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## THE DYNAMICS OF INDIA'S RISE: NATIONAL IMPERATIVES AND INTERNATIONAL ASPIRATIONS

*Rise and Fall of the Manmohan Doctrine*

by

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## **Rise and Fall of the Manmohan Doctrine**

India was able to increase its GDP growth rate to nearly 10 per cent per annum by 2008-09 (India's financial year runs from April to May). Within a year, however, this growth rate began to fall and in the last two quarters, January to June 2013, the growth rate is now less than 5 per cent.

There is a direct link between India's economy and the nature of Indian foreign policy. In many ways, this undergirded what was popularly known as "the Manmohan Doctrine." This was less a doctrine than a simple sense, enunciated and practiced by Prime Minister Manmohan Singh in his first five years in office, that India growth trajectory massively increased the resources and overseas leverage available to the Indian government, injected a sense of confidence in the Indian polity and led other countries to begin taking India more seriously as a bilateral or even global partner.

### **1. 1999 to 2008: Foreign policy confidence.**

The most striking example of the leveraging overseas interest in a rising India was the decision of the United States government under George W. Bush to negotiate an exemption for India from the restrictions placed on its nuclear programme by the Nuclear Nonproliferation Treaty -- all as part of a larger attempt to build a strategic relationship with India. The US interest was multifold, but underlying it was a belief that the world's largest democracy was at last digging itself out of a hole and would therefore be a partner worth cultivating.

Indian foreign policy during this period was also helped by 9/11, the US toppling of the pro-Pakistani Taliban regime, and the resulting drop in friction between India and Pakistan. New Delhi's belief is that the new, more aggressive norms introduced by the US against terrorism, the huge distraction the conflict in Afghanistan caused Pakistan and its own economic progress led Pakistan to agree to a border ceasefire in 2003 and a back door negotiation on Kashmir. Levels of violence inside Kashmir and along the border fell to record lows and have begun to rise only in the past two years -- as the US began withdrawing from Afghanistan.

Under Pervez Musharraf, Pakistan also began to hold back channel diplomatic talks that began outlining a settlement on Kashmir that assumed a territorial status quo.

However, India also began to see what it hoped was a stable modus vivendi unravel with China. Beijing's acceptance of the Sikkim agreement in 2005 seemed to indicate material progress on the border dispute between India and China was possible and the growth of trade -- with China became one of India's three largest trading partners by the mid-2000s -- the sense in New Delhi was that they were heading for a comfortable if not friendly relationship with China.

A shift in China's Kashmir policy, a sense of increased border tension and resurrected Chinese claims on the state of Arunachal Pradesh led to a striking rise in anti-Chinese sentiment in India. In 2005, polls showed that a majority of Indians were admiring of Chinese accomplishments. By 2013, some three-quarters of Indians saw China as a strategic threat. At the official level New Delhi simply found Beijing unpredictable in its actions, leading to

heightened threat assumptions. None of these events, however, led to a loss of life or had major serious military fallout.

Less recognized is that New Delhi also sought to be a more constructive player in the international system in the period up to 2008-09. It came to an agreement with the United States on shifting its position at the Copenhagen summit in a bid to help President Barack Obama break his climate change logjam with the US Senate. It negotiated over a dozen free trade agreements, joined the G-20 where -- notably at the Pittsburgh summit -- it played a pivotal role, and helped breathe some life into emerging economy groups like the BRICS and the India-Brazil-South Africa combination. Only a number of technicalities, largely over its nuclear status, have stopped it from becoming an observer at the OECD, joining the Nuclear Threat Initiative and the International Energy Agency.

India's cabinet cleared the doubling of the undersized Indian foreign service to 1800 members. New Delhi also massively increased its participation in bilateral and multilateral military exercises, the most notable being the Malabar naval exercises in the Indian Ocean.

## 2. 2008 - 2014: Economic walls come tumbling down.

The basis of both the growth in Indian capacities and Indian confidence in using them was its GDP growth rate. As mentioned, this peaked in 2008-09 largely because of an investment to GDP ratio that rose to 38%, meaning the Indian economy was flying on "two engines" -- investment and consumption. Manmohan Singh for the first time began speaking of India growing at the rate of 10% on a sustainable basis. However, this proved not to be the case and, in hindsight, was probably never so because of deep structural problems in the Indian economy.

The reasons for India's economic fall:

One, the immediate downer was the global financial crisis which, after a one year lag, was blamed for a drop in India's economic growth. The crisis definitely caused a temporary current account problem as foreign capital left the country and exports slumped. Most economists argue about a third of India's subsequent growth slump can be blamed on the global financial crisis.

Two, a series of corruption scandals afflicted the government from 2009 onwards. Many of them resulted in policy paralysis in key economic sectors like power generation -- because of concerns about the allocation of coal reserves; telecom, at one point the largest and fastest growing source of service sector growth; and road and port development. This was merged with an election driven policy to block environmental clearances for infrastructure projects in an attempt by the ruling Congress Party to woo tribal and forest-dweller votes. The net result was a collapse in investment, especially in investment by the private corporate which has fallen from 17.3% of GDP to 11.6% since 2008-09. Household investment in gold has held up investment figures, but clearly this is less economically useful -- as can be seen in the halving of Indian productivity during the same period.

Three, the policy paralysis triggered by the corruption scandals became a more widespread phenomenon because of a diminution of Singh's authority and the assertion of that of the Congress party leader, Sonia Gandhi. Gandhi's entry into the policy making fold meant a sharp increase in the government's expenditure on welfare. This reflected her belief that such expenditure was the means to ensure electoral success.

Fourth, but most important, was that almost the entire 10 year life of the Singh government was marked by high inflation, especially food inflation. Food inflation has been especially high, running at 11-13% per annum since 2008-09 -- the highest sustained run since the 1950s. New Delhi was never able to control this and, in a country as poor as India, the price issue savagely eroded popular trust in public institutions. The causes of this inflation are debated, but it is likely to be a combination of factors including infrastructure bottlenecks, supply chain wastage, high demand and the government's fiscal looseness. The point is that Singh's government addressed none of these problems -- its only solution was to propose a food subsidy programme.

More fundamentally, this chronic inflation was evidence that India's economy was simply structurally unable to grow above seven per cent without triggering politically fatal increases in prices. Deep seated economic reforms were required but the leftist-oriented Sonia Gandhi did not support such moves and Singh was too politically hamstrung to get such reforms, some of which would have required state government support and constitutional amendments, carried out on his own.

#### 1. 2008 to 2014: Foreign policy flounders.

The first Singh government was marked by a major foreign policy success, the Indo-US nuclear deal, which was ultimately about trying to build a genuine strategic partnership between the two countries and burying a half century of distrust and bickering.

The deal was successful but the Indo-US relationship foundered subsequently. Indo-US relations are not hostile and remain strong on the defence and intelligence side. But the two have returned to a pattern of bickering over small things.

The reasons for this were:

One, Barack Obama's unhappiness that India passed a liability bill that made it difficult for Indian to buy US-made nuclear reactors. Obama generally took a more transactional view of the relationship than his predecessor and was therefore disappointed when Singh was unable to carry out this and other economic initiatives that would have benefited the US.

Two, Obama's quasi-isolationist foreign policy undermined what India had seen were the geopolitical foundations of a closer Indo-US relationship. This included the maintenance of an independent, non-Taliban government in Afghanistan which was undermined by the US withdrawal from that country.

Three, the other basis, cooperative action to help ensure China followed a nonaggressive foreign policy path, fell apart when Obama embraced the G-2 policy with regards to China. There were other minor policy disputes over Sri Lanka and Bangladesh.

Four, the US also decided to pursue the TTIP and TTP and broadly abandon the WTO as an institution that had become dysfunctional -- in part because of India's own obstructionist positions. USTR remains among the most negative institutions in the US regarding India and is quite clear that it hopes to use TTIP and TTP to marginalize emerging economies in the multilateral rules-making game in trade.

The news on other foreign policy fronts deteriorated or got worse.

Pakistan, the traditional source of international attention about Indian foreign policy, was at an impasse for much of the past five years. This reflected the lack of any clear authority on the Pakistani side to hold talks with. It also reflects the fallout of the 26/11 terror attack on Mumbai which meant that Singh, a strong advocate of the peace process, was unable to visit

Pakistan during the entire 10 years of his rule. India also saw a period of relative quiet in Kashmir and the Line of Control saw there was no immediate reason for India to join in.

India's relations with China deteriorated, a period roughly coinciding with the last years of Hu Jintao's rule.

But the real foreign policy potential of the second Singh government lay with a turnaround in India's traditionally difficult relations with its smaller neighbours. Singh and his NSA Shiv Shankar Menon saw this so called peaceful periphery policy as the core of their second term foreign policy.

The circumstances were propitious. India had seen over the past decade an end of two civil wars in its neighbourhood, Sri Lanka and Nepal; the election of a pro-Indian government in Bangladesh with an 80% majority in parliament; a related record drop in insurgent violence in its Northeast and Kashmir; and the ending of Western isolation of Myanmar.

The key to this strategy was a) a sweeping settlement of all outstanding territorial, economic and water disputes with Bangladesh, b) building an infrastructure network connecting the Northeast to Southeast Asia, Bangladesh and mainland India. However, a combination of political mismanagement by Singh's government and stubborn resistance from a regional party led to the Bangladesh agreement fell apart. This would have been historic, a major move to settling India's border region and its eastern border.

At the heart of this policy was a recognition that any talk of India playing a larger global role was dependent on it first sorting out its relations on its own borders. Given the difficulties of working with Pakistan, the smaller neighbours were the right place to start.

## 1. New Indian government

The newly elected Indian government of Prime Minister Narendra Modi was noteworthy because it saw the first single-party absolute majority in India since 1984. He has made it clear his focus will be on restoring the damage done to the Indian economy and his aides speak of a two-year period to do so.

It is not yet clear what specific policies he will be carrying out in the next three months, but the agenda seems clear:

A) Fiscal consolidation in the form of welfare spending caps, reduced subsidies but possibly even higher taxes to curb a runaway fiscal deficit that is probably close to 7% of GDP. It is likely the government will sell off stakes in many state-owned firms especially in the banking and infrastructure sector.

- A. FDI opening and raising of limits in areas like insurance, defence, e-commerce and the like. Foreign investors will also be reassured by the abolition of retroactive taxes.
- B. Making manufacturing and infrastructure development easier by amending onerous land acquisition practices and environmental clearances.

Long term, he has spoken of introducing a nation wide general services tax designed to end the present fragmented tax system within one year. This would be the first major step towards addressing the deeper structural problems in the Indian economy.

Modi's foreign policy is even less clear. But he has spoken of a diplomacy focussed on helping the economy.

This will mean a strong Look East focus, especially in terms of investment by China and Japan. He is known to be strongly influenced by the example of Southeast Asia: Goh Chok Tong is the closest thing he has to an international mentor.

His relations with the West, which imposed a visa ban on him for his role in anti-Muslim riots in 2002, will be more ambiguous: economics without strategy.

However, one can expect a more inward-looking India in the next two years, not least because Modi has never served in Delhi before. Diplomacy will not be a priority: he has chosen his primary interparty rival as the foreign minister and chosen an internal security expert as his NSA.

The real test will be what Modi's view of the world will be about two to three years from now and that will depend greatly on whether he can pull India out of its present economic slump.

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