

## **GEOPOLITICS IN AN ERA OF FLUX: CHALLENGES AND OPPORTUNITIES FOR INDIA**

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I am delighted to be with all of you on this momentous occasion of the 54<sup>th</sup> Foundation Day of the National Institute of Bank Management. Thank you for inviting me.

NIBM was established in 1969 and in just over half a century, all of you have helped in building an institution of national importance. I salute each of you for contributing to this noble task and convey my greetings to all of you present here today on this 54<sup>th</sup> Foundation Day. I am confident that NIBM will continue to prosper and grow in the years ahead. To all the students present here today, I would like to say that as each of you forges ahead in your respective careers in the near future, there can be nothing which can bring you more joy than giving back in one way or the other to your Alma Mater. By doing so, as each of you reaches greater heights, you will continue to strengthen and consolidate this institution.

I am going to talk to you this morning about the world of today, how geopolitics is in a state of flux and as a result, how geo-economics too is rapidly adapting to changing circumstances.

One of the most significant international developments of the past 20 months has of course been what has occurred in Ukraine. While the West focuses on the aspect that an independent, sovereign Ukraine has been invaded by Russia, on the other hand, the Russians say that they are conducting a special military operation in Ukraine. While there is truth in the fact that Ukraine gained its independence about 4 decades ago and has been recognized by other nations with its own seat at the United Nations, there is also great significance in the Russian argument that they had over several years warned the West that Moscow could not just sit back and watch the eastward expansion of NATO or the North Atlantic Treaty Organisation. Putin had clearly warned in no uncertain terms that Russia would not tolerate its neighbouring countries like Georgia and Ukraine becoming a part of NATO. As Russian Foreign Minister Lavrov keeps arguing – Russia cannot just watch neighbours become members of a Western military alliance and have US missiles located in those countries aimed at Russia. When

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\* The author was a member of the Indian Foreign Service from 1984 to 2018 and India's former Ambassador to Bhutan, Pakistan and China. This is the text of his lecture on the occasion of the 54<sup>th</sup> Foundation Day of the National Institute of Bank Management, Pune, on September 24, 2023. The views expressed in the lecture are author's own and in no way to be ascribed to NIBM or its Board of Governors.

this threat to Russia seemed to be close to materializing, Moscow took military action against Ukraine.

Let me give you an example from India's own neighbourhood, which all of you will be able to relate to. If missiles aimed at us, were to be placed in a neighbouring country to our north or south by a third country, how do you think India would respond? As a student of international politics as well as a former practitioner, I can categorically tell you that India would take actions which would negate such a threat to us by taking out the missiles. This is exactly how Russia has reacted.

At the same time, India has indeed been concerned by Russia's action against a smaller, less powerful but independent nation. These actions have clearly infringed Ukraine's national sovereignty and territorial integrity. This is exactly what Prime Minister Modi conveyed to President Putin when he stated that this is not an era of war. There is no doubt in my mind that this was a rebuke delivered diplomatically by our Head of Government.

India has also had to carefully weigh the fact that Russia as well as its predecessor State – the Soviet Union – has a very special relationship with India which covers military hardware, nuclear commerce and space cooperation. In all three areas India has gained immeasurably from Russia, who has been our friend over the long term. How the then Soviet Union backed us to the hilt during the Bangladesh crisis of 1971, is well known to all of you.

Today, we take our rocket technology as a given when we launch missions like *Chandrayaan 3* or *Aaditya L-1* into outer space. Decades ago, it was the Russians who helped us with cryogenic engine technology to power our launch vehicles. We do owe them a debt of gratitude. What is better known in India is our dependence on Russian military hardware – whether it is the Sukhoi 30 MKI aircraft of the Indian Air Force of which 2 squadrons are based here in Pune, or the T-90 tanks of the Indian Army, or the more recent S-400 missile defence system. The Indian Navy too had significant purchases from Russia such as the Kilo class submarines and the INS Chakra nuclear submarine which is on lease to us. These are only some examples of our defence imports from Russia. It is not an exhaustive list.

Today, our relationship with Russia has another very important component namely oil and gas of which we imported fair quantities at very reasonable prices from Moscow over these past 20 months. As an energy-dependent economy, this was in our nation's national interest and eventually benefited our consumers.

All these facets had to be weighed together very carefully and in a calibrated manner when India had to take a position on the Russia-Ukraine situation. There was no

question of condemning Moscow because the West wanted us to do so. Our nuanced view was based on our own national considerations and continue to be guided by our own interests. Our External Affairs Minister has defended and explained the Indian viewpoint very ably and eloquently in his many interviews to European and US media outlets as well as at international conferences in those countries. At the same time, we have not given Russia a free pass. We have repeatedly called for a halt to bloodshed so as to give diplomacy a chance for a peaceful resolution of the issues. Prime Minister Modi's comment to President Putin that this is not an era of war has got wide-ranging coverage in the world media.

What I would like to highlight to all of you today is that where international affairs are concerned, India takes its own position based on the facts and the merits of the case so as to ensure that Indian interests are protected and promoted. We have never in the past, not in the present and surely in the foreseeable future be dictated to by others. India takes its own decisions on international issues. The positions we adopt are dictated by national interests. There is great continuity in this matter where Indian foreign policy is concerned.

Other big powers are not averse to attempt arm twisting in order to make India take a decision which is favorable to them on such issues. Over the decades India has become adept at recognizing such moves but arriving at decisions which are not dictated by others. The more powerful India becomes the less will attempted arm twisting be of any significance to us.

There are two other points I would like to make on the Ukraine matter. The first is that while the West has come to Ukraine's help by levying economic sanctions on Russia and selling arms and equipment to Kiev, what is significant is that no country whatsoever has sent troops to fight on behalf of Ukraine. The lesson that India should draw from these events is that if push comes to shove, we ourselves will be alone in a fight with any of our enemies. This was amply clear over the last three years on our Ladakh frontier when the Chinese attempted to make major changes to the status quo on the ground. It was the Indian military which thwarted China and both sides continue to deploy large numbers of troops in close proximity to each other in Eastern Ladakh. The lesson is that India needs to grow more powerful and enhance its comprehensive national power to protect itself.

The second but related aspect I would like to highlight is that when major powers take important geopolitical or geo-economic decisions they are not likely to be deterred by economic sanctions which may be levied by other countries. They are willing to undergo short term pain in order to ensure long term gain. When India undertook its nuclear tests in 1998, we too were sanctioned by the West as well as by China. That

did not deter us from our decision to go overtly nuclear and we did endure short term pain.

One last aspect of the Russia – Ukraine imbroglio which I would like to highlight is how the situation in that part of the world has impacted economics all over the globe. Since both nations are large exporters of grain, the hostilities there have negatively impacted the availability and jacked up the price of this commodity to the detriment of consumers in many countries. Attempts to forge a grain corridor for the export of wheat have been sparked by ordinary people having to pay inflated amounts for their daily purchases. Similarly, we in India import large quantities of sunflower oil from Ukraine, the price of which shot up manifold in the immediate aftermath of the commencement of hostilities. Today, the price of sunflower oil in India has moderated slightly as other suppliers have kicked in. The recent New Delhi G-20 Leaders Declaration also acknowledged the negative added impacts of the war in Ukraine on global food and energy security, supply chains, inflation and growth which has complicated the policy environment for many governments. The point I highlight here is how geopolitics impacts geo-economics. Hostilities in one part of the world are impacting the economies of so many diverse nations.

Another aspect of the Russia – Ukraine situation which we cannot afford to ignore is the limits of American power. One famous U.S. scholar had termed the period after the splintering of the former Soviet Union, the end of the Cold War and the pre-eminence of U.S. power as the “end of history”. Well since the early 1990s and particularly after the disastrous wars in Afghanistan and Iraq, today we can clearly see that there are finite limits to American power. This is a trend of great import even though the United States continues to remain the pre-eminent military power in today’s world. On the technology front too, it is the first among nations. However, the days when the United States could do whatever it pleases in any corner of the globe are over. And this has happened due to the economic rise of other nation states particularly many in Asia.

While I have spent quite some time talking on the Russia – Ukraine war since it has impacted geopolitics severely, the most important major trend in international politics is of course the rise of China. That country has experienced annual GDP growth in double digits for almost 4 decades and today she is the second largest economy in the world at roughly USD 18 trillion and is close on the heels of the United States which is a USD 25 trillion economy. What is important to note is that, like other countries which have had rapid economic growth, China too is experiencing simultaneous improvements and progress in her military strength, in education facilities, in innovation and in technology development. China’s comprehensive national power

today closely rivals that of the United States. What is even more significant is that Washington clearly perceives Beijing as a peer competitor and has moved to cut her down to size. The actions taken against Chinese telecom firms such as Huawei and ZTE is one such example. The Chips Act in the U.S. aims at denying China access to state-of-the-art semiconductors, which are critical in many new products manufactured today from electronic items to automobiles to weaponry. The move to manufacture sensitive items in the United States again also has the objective of ensuring the reliability and resilience of critical supply chains. In keeping with such moves, Apple the US behemoth has asked its suppliers such as Foxconn, Wistron and Pegatron to manufacture in India. While this is a welcome development for us – we have to ensure that these Taiwanese firms find it easy to do business in India. I have been arguing for the central government to appoint a Sherpa for such critical investors who would be a relatively senior functionary in government tasked with helping such firms navigate the bureaucracy in India and obtain approvals and licenses where necessary. The fact of the matter is that the US is now clearly challenging China as she rises not merely in economic power but also in military power and in technological innovation. The tussle for power has truly been joined. The next 40 to 50 years will see geopolitics embroiled in this joust between the two major powers of the world. Every country will have to adjust to this new reality and decide how to position itself in this battle for supremacy.

In this power competition between the United States and China, most Asian nations are sitting on the fence since that posture suits them best. Whichever of the major powers comes out victorious, Asian nation-states will be well positioned to gain.

India is being courted by Washington, to side with it in its competition with Beijing. The fact of the matter is that even today, China, the U.S. and India are the three largest economies in the world in PPP terms. Even in absolute terms, this will be the situation soon enough as India rises to become the 3<sup>rd</sup> largest economy in the globe. Washington believes that our common values of democracy, securing the rights of the individual and adherence to rule of law, backed by the common interest of recognizing China as the spoiler in a rules-based order, which is also at odds with India on territorial issues will ensure that two of the big three will be on the same side of this competition.

Washington has taken many steps to win New Delhi over. The civil nuclear deal of 2008 brought India in from the cold where nuclear issues were concerned. From being outside the tent and being seen as the spoiler in nuclear non-proliferation we were accepted as a responsible player in nuclear matters. Romancing India has continued apace in the Bush, Obama, Trump and Biden Presidencies. The recent decision to sell India jet engines and technology in manufacturing them is another example of the lengths Washington will go to win us over. There is a particularly strong social connect

between India and the United States epitomized by the 4 million odd Indian – Americans who have made the U.S. their new home. The focus on the Indo–Pacific with the Quad bringing together the four democracies of Japan, Australia, the United States and India is another pointer of the way Washington is thinking and acting.

What should New Delhi be doing? Does sitting on the fence suit our national interests? Like other Asian nations, should we too be not taking sides?

Till 2019, India too could afford to sit on the fence without taking sides between the two major powers of China and the United States. However, this is no longer the case. Things changed dramatically in April – May 2020 when Beijing moved large numbers of troops to the border with India at Eastern Ladakh. Let me explain why India cannot but take sides in the tussle between the two pre-eminent powers in the world.

In December 1988, India's former Prime Minister Rajiv Gandhi visited China. It was the first visit to China by an Indian Prime Minister in over 3 decades. Incidentally, I happened to be stationed in Beijing at that time – as a young diplomat. The agreement that emanated from that very important set of meetings between the leaders of India and China was that on the one hand the two countries would make serious attempts at resolving their differences on the boundary and at the same time ensure that peace and tranquility reigned in the India – China border areas. On the other hand, both governments would advance bilateral ties in other areas including economics, culture, scientific cooperation and technology transfer. In the pursuing years after that path breaking visit, the governments of India and China concluded several agreements aimed at ensuring that the India – China border was peaceful. So from 1988 to 2019 the template in which the bilateral relationship functioned was that on the one hand the border would be kept peaceful while on the other, trade, commerce and other cooperative activity would be permitted to move ahead smoothly. As a result, bilateral trade grew exponentially and by 2019 China enjoyed a huge surplus vis-à-vis India. So, China did benefit enormously from its relationship with India.

Then in April 2020, China suddenly moved large numbers of troops to the border in Eastern Ladakh. More than 2 Divisions of soldiers. That implies anywhere from 50,000 to 60,000 soldiers. Remember that sudden increases in troop strength on the border was expressly forbidden by many of the agreements signed over the years by Beijing and New Delhi. Hence, this movement of troops itself was a violation of those agreements. India reacted by also bringing equally large numbers of troops to Eastern Ladakh. As a result, soldiers from the two Armies were almost eyeball-to-eyeball and a small misstep could blow things up. This is exactly what happened at Galwan on the night of 15 – 16 June 2020. While the agreement between India and China was that their frontline troops would not carry weapons, both sides had sticks, stones, tasers,

barbed-wire clubs. At first, Indian troops were outnumbered but later that night as reinforcements came up to the incident site, there was heavy hand-to-hand fighting. India lost 20 soldiers and officers. The Chinese side which never acknowledges its losses in battle has so far accepted 4 deaths. Witness accounts from the Indian side lead me to believe that Chinese losses were several times that number. An Australian think tank has done some work on this subject and also come to the same conclusion. This was the first such loss of life on the India – China border in over 3 decades. It was a very serious incident.

Now remember – it was China and its leadership which decided to give up the template of the past of maintaining peace on the India – China border. It was they who decided to take the risky step of bringing in large numbers of troops. India was only reacting to protect its own territorial integrity. Hence, the onus of the present situation on the India – China border lies entirely with China. So too does the responsibility for the current downturn in bilateral relations.

Let us analyze why China may have decided to break with the past in ensuring peace on the border and moving large numbers of troops to Eastern Ladakh. In my view, there are two main reasons for China to do this. One is a tactical reason, the other more strategic. The tactical reason is that China wanted to occupy at least some territory which it claimed as its own but which it did not have actual control of. This kind of situation does exist in pockets of the India – China boundary. Let me share with you that at best China may have gained control of a few square kilometres of land. Indeed, there are certain patrolling points and patrolling routes which the Indian Army used to go up to in the past and which we are not able to do at present. However, for these minor tactical gains on the ground, China has lost India from a strategic perspective. China's actions over these past 2 years has moved India immeasurably closer to the United States. It has also moved India closer to Japan and Australia.

The second important reason that China undertook the actions she did in Eastern Ladakh is to show India, to show the rest of Asia as well as to show the world at large that she is the big power in this part of the globe. China is the hegemon in Asia and other nation states must acknowledge it. India has definitely not accepted this proposition. Neither have many other countries of Asia. Why does China have to show that she is the hegemon in Asia? The answer is simple – before challenging the United States in her own backyard, China must ensure that she is the foremost power in its part of the world which is Asia. China is already bullying South East Asia in the South China Sea region. The next Asian country to see China's might had to be India on the disputed land frontier between the two.

As all of you will readily acknowledge, China's actions have spurred the development and growth of the Quad or the Quadrilateral Security Initiative which groups together the four nations of India, Australia, Japan and the United States. The speed at which the Quad has grown to be a leader's led forum indicates how countries are reacting to Chinese heavy handedness and outright muscle flexing not merely on the India – China border but also in the South China Sea, in the Taiwan Straits, in the Senkaku Islands claimed by Japan and its attempted economic arm twisting of Australia.

However, as I have argued earlier – we shall have to fight off China on our own. We shall get diplomatic support and perhaps also armaments from the United States and the West but they will not ever send soldiers to our borders. If looked at from their perspective – this position is in their own national interest. Neither should we expect it. Neither should we want it. However, we must realize that we need to build India's military strength as well as our economic strength. They go hand in hand. One will not sustain without the other. Therefore, India needs to put its head down and ensure that we achieve high rates of GDP growth over an extended period of time. We require 7 to 8 per cent annual growth over 20 or 25 years. Along with such rapid development we also need to enhance our spending on defence and military preparedness at least in the short run. As a result, there will be less available for development purposes.

However, let me now get back to the India and China story. China's reaction to the border shenanigans has been to argue that border issues should be kept separate from trade, commerce and economic interactions. Naturally, they would argue so since they benefit tremendously from it. They have an annual positive trade balance with India to the tune of 90 - 100 billion dollars. Why would they want to lose that? On the other hand, India has been arguing that if there can be no peace on our borders then the rest of the relationship cannot but be negatively impacted. This includes trade and commerce. Over the past 2 years apart from periodic military level meetings on the Ladakh frontier and a few interactions between our Foreign Ministers, all other India – China bilateral interaction between the two governments has been frozen. Trade may have increased in 2022 but that is entirely due to the rebound in global commerce after the disastrous pandemic years of 2020 and 2021. There is no doubt that relations between India and China have deteriorated dramatically since 2019. As I said earlier – the blame rests largely on China.

What does India do to signal its unhappiness with China over the current situation on our border in Eastern Ladakh? The answer is quite simple. While we maintain our military strength on the border, we have to hit where it matters. That is – in the purse. This is the reason why the government of India has banned several Chinese apps from the large India market. Believe me it has hit those firms pretty hard. This is also the



reason why India has decided that Chinese companies will not participate in India's 5G trials and roll out. We are working closely with our partners in the Quad on both 5G and 6G technologies. Being kept out of the large Indian telecom market is a definite setback for Chinese telecom firms such as Huawei. India has also tightened its foreign direct investment rules to apply a national security yardstick denying many Chinese companies from setting up shop in India. The tale of MG Motors is one such example where that firm is now being forced to find an Indian JV partner.

There are industrial sectors in India where we are significantly dependent on Chinese imports. The pharma industry is one example where almost seventy per cent of our imports of Active Pharmaceutical Ingredients (API) is from China. This is one sector where the government of India is actively pushing *aatmanirbharta*. All of us from Pune remember how important a player Hindustan Antibiotics was in India's pharma industry. It went bust due to competition from cheap Chinese imports. Government of India is willing to assist such firms to build up their business anew in order to ensure that our dependence on China reduces. Reliable and resilient supply chains are the demand of the hour and we will need to ensure that India becomes part of the restructured global supply chains which are forming as a result of the geopolitical and geo-economic upheavals of the past 3 years.

Whenever I interact with people from industry or the world of banking and finance, I tell them that while India will not be in a haste to de-couple from China we shall steadily ramp up domestic manufacture of those items where we have a competitive advantage. These include sectors like pharma, auto components, chemicals, and newer sectors such as EVs, semi-conductors. The writing is on the wall. We must Make in India rather than buy cheap from China.

Permit me to add just a quick word about the Covid induced pandemic. I prefer to call it the Wuhan Virus although there are not many in the world who want to do so as it attracts the wrath of Beijing. The Wuhan Virus has indeed been a black swan event which has contributed to the shifts which are taking place in both geo-economics as well as geo-politics. For a country like India there are many opportunities which are being thrown up as a result of this changing and shifting world order. We need to make full use of such opportunities rather than once again letting them bypass us. The magnificent way in which Indian vaccine producers including the Pune-based Serum Institute of India rose to the challenges posed by this Wuhan Virus induced pandemic gives us much hope.

Where do India – China relations go from here? India will not agree to let things get better if China does not restore the status quo ante on the Ladakh frontier. I do not see the Chinese agreeing to do so and give up whatever minor gains they may have

achieved. Therefore, I predict a further deterioration in India – China ties over the coming years.

With deteriorating relations between India and China on the one hand, as well as enhanced competition between China and the United States on the other hand, there is still plenty of scope for a middle power such as India to make its mark on the world. We have just shown how this can be done at the New Delhi G-20 Summit. We were able to voice the concerns of the Global South. We were able to forge a consensus on the Leaders Declaration. We were able to host an impeccable Summit. We did not agonize over the absence of the Chinese and Russian Presidents. It is this self-confidence which will stand us in good stead in the future. It is all of you, the younger generation of Indians who will have to ensure that the full potential of India is unfurled in the near future.

Remember, the key will be for India to focus domestically, grow its economy exponentially, enhance our comprehensive national power by leaps and bounds. This will have to be accomplished in a 15 to 20 year horizon. How we achieve these goals is not for me – a senior citizen – to pontificate on. It is for all of you – the younger generations of India – to think about and provide solutions to.

Thank you for listening to me so patiently.