
THE NEW INDIA

A SOUTH ASIAN GREAT GAME?

Anja Manuel

INDIA likes to emphasize that is it a gentle power. “We don’t like to throw our weight around,” senior diplomats used to tell me. For years, India punched below its weight on the world scene. Now Prime Minister Narendra Modi—elected in May 2014 with a strong mandate for change—is attempting everything within his power, and the constraints of his bureaucracy, to have a more robust profile on the global stage, as befits a country whose growing economy and large population will make it one of the indispensable powers of the twenty-first century.

The Prime Minister’s focus so far has been pragmatic, and his strategic aims are similar to those of predecessors Atal Bihari Vajpayee and Manmohan Singh. The palpable difference is in his energetic approach and the sense that India is ready to take its seat at the world’s governing table—with

both the privileges and responsibilities that entails. Delhi is pushing forward with substantial new diplomatic and military initiatives. International economic policy, in particular trade, is less cohesive and more dependent on a still hesitant government bureaucracy. An undercurrent of this flurry of activity—although not the only reason for it—is the fact that China is also becoming more assertive in India’s immediate neighborhood.

In many ways, it is stunning to talk at all about India’s economic, diplomatic, and military influence on the rest of the world. For decades after independence, painfully poor India was the world’s largest recipient of development aid; the government had no extra funds to give away, and India’s cash-strapped military was focused on its immediate neighborhood—particularly on Pakistan. India led the Non-

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Aligned Movement and the 'Global South' of developing states, refusing to take sides in the great struggles of the Cold War. Independent India's first prime minister, Jawharlal Nehru, and his successors, kept trade barriers high to support India's fledgling industries, so trade and economic interactions were minimal. Partly as a result, few Indian companies grew large or powerful enough to have influence abroad.

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This has changed in an impressively short period of time. Prime Minister Modi seems determined to relegate that former timid, passive India to the dustbin of history.

Thus far Modi has enjoyed the most success in diplomacy. In 2015 alone, he visited 28 countries and received heads of state from 12 others on a diplomatic *tour de force*. His goals seem twofold: to bring foreign investment to India and to shore up alliances, with one eye towards a newly assertive China that increasingly extends its influence south into India's traditional sphere.

Indian diplomats for years seemed ambivalent about their relations with the United States. No longer: Modi and his team moved quickly to consolidate a partnership that began in earnest a

decade ago with the 2005 Bush-Singh civilian nuclear deal. Modi also established a strong rapport with the leaders of Japan, Israel, and Australia. Delhi recently hosted an India-Africa summit attended by 41 African leaders, which launched India as an alternative and potentially more responsible economic partner than China on the continent.

India continues to pursue a permanent seat on the UN Security Council, as it should. However, the tone of its approach has changed; instead of arguing that it must be on the Security Council as a (often difficult to work with) representative of the downtrodden, India is stepping up to help set the global agenda on issues such as human rights, nuclear testing, and climate change. The most impressive example of this was Delhi's commitment to ensure a positive outcome to the Paris climate change negotiations in December 2015, and Modi's personal intervention to get other countries on board after years of acting as a spoiler on the issue.

Whereas diplomacy has been a real success, Modi's international economic goals have been more difficult to achieve. Partly this is a result of India's democratic government structure. In India, like in the West, no unified government policy determines

the aid Delhi gives, how it trades with other countries, and how the foreign direct investment of its companies can help India prosper.

Delhi's trade bureaucracy, in particular, seems immune to India's newly energetic foreign policy. This stands in contrast to China, whose diplomats and businessmen work hand-in-hand in an unprecedented way. Trade, aid, and investment are part of a mostly coherent government strategy to secure natural resources, invest China's massive currency reserves, create opportunities for state-owned enterprises as China's internal boom slows, and expand its political influence—all at once. Chinese companies, backed by government loans, build roads and ports in exchange for lucrative mining contracts, and promise to lay railroad tracks across the Andes, the Himalayas, and Africa.

China's rapidly expanding influence in South Asia is helping to spur Delhi into action. In the past year, India has made a renewed effort to negotiate regional trade agreements (although it is too soon to tell if its notoriously difficult trade bureaucrats will agree to anything). It is also working harder to influence its neighbors with both aid and political

pressure as a way to push back against what it sees as China's encroachment.

India now gives more development aid to other countries than it receives. This is not a new policy of the

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Modi administration, but has increased steadily as India has become more prosperous. In 2014, it gave an impressive \$1.6 billion in aid grants—almost the same as China, with its much larger economy. The vast majority of this money

goes towards helping India's immediate neighborhood: to building a parliament building in Afghanistan, giving humanitarian aid to Nepal after the recent earthquake, and providing health and education funds to Bhutan and Sri Lanka.

In addition to direct grants, India gives approximately \$9 billion in soft loans to countries in need—and about half of this amount goes to Africa. India has also trained thousands of civil servants in 161 different developing countries. While India gives mostly out of altruism, its close connection with other developing countries means they often support India's initiatives at the United Nations.

The tsunami that rocked Asia in December 2004 demonstrated India's unselfish approach to aid. India's coastline was badly beat up. Eighteen thou-

sand Indians died, tens of thousands of fishing boats were destroyed, and entire cities were left submerged or flattened. The price of fish dropped suddenly, due to local concerns that the fish were eating the dead bodies of those killed in the disaster. The Indian government quickly put together a \$600 million reconstruction package for its own tsunami-affected regions.

India could be forgiven if it had only focused on itself during this terrible crisis. Yet it also helped others. More than sixteen thousand Indian troops used navy ships and aircraft to deliver thousands of tons of relief supplies to Sri Lanka, the Maldives, and Indonesia, and Delhi also donated an additional \$23 million in aid.

Why would India—which still houses one quarter of all the world's poorest people—give to other countries at all? Humanitarian giving lies at the heart of India's cultural values. Hinduism, Buddhism, Islam, and Sikhism all encourage the devout to empathize with those in need and to give without expecting a return. The Indian government stresses over and over again that its aid is not linked to political objectives. In addition, India feels a strong connection to other countries that were subjugated under colonial systems. Its assistance promotes development and democracy

in these countries, and shows India's solidarity with them.

India's foreign direct investment is still quite small. Even its best companies still invest relatively little abroad—just

\$10 billion in total FDI in 2014, according to the UN's 2015 *World Investment Report*. China, by contrast, is the second-largest investor in the world (China and Hong

Kong together invested \$249 billion in 2014), after the United States, with \$337 billion, according to the same source.

Unlike China, India has no state-led investment strategy. Most Indian investment comes from private companies who want to improve shareholder value, not please the government.

Tata is a perfect example. As one of India's biggest private companies, run by the legendary Ratan Tata, it has sprawling interests in automobiles, hotels, steel, and consulting, among other industries. In 2008, Tata bought Jaguar Land Rover from Ford for \$2.3 billion. Though Jaguar had been operating at a loss for several years, Tata patiently provided the struggling company with capital until it could turn itself around, and gave the English managers free rein. Now Jaguar Land Rover's sales are growing rapidly and profit is substantial. The company has created

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thousands of jobs and is the United Kingdom's largest automotive employer. It was a purely commercial transaction.

As the Tata case shows, Indian companies are buying more assets in developed countries like the United States, the United Kingdom, and the Netherlands. Some Indian companies invest in South Asia, or in countries where there is a large Indian diaspora, such as Kenya and the United Arab Emirates. Yet only 38 percent of Indian investments are in the developing world.

If India's aid is altruistic and its foreign investment ad hoc, its trade policy is obstinately protectionist. Prime Minister Modi talks a lot about free trade, but so far, American trade negotiators say the government of the ruling BJP party is just as protectionist as its predecessors.

To make India a manufacturing powerhouse and thus to employ its youth bulge, India will have to find a way to export all those manufactured goods. Modi talks about doubling India's exports to almost \$900 billion within the next five years, a nearly impossible task even for committed free traders. Unfortunately, so far, India's free trade rhetoric does not match reality.

More than its other diplomats, Indian trade negotiators tend to be stuck in the

Non-Aligned Movement and protectionist rhetoric of the Nehru era. Many Indian officials still do not see the benefit of free trade for their country. The biggest concern is around opening up India's heavily subsidized agricultural sector. India's rural poor are a powerful voting bloc, especially for India's opposition Congress Party, and many believe that farmers and small shopkeepers will be harmed by free trade. Domestic politics plays a big role in India's protectionism, as it does in the United States and elsewhere.

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rural poor are a powerful voting bloc, especially for India's opposition Congress Party, and many believe that farmers and

The trade bureaucracy is often more protectionist than Delhi's political leadership. According to a senior Obama Administration official, one recent trade negotiation was a thriller by mild-mannered diplomatic standards. In July 2014, India unexpectedly blocked the passage of a World Trade Organization (WTO) deal that would have been the first multilateral trade deal in two decades—and, according to some calculations, would have increased global GDP by \$1 trillion. India's controversial food subsidies program was on the line. Indian negotiators had already agreed to a compromise, but after Modi took office, the trade bureaucracy suddenly balked at its commitment. It took intense midnight negotiations in Washington, Geneva, and Delhi between the Obama Administration and a few trusted people in the Indian prime minister's office—all kept completely

secret from India's trade bureaucrats—to turn the issue around. This was a good but insufficient start.

India continues to sit on the sidelines of almost all the major new regional trade agreements. A potential bilateral investment treaty with the United States and a free trade agreement with Europe have been largely stalled for years.

India also still trades mostly with other Asian countries, rather than with the rest of the world. In 2014, its trade with Asia was \$246 billion (including China), compared to \$98 billion with the European Union and \$64 billion with the United States.

China has become India's largest trading partner. The two traded more than \$72 billion in 2014, up from almost nothing in 2000. This is good news, but unfortunately the relationship is lopsided. China exports almost six times as much to India as the other way around. Whereas India sends mostly raw materials—such as cotton yarn, copper, and petroleum—to China, the Chinese export clothes, computer hardware, industrial machinery, and other manufactured goods to India. This is a constant source of friction; India's bazaars are

filled with inexpensive Chinese-made toys and clothes, and its offices are filled with Lenovo computers and Xiaomi phones, just like in many places in the United States.

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Part of what is driving India to update its aid, trade, and investment strategies is the fact that it is no longer the undisputed dominant player in its own neighborhood of South Asia. China is now competing with India for influence.

India and China's engagement in Afghanistan is a perfect example. In 2011, India Prime Minister Singh gave a speech to the Afghan Parliament that left few eyes dry. India had spent millions to build a new parliament building in Kabul—part of the nearly \$2 billion in aid it has pledged to Afghanistan over the past decade. When Prime Minister Singh spoke to the assembled legislators, he talked about the two countries' shared history and civilization, and India's commitment to helping Afghans build a democracy. The Kabul parliament building is partly a way for India to ensure that Pakistan doesn't dominate Afghanistan in future, and it is also a powerful symbol of India's altruistic approach to foreign aid.

But despite India's generous aid, Afghanistan's day-to-day economy is tied more closely to China. Walking around Kabul's lively bazaar, one sees that much of the clothing, toys, and electronics on offer are made in China, not India. Only the DVDs are Indian: Bollywood is a huge hit.

Down the road from Kabul, Chinese workers began large works on a copper mine several years ago. They didn't hire many local Afghans, except to provide security. While China has given relatively little aid to Afghanistan (it has committed just \$320 million to reconstruction aid since 2001), it is responsible for the country's single largest foreign investment: in 2007, amid rumors that the Chinese paid off an Afghan minister to get the deal, China paid \$2.8 billion for the rights to extract copper from the Aynak mine. Due to security concerns and the fact that ancient archaeological ruins were uncovered on the site, all work at the mine has been halted temporarily.

Across the border in Pakistan, China has committed to build an avalanche of infrastructure, from hydropower plants and coal mines, to upgrading pipelines, ports, roads, and rail ways.

So how does India feel about its assertive neighbor? Delhi is alarmed

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South Asia is one of the least economically integrated regions in the world. Many South Asian countries, following India's model, still have protectionist trade policies. Desperately poor, South Asian governments could not afford to build the road, rail, and sea links that would make trade easy. The many wars between India and Pakistan mean that the flow of goods from India to Pakistan (and potentially beyond to Afghanistan) is a mere trickle.

Although there was not much trade, India was for decades a natural top economic partner for South Asian countries, due to its size and location.

China recently entered this sleepy scene in spectacular fashion. Formerly, China traded only with Pakistan. Now it has begun to build an economic ring around India by stepping up relations with each of India's neighbors. China replaced India as Bangladesh's top trading partner and has increased its economic ties to Nepal, Sri Lanka, Bhutan, and others. Inexpensive Chinese goods are replacing Indian-made ones at every turn. Add to this the fact

that China has invested \$1.4 billion in a gigantic port in Sri Lanka, which is much bigger than Gwadar in Pakistan, it is giving \$128 million in aid to Nepal and is considering building a new railway across the Himalayas, not to mention the whopping \$46 billion in infrastructure China has promised to Pakistan.

One can see why this concerns Delhi. If the China-Pakistan Economic Corridor is actually built, India could find itself excluded from the biggest new supply chain in the region.

India feels surrounded. Recently, according to scholar Alyssa Ayres, its aid programs have become more ambitious and sometimes aimed directly at countering China's influence in its neighborhood. To compete, India is building some infrastructure, training government officials, and funding education and health initiatives. India is also investing in a port in Iran that will allow it to access Afghanistan without going through Pakistan, and is prioritizing Bhutan—which does not have diplomatic relations with China—in its foreign aid budget.

Chinese and Indian efforts in South Asia should be complementary, since

the region's infrastructure needs are so great, requiring trillions of dollars in capital. A more connected region will benefit both India and China, as all countries trade and invest more. Unfortunately,

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India worries—probably correctly—that China will provide most of the cheap products these markets need and that it has a hidden agenda to use its influence over some of India's neighbors to gain a military foothold in the Indian Ocean.

This sense of Chinese encroachment is also beginning to determine much of India's military strategy. This strategy has not yet changed dramatically since Modi took office. Terrorism is still a serious concern, as is India's eternally fraught relationship with Pakistan. Yet Indian military officers are now far more willing to say that China is a major consideration in their planning.

Never completely resolved, the two countries' quarrel over their disputed Himalayan border has heated up again in the past five years. During Chinese President Xi Jinping's first summit with Modi in September 2014, the two stood beaming at the podium, eager to portray a united front. But behind the handshakes and smiles, relations were tense. During the summit, Chinese



Photo: Guiliver Image/Getty Images

Prime Minister Modi and President Xi during their 2014 summit in India

troops had forcibly entered the disputed border area between India and China. While no shots were exchanged, punches and insults flew, and soldiers posted the altercations on YouTube for the world to see. Modi cautioned the Chinese leader: “Even such small incidents can impact the biggest of relationships, just as a little toothache can paralyze the entire body.” India claims the PLA has illegally transgressed beyond the “line of actual control” hundreds of times in the past few years.

China’s tidal wave of infrastructure projects has reached Nepal, Bangladesh, Sri Lanka, and especially

Pakistan. In China’s view, its ‘One Belt, One Road’ initiative is a magnanimous aid project that will help infrastructure-starved developing nations. (China has legitimate strategic reasons to diversify its trade routes from its current over-dependence on the Strait of Malacca, so Chinese officials argue, not without reason, that India should be less concerned).

Yet Indian strategists do worry. They call the building spree a Chinese “string of pearls,” and fret that China may reach secret agreements with India’s neighbors to build dual-use facilities under the guise of building

ports and roads for commerce. The Chinese navy could then use these to surround and contain India. In addition to the huge investment in the Gwadar port and connective roads in Pakistan, China was funding South Asia's largest port in Hambantota, Sri Lanka, and has started a port project in Bangladesh. India has recently convinced both Sri Lanka and Bangladesh to walk back some of their cooperation with China.

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The Chinese navy has followed closely behind China's growing infrastructure and economic interests, with Chinese ships and submarines now regularly sighted in the Indian Ocean.

As a result, India is ramping up defense spending, and looking for allies everywhere. India spends more than any other Asian country, except China, on defense.

Prime Minister Modi has signaled his resolve to build a strong military, following (very accurate) claims that India could not fight a two-front war against China and Pakistan. India largely ignored its navy for two decades and is not well prepared for a confrontation with China. Thus, despite being in the middle of a serious budget crunch, India increased its defense spending by 11 percent to \$40 billion for the 2015–2016

fiscal year. This is not out of line with increases under the Singh government, but Modi seems willing to double down to make India's military match its increasing diplomatic clout.

Unlike the foot-dragging on trade, India's military bureaucracy seems fully comfortable with their leader's newly assertive approach. India plans to build an ambitious two hundred-ship navy by 2027, and is also busily increasing its submarine fleet to around

25 in the next few years. It has asked the United States for help in building several modern aircraft carriers to compete with Chinese efforts in this area.

In spite of this new investment, China will continue to have a far larger military. India is both trying to solidify its own relations with China, in order to avoid disagreements, and casting around for allies in case conflict becomes unavoidable.

When I served in the U.S. State Department in 2007, the Chinese government protested loudly over a small U.S.-India-Japan-Australia joint military exercise. We scaled back the event in subsequent years to avoid antagonizing China, and India seemed particularly conciliatory.

That delicate era of sparing China's feelings is long gone. India now ex-

ercises more with the United States than with any other country, and this has become an important piece of the partnership. With its eye firmly on China, in just a six month period in 2015, India held a flurry of bilateral and multilateral naval exercises with everyone from Australia, Japan, and Indonesia, to Sri Lanka, Thailand, Myanmar, and Singapore. Interspersed with them were exercises with the United States, United Kingdom, and France. It is providing military assistance to Vietnam.

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India is even boosting its ties with tiny Mauritius, Maldives, and Seychelles— islands where China is also hoping to have a greater presence.

SELF-ASSURED INDIA

Prime Minister Modi is striding confidently onto the world stage, and has happily abandoned India's former handwringing about whether it should act as a global leader. The country is already doing so. In less than two years, Modi has enlivened diplomatic and military relations with key countries. The one area that lags behind is India's trade diplomacy. Modi will have to push his own government to engage more with the world economically if he wants to meet his own ambitious growth

targets, and thus ensure a real seat at the global table.

Europe and the United States should welcome this new, self-assured India. More than any country outside the West, it will help shape China's rise.

Yet the West and India must carefully temper their desire to cooperate with a real effort to avoid alienating China. If this relationship is mismanaged, China could develop like the autocratic, insecure, and

bravado-filled Germany of the early twentieth century.

Modi seems to understand this, and engages President Xi at every turn, even while he is being more assertive about India's national interests. Open communication between all countries in this unfolding drama will be critical. India and others must be clear with China about what lines cannot be crossed (island-building in the South China Sea, or cyber-hacking of foreign companies, for example) and then express their concerns as a group of like-minded countries. In addition, all, including Delhi, must do even more to keep communications with Beijing open, to cooperate wherever possible, and treat to diplomatic goodwill as a major priority.

The West can help both India and China become responsible great powers. This does not require other countries to ignore their own interests, or to accept without complaint when Beijing or Delhi make moves we find unacceptable.

It does, however, rely on at least the following two assumptions: First, a prosperous India and China are good for the world. Like it or not, their economies are the engines of world growth, and their joint

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populations are approaching three billion people. To keep the world economy strong, we will all need to trade with and invest in them. Second, a confident India and China are better than the alternative. Countries make bad decisions when they feel insecure or threatened.

The world should welcome Modi's new leadership in particular, and has a duty to do everything possible to prevent either rising Asian giant from becoming a foe. ●

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CIRSD Announces Carnegie-funded Study on Refugees and Migrants

The Boston Consortium for Arab Region Studies (BCARS), in partnership with the Center for International Relations and Sustainable Development (CIRSD), is pleased to announce the award of a major grant by the Carnegie Corporation of New York to conduct a two-year fact-finding and analytic study.

Entitled *Learning from the Middle East, North Africa, and the Balkans: Policy Development Related to Transnational Crises and Refugee Flows*, the project will conduct a series of workshops, study visits, and closed-door policy sessions throughout the Middle East, North Africa, and the Balkans, as well as engage with senior decisionmakers in the United States, Europe, and officials from international organizations such as the United Nations.



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The **Carnegie Corporation of New York** is a philanthropic grant-making foundation established by Andrew Carnegie in 1911 to promote the advancement and diffusion of knowledge and understanding.

We at CIRSD are looking forward to working with BCARS on this study, which will examine one of the most pressing issues of our time: the refugee challenge and its political, diplomatic, economic, and social impact on Europe, the Balkans, the Middle East, and North Africa. This project would not have been possible without the grant received from the Carnegie Corporation. We are deeply grateful for their generous support.

– Vuk Jeremić

