth experiences worldwide, or even of our own in the first decade of this century, that a sustained 8% plus GDP growth is achievable only if the manufacturing exports do well. And if they do, not only does it bring employment and contribute revenues, it also demonstrates a country's competitiveness and ability to match trends in global markets.

While formidable challenges exist for broadbasing India's export effort, there is no escaping them. The production linked incentive scheme launched in a range of areas in recent months could be useful if there is active follow up and smooth ground level implementation. So should mounting of efforts to address the soft and hard trade infrastructure needs, to ease movement from factory to port and vice versa. Exports have to acquire greater state level urgency and policy incentives promoting competitive federalism have to inspire spirited goals. The rates for the new duty remission scheme that was to start on January 1, 2021 also need urgent announcement, even as the scheme's legal status is being questioned. It is also important to see how the Prime Minister's

independence day speech exhorting industry to focus on value addition domestically, rather than exporting primary products, can be realised through policy incentives.

It is to be hoped that all these aspects will be covered by the new Foreign Trade Policy, reportedly under formulation, which will come into effect from April 1, 2021 for five years.

Hopefully too, the pandemic induced contraction of imports reflecting reduced demand is behind us. India's December 2020 import figures mark a return to positive territory for the first time after March last year. That the non-oil non-gold imports grew almost 8% is particularly welcome. A contraction in the bilateral trade deficit with China for calendar 2020, as per figures put out by that country, however, has to be treated with caution. India's exports to China rose because of a steep rise in exports of primary products like iron ore, primary polymers, cotton, ferro alloys and semi-finished and primary steel, refined copper and primary aluminium, not of their value added items. And while the bilateral trade deficit may show contraction, the trade surpluses that India had with Hong Kong, Singapore and Vietnam till recent years have all turned into deficits in one year from 2017-18 to 2018-19, raising doubts about systematic re-exports of Chinese goods engineered through third countries/territories. The figures are particularly glaring for machinery (HS 84) and electrical machinery (HS 85) as can be seen from Table 1. If these suspicions of trade diversion are valid, for which deeper investigations are necessary, it also raises questions about the ability of a country to strategically "manage" its trade balances with one partner through cooperation with third country based operators for ulterior purposes.

Table 1, indicating possible trade diversions (Figures in US\$ Million)

	China			Hong Kong			Vietnam			Singapore		
Year	2017-18	2018-19	2019-20	2017-18	2018-19	2019-20	2017-18	2018-19	2019-20	2017-18	2018-19	2019-20
HS 84 Imports of Machinery into India	13,540	13,384	13,322	137	1,290	1,355	404	316	368	1,096	2,655	2,801
HS 85 Imports of Electrical Machinery into India	28,672	20,628	19,104	1,203	8,658	8,703	1,596	3,680	2,852	1,204	3,111	4,010
Total Imports into India from Trade Partner	76,381	70,320	65,261	10,676	17,987	16,935	5,019	7,192	7,283	7,467	16,282	14,747
Total Exports from India to the Trade Partner	13,334	16,752	16,613	14,690	13,002	10,967	7,813	6,507	5,060	10,203	11,572	8,923
Trade Balance with Trade Partner	(-) 63,047	(-) 53,568	(-) 48,648	(+) 4,014	(-) 4,985	(-) 5,968	(+) 2,794	(-) 685	(-) 2,223	(+) 2,736	(-) 4,710	(-) 5,824

Source: Department of Commerce, Government of India

Beyond better statistical optics, what ulterior purpose could have been served is, however, unclear. Could it have been to make the bilateral deficit look like flattening when the RCEP negotiations were underway and India was demanding a special carve out vis-a-vis China on phase outs and cumulation? Or was it to mask export diversions to the Indian market when the country was faced with penal import duties in the US? In any case, it is hoped that any such diverted products arriving in India through third countries did not come under any FTA concession with Singapore or Vietnam, nor were they allowed to jump trade remedy measures against Chinese exporters. Strict vigilance on rules of origin is critical.

No less imperative for India is to show single mindedness in pursuing its Aatmanirbhar Bharat programme, particularly in relation to its imports from China. While India's imports from China on the aggregate were only about 15-17% of total imports, the dominance of China in various industrial manufactures exceed 40%, if not higher. Short-term commercial convenience must not override core economic security considerations. Steadily, India will have to diversify its economic dependance not only with other trusted partners but also by boosting its own capacities and employment. An earlier brief by this author had dwelt at some length on how this could be approached, including on the regulatory [front](#).

China has not only taken over a large share of India's imports, but also a growing share of our neighbouring markets that should have largely remained with us. The implications again go far beyond commerce. India needs to urgently double up efforts to address the lacunae here in terms of connectivity gaps and work to ease land/sea route bottlenecks with its neighbours.

A crowded agenda is also in store on the trade negotiation front in 2021. Many have called for India to rejoin RCEP. That bus has left the station and it may be advisable for any fresh effort to be made only when India is far more export ready. We had a good chance to do so if RCEP-readiness and competitiveness had been dealt with as a national strategy when the negotiations were in progress since 2013 (just as it was done by several TPP negotiating countries over those years). Alternatively, India could have joined in 2019 if the RCEP countries had allowed it a back-loaded tariff liberalisation and cumulation commitment, enabling it to get ready by 2025. Simply assuming that the supply chains that may be set up in India facilitated by RCEP would enable it to overcome import challenges seems overly optimistic, particularly keeping in view India's record of implementation of earlier FTAs and China's already large presence in the Indian market.

That said, India can ill afford to remain free from progressing select FTAs. Moving forward negotiations with the UK and Australia seems appropriate, considering the economic complementarities and the potential role for the services sector. Deals finalised with these two partners could provide momentum to the negotiations with the EU. A quick finalisation of the pending mini-deal with the US could also secure re-instatement of the GSP for India. Furthermore, the ongoing reviews of FTAs with ASEAN and Korea also need attention.

In all likelihood, WTO matters, presently in limbo, including the appointment of the new Director General and the restoration of the appellate body for dispute settlement, may get to see some resolution with the new US administration. But pressures can also be expected on WTO reform. The postponed WTO ministerial meeting may be held this year. India's challenge will be to ensure adequate flexibility for developing countries, including itself. In any WTO reform, they must not face collateral damage from a tightening of disciplines that may be proposed to deal with lack of transparency, subsidies and role of state-owned enterprises in non-market economies. India will also need to carefully build coalitions for its proposal to secure a more permanent arrangement for ensuring its food and livelihood security needs.

These tasks for 2021 will be rendered somewhat easier if the pandemic poses no new challenges, and both India and the world at large can gain from a speedy economic recovery.



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