



# Delhi Policy Group

Advancing India's Rise as a Leading Power



## GLOBAL HORIZONS JANUARY 2023

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Volume I, Issue 1



Delhi Policy Group

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Since 2016, in keeping with India's increasing global profile, DPG has expanded its focus areas to include India's regional and global role and its policies in the Indo-Pacific. In a realist environment, DPG remains mindful of the need to align India's ambitions with matching strategies and capabilities, from diplomatic initiatives to security policy and military modernisation.

At a time of disruptive change in the global order, DPG aims to deliver research based, relevant, reliable and realist policy perspectives to an actively engaged public, both at home and abroad. DPG is deeply committed to the growth of India's national power and purpose, the security and prosperity of the people of India and India's contributions to the global public good. We remain firmly anchored within these foundational principles which have defined DPG since its inception.

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*The views expressed in this publication are those of the author and should not be attributed to the Delhi Policy Group as an Institution.*

### Cover Image:

*European Union officials visit Kyiv on February 2, 2023, before the Ukraine-EU Summit. Source: Twitter (@JosepBorrellF)*

*Leaders of the Global South participated at the Voices of the Global South Summit on January 12-13, 2023. Source: Twitter (@president\_uz).*

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## Global Horizons

by

Nalin Surie

The conundrum unleashed by the Russian invasion of Ukraine on February 24, 2022, the widespread and ever-expanding unilateral sanctions imposed on Russia by the US-led West, and their global and regional implications continue to haunt the international community and order in the new year, 2023. The war in Ukraine grinds on with no clear end in sight. Ukraine also continues to receive heavy weaponry in a staggered but ascending manner. No hopeful trends have emerged but several tendencies could become stronger in the months ahead.

The realignment or restructuring of the international political and economic order seems to suggest that the world is heading towards a triple axes international system: one US-led, a second composed of Russia and China, and the third of the unaligned and the Global South. However, there is too much uncertainty, going forward, to come to such a definitive conclusion at this stage. Russia is not the only problem. China and its ambitions are a more significant factor and as a result security issues continue to dominate internationally in foreign policy making, even as the economic dimension remains closely intertwined.

The ongoing process of nearshoring, friend-shoring and/or decoupling that began before the Ukraine war has gained further momentum, especially because of the threat of over-dependence on China and the security implications of collaboration with and sourcing of high-tech products and services from China. The impact of climate change has accentuated these challenges. The international trading system has weakened substantially, with no clear replacement in sight. New financial settlement procedures are being put in place, although the US dollar remains dominant.

In the security dimension, there are several vectors that are clearly emerging and if established, will have far-reaching implications for international governance for which the existing creaking, inadequate and iniquitous institutions have already proved inadequate. The vectors include:

- The United States restoring its dominant position in Europe and in the Indo-Pacific.

- A strengthening and expansion of NATO.
- NATO and its European member states reaching out for a role in the Indo-Pacific, which is home to rising post-colonial powers.
- Huge uncertainty over the status and role of Russia, not only in Europe but also in Central Asia. In any post Ukraine settlement scenario, Russia will remain powerful militarily, economically and technologically. Its future alliances cannot be ignored. It is already reaching out more vigorously to Africa, Iran, Pakistan and other traditional partners.
- Europe is attempting to ensure that its economic partnership with China is not at the cost of its own defense or that of NATO.
- Militarisation of Europe, the home of the two world wars.
- China's rapidly growing military capabilities (including nuclear, missile and maritime) based on high tech, space and cyber, and its appetite for territory, which has compelled both Japan and ROK to revise their military strategies and preparedness, notwithstanding their alliances with the US.
- The nuclear and missile ambitions of the DPRK continue to cast a shadow, and the possibility of two more nuclear weapon states in Asia cannot be ruled out.
- China's determination to take over Taiwan remains undiluted.
- The Philippines has strengthened its military partnership with the USA.
- Growing military expenditures in South East and East Asia, to prepare for the China challenge.
- China's plans for developing its blue water capabilities, to establish dominance in the Asia Pacific and Indian Ocean regions.
- Rapid military modernisation by India to protect its territorial integrity vis-à-vis China, and to sustain Indian influence in the Indian Ocean region in particular.
- The securitisation of energy and food supplies following the Ukraine war and its deleterious and inflationary impact, especially on developing countries.

- The securitisation of high technologies which have defense and security applications.
- The growing polarisation in the Gulf and West Asia region.
- The unending tragedy in Myanmar.
- Pakistan's perpetual crisis, but utility to others.
- Turkey's efforts to leverage its strategic geographical location and membership of NATO to extract concessions from different players in the Ukraine war.

There are many analysts, thus, who justifiably argue that a new arms race is now in motion; not only between the US-led alliance and China-Russia, but also involving several countries of the South. This also has clear economic implications and the prospects for the world economy going forward have thus become most salient.

The G7 is increasingly becoming the preferred mode for economic policy coordination among the West and Japan. This will no doubt be to the detriment of the G20. (In 2022, in US Dollar terms, the G7, including all EU nations, accounted for 50.5% of world GDP while the G20 including all EU nations accounted for 84.91%. Source: IMF.) Among them, the G7 control the existing international financial, trade and economic institutions, although they are not as dominant as they were till the late twentieth century. The much required reform of these institutions will thus be impacted by G7 pressures and preferences, and how the broader G20 will be able to weigh in on this process remains uncertain. Some in the G20 may team up with the G7; others may coalesce elsewhere, including around China, and create or strengthen institutions dominated by the South. Fragmentation of international decision making in financial, economic and trade matters is unlikely to have a positive impact, especially for developing countries. This poses a special challenge for Japan and India, which currently chair the G-7 and G-20 respectively.

With respect to the economic prospects for 2023, several emerging features bear mention. The message emerging from the Davos meeting of the World Economic Forum is one of cautious optimism for the world economy during 2023. The IMF assesses that the prospects remain uncertain. There are, no doubt, some positive signals, given the better than expected economic performance during 2022 in the US and the EU. But their prospects for 2023 are

not assessed as being as positive. Going forward, much of the optimism seems to be based on the hopeful presumption that the post Covid-19 reopening of the Chinese economy will provide the much-needed boost both on the demand and supply fronts. Interestingly, in the latter context, the EU seeks clarity on whether the need is to 'De-risk versus Decouple' from China. There is also the expectation that expenditure by Chinese tourists abroad will boost tourism in many countries.

On the question of the ongoing impasse between the US and China on economic policy and partnership issues, the recent January 18, 2023 meeting in Zurich between US Treasury Secretary Janet Yellen and Chinese Vice Premier Liu He suggests that there is recognition in the US that a major reorientation of the very significant US-China economic partnership and arrangements is complicated and will, at best, take time so as to avoid further serious disruptions. In the interim, though, the US has not eased off on the restrictions in place on trade with China since the Trump presidency but has instead further tightened export restrictions to deny China access to advanced technologies.

Importantly, the US and the EU have, under the Biden administration, in recognition of the importance of their economic partnership, put in place mechanisms to coordinate their economic policies and resolve differences.

Concern over inflation and interest rate hikes continues in the developed economies and will, willy-nilly, impact the developing world. So too, will the competition over access to cutting edge technologies such as semiconductors; access to energy markets; development and access to green technologies; and affordable food and fertiliser supplies.

In the above context, the virtual Global South Summit 2023, hosted by India on January 12-13, 2023 was attended by 125 countries. It focused on finance for development, balancing growth with sustainability, accelerated climate action, energy security, trade, investment and commerce, inclusive approaches to global health security and the development of knowledge-based societies. These are issues of particular concern to the developing world and the hope was expressed that notwithstanding the increasing fragmentation of the international landscape, the summit would serve as a catalyst for building a prosperous and inclusive future for the world; a future that takes into account the needs of the Global South; and for renewed and inclusive multilateralism that reflects contemporary realities.

The Russia-China axis formalised in the declaration of February 5, 2022 between Presidents Putin and Xi remains in place, although there are

discernable signals that both are seeking ways to reach out: China especially to the West, and Russia to Africa, Iran and partners in OPEC. Interestingly, the US has also rediscovered Africa and the need to counter Chinese-Russian moves there. This is a continent which will have a very significant role going forward, especially in terms of international development, climate change and environmental sustainability.

What has emerged at the end of January 2023 is thus a bewildering mosaic of moving pieces, where the future remains uncertain and where new equilibriums are being negotiated, while the US, leading the West, appears determined to claw back and sustain its dominant post-World War II and post-Cold War status in Europe and the Indo-Pacific. [Europe though will not want to be fully dominated by the US as in the past and will, especially in the economic domain, provide leadership of sorts, as it is already doing.] This, in turn, will require, inter alia, an outcome of the Ukraine war that will degrade but not wholly isolate Russia. More importantly, as clearly recognised by the US and the West, it will require China, the principal challenger and consequential threat, to be constrained, if not contained and persuaded to become a "responsible stakeholder" in the US-led rules-based order. The eye cannot, therefore, move away from the Indo-Pacific.

For India, the scenario going forward offers serious opportunities, notwithstanding threats and challenges. India starts the year on a positive note in economic terms. The Economic Survey 2022-23 presented by the Ministry of Finance to Parliament on January 31, 2023, asserts that the recovery of the Indian economy from the series of shocks it has had to face in recent years is now complete. According to IMF projected data, the Indian economy grew by 6.8% during 2022-23 and is expected to grow at 6.1% in 2023-24. This compares with the world average of 3.2% and 2.7% respectively. For the advanced economies, the rates are projected at 2.4% and 1.1%. For China, the corresponding figures are 3.2% and 4.4%. The Survey is also optimistic about India's growth outlook, projecting that India will achieve an average of 6.5% real GDP growth in the medium term. This figure can increase to 7 to 8% if identified reforms are implemented. The signs are thus promising for India, the world's fifth largest economy, during 2023, both domestically and in terms of its rising global profile.

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