

INDIA'S 'LOOK EAST' – 222 'ACT EAST' POLICY

HEDGING AS A FOREIGN POLICY TOOL

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- Against the backdrop of an evolving strategic context in the Asia-Pacific region, competition is mounting between India and China in the realms of both security and trade. While the US's relative influence in the region is declining and China is rapidly ascending as an increasingly assertive regional power, India is seeking to redefine its geostrategic posture.
- Prime Minister Narendra Modi's 'Look East' – 'Act East' policy confirms a shift away from India's traditional focus on creating spheres of influence in its immediate neighbourhood.
- India's Eastward focus seeks to establish external security and trade-related cooperation with third countries through the formation of so-called strategic partnerships, in an effort to balance a rising China. Examples of these increasingly important bilateral ties include partnership agreements with ASEAN, Australia, South Korea and, no less importantly, Japan.
- At the same time, India's policy can be seen as part of a hedging strategy, as it also entails engagement and cooperation mechanisms with China. India has been engaging China economically, and a partnership with the latter can be put into action in terms of enhancing connectivity, which is the enduring purpose of India's 'Look East' – 'Act East' agenda.

Introduction

Contemporary Asia is witnessing a shift in the balance of power. China is rapidly ascending as an assertive and, at times at least, covertly antagonistic power in the Asia-Pacific region. The US's influence in the region is in relative decline, in spite of the Obama Administration's rebalancing policy towards Asia, which marked an attempt to remain a great power in the region. The Trump presidency has managed to reassure key allies in the region, but the US's rebuttal of the Trans-Pacific Partnership (TPP) free trade agreement, in addition to an as yet opaque overarching Asia strategy, only reinforces China's prominence as a pivotal regional player. In the longer run, the US 'unipolar moment' can inevitably be seen as drawing to a close. This leaves other players in Asia in need of a rethink vis-à-vis their strategic interests and alliances.

India has emerged as a natural ally to the US's position in the Asia-Pacific balance of power. Relations between both countries flourished during the George W. Bush administration, and India's strategic importance was a core element in Obama's 'rebalancing to Asia'. During the current Trump administration, India will remain a key partner for the US's continued efforts to project strength in the region. It is the only country in Asia comparable to China in terms of size and demography. In addition, India's economy has also grown steadily in the past decade. Nevertheless, India is very wary of China's ascendance and, besides the US, India has also turned to other US allies and partners in Asia in order to balance against a rising China.

With this background in mind, it is the aim of this Briefing Paper to examine India's 'Look East' – 'Act East' policy with a focus on its security-related and economic dimensions. The paper argues that India's policy can be seen as part of a hedging strategy. Hedging is a term derived from economic theory whereby actors invest in diverse policies to insure against unexpected failures. Hedging includes external security cooperation with third countries through the formation of so-called strategic partnerships but, importantly, also entails integration and cooperation mechanisms with the country that forms the object of future uncertainty. In other words, hedging combines balancing as well

as engagement strategies.¹ The paper will start by outlining India's regional environment and New Delhi's Eastward policy shift. It will then look at the partnerships India is forging with third countries in the region, before examining the current state of (and future opportunities for) engagement with China as part of its overall hedging strategy.

Ascending China – Waning US

The post-Cold War Asia-Pacific security order rested on three pillars.² The first pillar was rooted in US security guarantees to its various Asian allies and partners. US military power was uncontested and formed the bedrock of the security order. The second pillar rested on the economic growth of US allies and partners, which has also fostered economic interdependence among the different players. The third pillar was based on the American guarantee of equal access to global public goods, of which the freedom of navigation on the high seas was of paramount importance.

With China's ascendance on both the military and economic fronts, this age of the Asia-Pacific American security order is now in peril. China is slowly but surely emerging as a serious contender to US military power in the region. Today, China has a robust submarine fleet and anti-access/area-denial (A2/AD) capabilities aimed at thwarting any possible intervention by the US and regional navies. China is also continually developing its maritime power. Through its aircraft carriers,³ China is able to exert control and project power in East and Southeast Asian waters and beyond. For example, China is active in the Gulf of Aden, where it is engaged in anti-piracy operations.

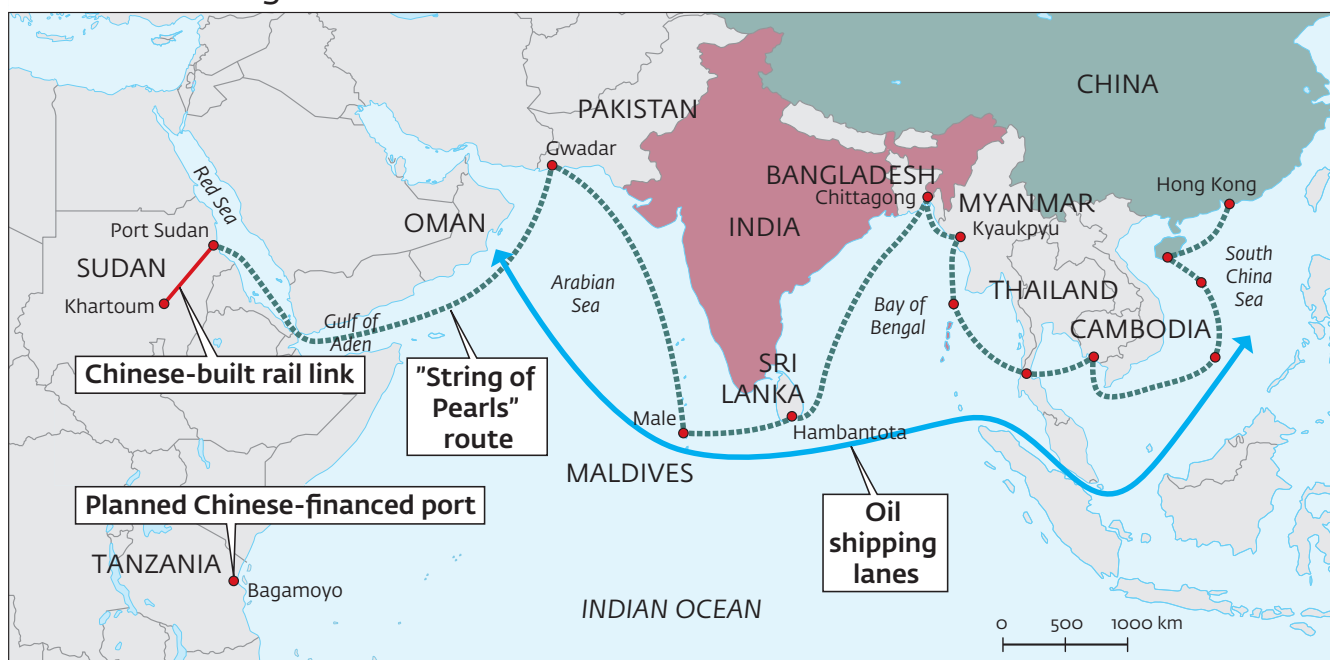
In the Indian Ocean, China has been busy developing naval facilities in Kyaukpyu, Myanmar; Chittagong, Bangladesh; Hambantota, Sri Lanka; Male, Maldives; and Gwadar, Pakistan, and plans exist to develop a

1 Evelyn Goh, 'Understanding "hedging" in Asia-Pacific security', *PacNet* 43, August 31 2006.

2 John G. Ikenberry, 'American Hegemony and East Asian Order', *Australian Journal of International Affairs*, Vol. 58, No 3, September 2004.

3 Most recently, on 26 April 2017, China launched its first domestically-built aircraft carrier.

Strategic routes and lanes in the Indian Ocean



Map 1: Kauko Kyöstiö.

port in the Seychelles. India views these developments as the ‘string of pearls’ strategy through which China is able to contain India in an area that New Delhi considers its backyard (see Map 1). India has been very wary of these developments for some time now.

To counter Chinese activity in the Indian Ocean, India has started to engage in the Straits of Malacca and the South China Sea, which, by contrast, China considers its sphere of influence. This is essentially about sending messages to Beijing that China is not the only ‘show in town’. In recent years, the Indian Navy has been actively seeking defence relations with major states across the Asia-Pacific region – Japan, Vietnam, Australia, Indonesia, South Korea and Singapore. These defence relations have entailed regular joint naval exercises, known as the Malabar exercises, between India and these major states. The exercises comprise activities ranging from fighter combat operations from aircraft carriers to maritime interdiction operation exercises.

India, its neighbourhood and China

Until recently, India’s foreign policy could be characterized as being composed of ‘spheres of influence

of concentric circles’. This meant that, traditionally, India has focused on its immediate neighbourhood, namely South Asia. South Asian states share common linguistic, cultural, religious and ethnic ties, and it is little wonder that India has regarded the region as its backyard. Nevertheless, the relations between India and most of its neighbours have been anything but amicable. Consequently, an India-centric South Asian region has not materialized.

The most problematic bilateral relationship is the one between Pakistan and India. India considers security threats arising from Pakistan as a constant in its foreign policy. For Pakistan, China has been ‘an all-weather friend’ and a major supplier of military hardware and economic assistance, including major infrastructure projects. Relations between China and India have also been problematic, not least due to unresolved border/territory disputes between the two large Asian neighbours, including Aksai Chin and Arunachal Pradesh. There have been no less than four border defence management agreements (in 1993, 1996, 2005 and 2013) to prevent a border war due to the undemarcated and disputed nature of the Line of Actual Control (LAC).

India has had problems with almost all the other neighbouring states as well, including Sri Lanka,

the Maldives, Bangladesh and Nepal. At the same time, China has been actively wooing all of India's neighbours, including Afghanistan and Myanmar. Many of India's neighbours have welcomed China as a counterweight to India, as China has hardly any historical baggage in the region. It is also a very attractive economic partner to the smaller South Asian nations. For example, China has supplied Bangladesh with military hardware, built a naval facility in Sri Lanka, invested in hydropower and other infrastructure in Nepal, and has invested heavily in economic infrastructure in Afghanistan and Myanmar.

These efforts are part of wider geopolitical ambitions in the Indian Ocean as well as in Africa. Overall, China's interest in South Asia has focused on facilitating trade and energy corridors throughout the region. Nevertheless, containing India's power has obviously also figured in Beijing's calculations, in the light of China's wider geostrategic ambitions in South Asia and beyond. Although China is far ahead of India in terms of military development, border disputes – including the one over Arunachal Pradesh (referred to as South Tibet by China), the presence of the Dalai Lama in India, India's rapidly developing naval capabilities, and growing competition over investments in Africa or satellite technology and space exploration remain bones of contention between Beijing and New Delhi.

'Look East' to 'Act East'

Given the fact that India's relations with its neighbours have been fraught with challenges and problems, coupled with an ascending and increasingly assertive China against the backdrop of a slowly waning US, India has been compelled to rethink its foreign policy in Asia. Hence, starting with the premiership of Narendra Modi, India has initiated a 'soft power' offensive, aiming in the first instance to improve economic relations with its neighbours and beyond. These economic initiatives have been underscored by strategic security considerations.

In November 2014, speaking at the summit of the Association of Southeast Asian Nations (ASEAN), Narendra Modi announced the establishment of

an 'Act East' policy.⁴ The previous government had launched a 'Look East' policy, which underlined the need to pivot towards the region lying to India's east. However, the policy remained very much dormant with little action. Modi sought to underline the need for a more action-oriented policy, hence the term 'Act East'. At the same time, Modi is highly aware that India needs investments and technology.

In Singapore in 2015, Modi reiterated his pledge to deepen India's focus on the countries to India's east.⁵ He stressed the need to ensure the freedom of navigation in Asia's regional waters, and the necessity to work with partners to ensure that oceans, the cyber sphere, and space remain avenues of shared prosperity rather than theatres of contest. Approximately half of the 40 trips that he has made as prime minister have been to South, Southeast and East Asia.

The 'Look East' – 'Act East' policy still lacks substance and it appears that a time lag remains between the policies and their translation into concrete actions and investments. Compared to Chinese investments in South Asia for instance, India has outdone China only in the case of Nepal, where India's share of trade has been in the region of 50% and China's corresponding figure 30%.⁶ In the case of Pakistan, China's share of trade has been nearly 20%, while India's share has been a meagre 4%. Bangladesh imports most of its armaments from China, while India's role is negligible. It is likely that a more robust move towards the east is easier than a westward push, which includes India's problematic immediate neighbourhood.

Searching for partners in East Asia

The 'Look East' – 'Act East' policy should be understood in the context of India's competition with China over influence in Asia. However, it is also very

4 http://www.pmindia.gov.in/en/news_updates/english-rendering-of-the-pms-opening-statement-at-the-india-asean-summit/?comment=disable last accessed 5 June.

5 *Straits Times*, 23 November 2015, <http://www.straitstimes.com/singapore/modi-lays-out-indias-act-east-policy-in-singapore-lecture-at-the-shangri-la> last accessed 5 June.

6 Christian Wagner, 'The role of India and China in South Asia', *Strategic Analysis*. Vol. 40, No. 4. 2016, p. 315.

much a hedging strategy that is linked to New Delhi's concerns over Beijing's ambitions in Asia, rather than outright hostile rivalry, as India does not have the wherewithal to contest an assertive and at times antagonistic China. A key element in this hedging strategy is the search for strategic partners in East Asia. According to Wilkins,⁷ strategic partnerships (1) are built around a general (security) purpose; (2) are primarily 'goal-driven' (positive) rather than 'threat-driven' (negative) alignments; (3) tend to be informal in nature and entail low commitment costs, rather than being enshrined in a formal alliance treaty that binds the participants to rigid courses of action, such as a mutual defence pact; and (4) have economic exchange as a key driver, but it is the security dimension that distinguishes strategic partnerships from economic partnership agreements (EPAS).

The fast-growing Association of Southeast Asian Nations (ASEAN) has much to offer. ASEAN is the 7th largest economic block in the world, and the ASEAN-India Free Trade Agreement entered into force in July 2015. ASEAN now accounts for a significantly larger share of India's trade than China does. India signed oil and defence accords with Vietnam in 2014, but is arguably more important as a geostrategic partner in the region, in view of the country's volatile relationship with China. Singapore is one of the top sources of foreign direct investment to India. Indonesia serves as an important source of supply for India's ever-growing energy security needs, and already provides more than 60% of India's coal imports.

Australia is a top producer of liquefied natural gas and a major supplier of coal to India. In addition, Australia and India signed a strategic partnership agreement in 2009, and agreed on a Framework for Security Cooperation in 2014. Both countries conduct joint naval exercises in the Bay of Bengal and, together with Japan, have a similar interest in, and share a common position on, freedom of navigation in the South China Sea. Both countries emphasize common values and principles, and have pledged to cooperate more closely in terms of

defence, counter-terrorism, nuclear energy, and space. In Northeast Asia, India has been conducting coast guard exercises focusing on interoperability with South Korea. Furthermore, New Delhi works closely together with Seoul in building naval capabilities. In April 2017 New Delhi and Seoul signed an agreement on bilateral cooperation in defence shipbuilding, under the umbrella of both countries' 'Special Strategic Partnership'.

India's 'Special Strategic and Global Partnership' with Japan is an arguably more salient link. Bilateral ties are based on 'convergent global interests, critical maritime inter-connection and growing international responsibilities'. The partnership revolves heavily around trade and economy. As expressed by Prime Minister Modi, 'a joining together of the world's third largest economy and, demographically, the second largest market could end up in the creation of the globe's most formidable economic powerhouse, outmaneuvering even the United States and the People's Republic of China, within the next 12-15 years' (*Shillong Times* 19.6.2014). Japan can offer India the infrastructure development it needs, whereas Japan craves access to India's huge market. During his visit to India in December 2015, Abe pledged to increase Japanese investment in the country, and agreed to further cooperation in the fields of nuclear power plants and high-speed trains. Japan offered soft loans (at an interest rate of less than 1%) to India to finance the Mumbai-Ahmedabad High Speed Rail (MAHSR) project. The flagship project is estimated to cost 1.8 trillion yen, of which 80% would be financed by yen loans.

The security aspect is of equal importance. Japan and India signed a Joint Declaration on Security Cooperation in 2008, following those with the US and with Australia. With the 2009 Action Plan to advance security cooperation between both countries as a basis, Japan and India increased the security dialogue, engaged in bilateral and multilateral exercises, and cooperated in anti-piracy operations. As of 2015, Japan became a permanent partner in the trilateral Malabar naval exercise, which, in June 2016, resulted in the US, India, and Japan jointly practising anti-submarine warfare as well as search and rescue activities. Both countries also cooperate on defence equipment and technology, in particular concerning the US-2 amphibian rescue aircraft, and on the sharing of classified intelligence. In 2015 Japan and India signed the Agreement concerning

7 Thomas S. Wilkins, 'Japan-Australia Security Relations: Building a Real Strategic Partnership?', *Bilateral Perspectives on Regional Security: Australia, Japan and the Asia-Pacific Region*, London, Palgrave, 2012, pp. 111-127.

the Transfer of Defence Equipment and Technology and the General Security of Military Information Agreement.

Emerging power balance?

In sum, burgeoning bilateral partnerships between India and third countries in East Asia are a signpost of competition between India and China in both the security and trade realms. The competition revolves around geopolitical posturing and the search for a place in an evolving strategic environment in the Asia-Pacific region. On the security policy front, India does not possess system-shaping capabilities but is able to balance China's role by seeking defence alliances with other Asian partners.

Yet at the same time, India has been engaging China economically. Trade and economic relations have expanded significantly since the turn of the century, and China-India trade is predicted to surpass US-China trade by 2020.⁸ In addition, both China and India support a multipolar world order. Although India is one of the important regional poles in this multipolar order, it is more or less evident that China is emerging as the stronger pole in Asia and beyond. However, the picture is not altogether bleak, and the Chinese and Indian competition for influence and regional hegemony does not have to result in a zero-sum game.

Rather, India-China relations are increasingly characterized by convergence on global issues, but divergence on bilateral issues. Both countries share common interests in global trade negotiations, the restructuring of global financial institutions, and climate policy negotiations. China and India can also be seen as partners in building an 'Asian Century'. To begin with, this partnership can be put into action in terms of enhancing connectivity, which is the enduring purpose of India's 'Look East' – 'Act East' agenda. India has been at the forefront of propelling a host of transnational projects that seek to weave the region together in an intricate web of road, rail and maritime links.

In some respects, China can help India's 'Look East' – 'Act East' policy when it suits China's economic interests. A concrete example of this would be the finalization of a Bangladesh-China-India-Myanmar (BCIM) corridor that would greatly improve economic growth in the region. This multi-modal corridor would be the first expressway between India and China passing through Myanmar and Bangladesh with the aim of greater market access for goods, services and energy.

In addition, the South Asian Association for Regional Cooperation (SAARC) could be significantly enhanced. SAARC has not been very effective in fostering regional cooperation precisely because of the fact that, until recently, most of the smaller South Asian states have been wary of India's policies towards them. South Asia needs to deepen its regional integration and China can help by enhancing connectivity, as it is more or less the only player that has the economic muscle to deliver infrastructure projects that will secure connectivity in the region. Growing economic interdependence in the region means that both India and China can reap the benefits of cooperation.

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8 Neeta Lal, 'India and China, a new era of strategic partners?', Inter Press Agency, 8 September 2016.