

## The Strategic Impact of a Rising India: Prospects and Challenges

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‘The entry of the Asiatic as labourer, trader and capitalist in competition in industry and enterprise not only with, but in, the Western world is a new fact of first importance. Cheap, swift, easy means of communication, the establishment of peace and order over land and sea, the growing interdependence of all men and all countries upon one another, have given wing to Asiatic commercial ambition and rendered Asiatic manual labour fluid, as it has never been...’<sup>1</sup>

Winston Churchill wrote this over 100 years back, in some ways anticipating the era of globalization, after an extended East Africa safari in 1907-08, and his 1000-km trek along the course of the Upper Nile. Asian resurgence has been long in coming.

My theme today is India in relation to the Asia Pacific. Barely ten years back, a sympathetic observer called India, under evolution after the 1991 Economic Reforms, a ‘stealth economy’; at the time, the fundamental changes underway had attracted insufficient attention in most of the world.<sup>2</sup> Today, few Indians can complain of global neglect. If anything our need in India is to avoid irrational moods, of both triumphalism and hubris, as a result of an excess of attention.

### Opportunity, Threat, or Irrelevant?

A recent World Bank Study concluded that the under most assumptions, the impact of the growth of China and India on most of the world would be beneficial. Reporting this, *The Economist* stated: ‘In every case, it came up with positive results for all but a handful of countries in Europe and Asia.’<sup>3</sup>

In the limited time available, may I present my observations on this theme of through several propositions, rather than attempt an academic paper—though a good paper might be developed out of this material. Let me state my propositions.

**First, the India’s rise is real, but with qualification.**

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<sup>1</sup> Winston S Churchill, *My African Journey*, (Holland, London, 1962) p. 37

<sup>2</sup> That expression was coined by Rajat Gupta, then global head of the leading management consultancy enterprise, McKinsey.

<sup>3</sup> *The Economist*, 15 March 2008.

Indian macro-economic indicators point to a paradigm shift in growth, a consolidation of the results of the 1991 Economic Reforms. Annual GDP growth at around 7.5 to 8% is now sustainable. A few instances:

- One key driver is the domestic savings rate. Between 1990-92 and 2005-07, the gross savings rate has steadily risen from 24% to 35.7%, mainly owing to a sharp rise in household savings (17% to 24%), and private corporate savings (2.9% to 7.6%).<sup>4</sup> It is unclear if we will now see a leveling off, or continuation of the rising trend.
- The year 2007-08 ended with total FDI at about \$20 billion, equal to all the FDI received in the first 9 years of Economic Reforms, 1991-2000. Indian FDI outbound abroad amounted to \$15 billion, truly an unexpected phenomenon.
- External trade, merchandise and in services, has been growing at an annual 20%+. The merchandise trade target for 2008-09 has been set at an ambitious \$200 billion.

As before, our problem is that the glass is both part full—and getting fuller all the time—and yet it remains part empty. The achievements of nearly two decades of systemic transformation since 1991 are dwarfed by the challenges that remain. India remains a developing country, facing immense social, economic and political challenges.

- Agriculture growth is weak. Indian average yields of food and commodity crops are well below world average levels; within the country, the gap between the best producer states and the worst is large. Both these facts suggest an unrealized potential. But we have so far not managed to unlock that, mainly owing to the poor performance of rain-fed crops. India cannot afford to depend on food imports.
- Some Indians speak of a 'demography dividend', in that the up to about 2035, the 'dependency ratio' will continue to fall (i.e. the proportion of the working age population will grow, in relation to dependents). That is in stark contrast to the developed world, where the drop in the birth rate to below the replacement level, means an aging population will depend on the fewer that are of working age, say 16 to 60. China is also caught in that same trend. Yet, India's potential asset will become a huge burden unless jobs are found for the growing numbers, i.e. the economy achieves sustained, job-creating growth. Improving education, especially vocational training, is the key.
- India's social indicators remain dismal: i.e. those under the poverty line, the figures of malnutrition, infant mortality, literacy and the rest. Inclusive

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<sup>4</sup> Shankar Acharya, 'The Savings-Investment Miracle', *Business Standard*, 27 March 2008.

growth remains elusive, with the result that with the approach of national elections, as right now, tough economics-dictated decisions become impossible, and short-term palliatives dominate. At root, India needs much better education, health and social policies.

Is India's high GDP growth sustainable over time? The available data confirms that it is. These past 18 years have seen paradigm change, amounting to an unleashing of latent energies. Yet, while exhibiting some features of a developed economy, India is going to remain a developing country for many years to come.

**Second, India's foreign relations in most regions, and its ties with the great powers, have become exceptionally fecund, covering the political, economic and the other segments.**

India's adjustment to the post-Cold War world order, and the demise of the Soviet Union was smooth. As C Raja Mohan observes in *Crossing the Rubicon*, looking back to six decades since Independence, the country now enjoys better ties with all the major power centers of the world than any time in the past.

Following India's May 1998 nuclear tests, the intensive talks between Jaswant Singh and Strobe Talbot produced a high level of strategic understanding with the US. It is another matter that the civilian nuclear deal painstakingly negotiated in 2007 has run into domestic opposition in India; if this deal fails, it will be a lost opportunity for India; but it is unlikely to affect the core relationship with the US.

In other regions and with the other major partners, political and economic relations are more productive than before, be it Central Asia, Africa or Latin America.

It is in the neighborhood that remains the weakness; SAARC and South Asia carry the label of 'the world's least integrated region'.<sup>5</sup> It remains to be seen if the opening up of SAARC, with the inclusion of China, Japan, South Korea and the US as observers, and the membership of Afghanistan, will give new impetus to break the logjam. India has been seen by others as a reluctant convert to regionalism, and needs to work to overcome that sobriquet.

Since January 2004, India and Pakistan have been negotiating about negotiations. This has produced better atmospherics, and a few positive small steps. With the completion of elections in Pakistan, high level contacts now resume, and the Indian External Affairs Minister's May 2008 visit Islamabad, the mood remains hopeful. The economic growth momentum in India is such that neighbors have the option of joining in or not, but they cannot block it, even if disputes, such as the one over Kashmir remain unresolved for a while.<sup>6</sup>

<sup>5</sup> Comment by the World Bank Managing Director at a business conference at Mumbai, January 2007, reported in the Indian press.

<sup>6</sup> See Sumit Ganguli, 'Would Kashmir Stop India's Rise?' *Foreign Affairs*, Vol. 85, No. 4, August 2006.

Similar flux, with positive overtones, is visible in the ties with Bangladesh and Nepal, where too, internal developments in those countries have thrown up new opportunities. The new direct Kolkata-Dhaka train service symbolizes a new trend—but did it have to take four decades to achieve this? In the case of Katmandu, the election of a new government through a transparent democratic process is a good sign. A few of the long blocked hydro-project (with a potential power capacity of 80 giga watts), are slowly moving forward on new commercial formulas that bring in the ADB and other third country partners. These projects have the potential of transforming Nepal into a middle-income country, on the kind of growth vector that has been exploited so well by Bhutan.

These neighborhood trends have strengthened India's capacity for wider external engagement. Two examples: Around 2000, the notion that Brazil, India and South Africa might exploit their shared global interests, to establish a framework of direct cooperation, started as a glimmer in the eyes of the three foreign ministers who met periodically at the UN headquarters in New York. In a few years, IBSA has taken shape, covering trade, transport and other forms of collaboration. A free trade arrangement to cover COMESA, MERCOSOR and India is under implementation. Another triangular dialogue is moving forward, between China, India and Russia, started as an exchange among scholars, and having moved forward to a T/1 process with three meetings held so far among the foreign ministers, besides a short summit level meeting at St. Petersburg on the margins of the October 2006 an extended G-8 gathering. Here again the driver is mutuality of interests, and a desire for stronger direct, economic, energy and other exchanges among the three large states.

India's capacity to contribute to stability and development in the Asia Pacific has been strengthened by its external policy. This has produced buoyancy in political engagement and economic exchanges between India and its partners in SE and East Asia, as well as in the trade and investment ties with the other countries.

**Three, India has neither the will, nor the capacity, to play a dominant role in the Asia Pacific; it depends on cooperative relations with all.**

India is not a revisionist state, pursuing a transformational international agenda. It works pragmatically to build cooperative relations with all countries.

India's arms profile is essentially of a defensive character. It devotes about 2.5% of its GDP to defense, and this figure has been more or less constant over the years. Most of this goes for the upkeep of its sizable standing armed forces; the country's weapons-related expenditure is modest, when seen in the context of the size, environment and its defensive responsibilities.

How will India accommodate itself to a China that is rising even faster? A couple of years back a Chinese scholar conducted interviews in India with this query,

during his sabbatical at one of our leading universities; he reported three kinds of responses, ranging from appeasement to confrontation, and observed: 'While both "appeasement" and "concirclement" are seen as failing or useless, a balanced (constructive, strategic or structural) will be the most possible strategy to deal with the rise of China... There will be competition as well as reciprocity and cooperation between them.'<sup>7</sup>

SE and East Asia is the meeting point of all the world's great powers since they are integral to the region, with the exception of the EU and its leading member states, which register their presence via their strong economic and political interests. It is unrealistic to posit future equations in the region through a simple analysis of likely relations between pairs of countries, without taking into account the complex interplay among all these players, notably China, Japan, Russia and the US, to say nothing of all the other leading regional powers.

ASEAN is too important to be left out of the equation, as a builder of constructive relationships, and as the fulcrum of balance and moderation. ASEAN's role in creating a web of concentric circles of soft security and multiple partnerships has no parallel, in terms of regional diplomacy as practiced around the world. Two examples are the ARF, and its Track/2 counterpart, CSCAP.

How does China see India, as a dynamic player in this region? That question is perhaps for China and the region to answer. One test will be how well the East Asia Summit (EAS) process develops, or whether China or any other country blocks it, preferring the ASEAN Plus Three (APT) process. India has a growing capacity to contribute to a stronger Asia, and remains committed to the EAS process.

A rising India is thus nested in such a framework, where cooperation is the dominant trend. The prevailing ethos and the self-interests of each, place a limit on the downside for bilateral relationships, as also on the potential danger of competition degenerating into contestation. What we are likely to see is a growing mosaic of sub-regional arrangements, and a clustering of activities built around shared interests among individual countries, many of them overlapping, and none of them exclusive.

**Fourth, the knowledge industry, entrepreneurship, and skilled manpower represent a special Indian strength, increasingly relevant in its external relationships, creating win-win situations. These people relationships are underpinned by India's cultural strength that has plurality as its hallmark.**

India's software industry, IT-enabled services and R&D have maintained annual growth rates of around 30%. In the financial year 2007-08, this software industry was worth \$63 billion, of which \$40 billion was exported. In like fashion, IT-

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<sup>7</sup> Zhang Guihong, 'The Rise of China: India's Perceptions and Responses', *South Asian Survey*, Vol. 13, No. 1, January 2006.

Enabled Services (ITeS) have grown, progressively shifting up the value chain, from call centers to 'knowledge process outsourcing' (KPO) activities.

Overseas Indians are increasingly recognized and valued for their entrepreneurship. Among the world's leading corporate CEOs a noticeable number are of Indians; a good number more occupy other high positions. In many countries, the Indian diaspora plays a prominent role in business, other professions and in public life in the adopted countries. India has told these communities, since its independence movement a hundred years back, to identify with their countries of residence. Despite occasional turbulence, these overseas Indians have contributed to India's close relations with different countries. At many places they are the drivers of good bilateral relations.

People-to-people linkage is a major feature of India's soft strength, contributing to deeper understanding with the countries concerned.

**Fifth, India's regional diplomacy is undergoing refinement and expansion.**

India was a late convert to regional and bilateral trading arrangements, having earlier nailed its flag to the mast of the WTO process and its multilateral trading arrangements. In 1999, India signed its first free trade agreement (FTA) with Sri Lanka, and this has been a learning experience with a very positive outcome. It has produced beneficial consequences for both countries, not only in merchandise trade, which is the prime focus of that FTA, but also unexpectedly in investments, communications and people exchanges. The two countries are now negotiating a comprehensive economic agreement (CECA or CEPA).

Experience with the subsequent FTAs, with Thailand and Singapore (the latter a comprehensive CECA covering multiple economic segments) has been equally positive, despite the apprehensions of some domestic business lobbies. The more ambitious India-ASEAN FTA is now close to finalization and is to be signed this year. Elsewhere too, India is pursuing FTA accords.

On the wider political canvas, India is engaged with this region through its comprehensive relationship with ASEAN and ARF, as also since 2005, the East Asia Summit (EAS) mentioned earlier, and ASEM, which it has joined this year. India's relationships with other sub-regional and cross-regional groups such as BIMSTEC are moving forward. The building of transport links between India's eastern states and Myanmar, which is gathering pace, will multiply sub-regional exchanges between India and all the countries that lie to its east, including the landlocked south-western region of China.

As noted, India needs to move forward in more active fashion in developing and exploiting all its regional options, treating the different groupings as parallel and overlapping conduits to eco-political cooperation.

**Sixth, the Indian experience with democracy, as well as political and societal governance, is relevant to its neighborhood and to Asia.**

Countries construct their constitutional and governance structures to suit their own genius and needs. Indians hesitate to tell the world that they have a working model that merits replication elsewhere. We do not believe that India has a responsibility to export democracy to other parts of the world. This flows not from lack of faith in our system, but from a realization that there are many paths in establishing accountability to domestic publics and governments that represent them. During the visit of President George W Bush to India in 2006, a leading Indian paper reported that his public speeches where he exhorted India to do more on the democracy front: 'It's the prospect of aggressive peddling of democracy in various parts of the world that makes India uncomfortable.'<sup>8</sup>

Nevertheless, the Indian experience with its particular version of democracy, especially accountable governance in large country, endowed with multiple pluralities of religion, ethnicity, culture, language and communities, offers an interesting model. We believe that mutual tolerance and coexistence among different religions, cultures and ethnicities, is of enormous value in our shrinking, interconnected, and globalized world. In like fashion, India has much to learn from the experience of others.

Take one instance: the practice of external relationships, bilateral, regional and global, that goes under the rubric of 'diplomacy' is one subject area in which there exists rich scope for comparative learning. Other areas, such as development administration, local governance, financial management, offer even richer scope for mutual learning. Using public-private partnerships, the countries of the Asia Pacific have much to gain through mutual exchange mechanisms that get away from governmental committees to real epistemic communities that share their domain knowledge. India would be a full partner in such actions.

To sum up, India is a partner of choice in its external relationships, bringing value and offering itself as a dynamic interlocutor. It seeks: balanced, cooperative relations with the major powers, claiming neither exclusivity nor affinity with any restrictive groupings, or identification with narrow agendas. India's economic growth buttresses its position, especially in Asia. India works to reinforce relations with small and medium states, sharing their commitment to stability, autonomy, mutual non-interference, and non-exclusive cooperation with all states.

Is it not strange that of all the world's continents and major regions, Asia is the only one that does not have a movement for unification, or even attempts to move in that direction? The very concept of a 'pan-Asia' identity seems novel, unfamiliar. And yet, for all its differences, Asia has elements of cultural unity and

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<sup>8</sup> Frontpage article in *The Times of India*, March 4, 2006, cited in Rana, *Asian Diplomacy: The Foreign Ministries of China, India, Japan, Singapore and Thailand* (DiploFoundation, Malta and Geneva, 2007), pp. 162-6.

intrinsic affinities among its peoples. We may legitimately expect that the rise of individual countries and sub-regions in Asia will also become a platform for new trends towards stronger unity. In that sense, the East Asia Summit mechanism is the harbinger of this pan-Asian sense of unity, and a latent will on the part of Asian states, to work more closely together.

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