

WHERE GEOPOLITICS MEETS BUSINESS

February 13-14, 2017

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Foreword

Gateway House, Indian Council on Global Relations, and the Ministry of External Affairs, are pleased to co-host the second annual Gateway of India Geoeconomic Dialogue on 13-14 February 2017 in Mumbai. We are proud to once again welcome to Mumbai the many great minds in economics, politics, business, international relations and security.

This year's speakers will debate the key issues of geoeconomics and India's vigorous economic diplomacy engagement. In a world that is changing dramatically in geopolitics, technology and security, economics can be the stabilizer—or the spoiler. Which will it be?

The Gateway of India Geoeconomic Dialogue will serve as the platform for discussions on these present and pressing issues, and aim to decipher the emergence of a new world order—and India's role in it. There is no better Indian location to understand this connection between business and foreign policy than Mumbai. This city is the country's commercial capital and home to a large number of vibrant corporations, entrepreneurs, media houses—all enmeshed in the security and new technology matrix. It is for this reason that the Dialogue is anchored here.

As with last year, the conference is issuing a compendium to open a conversation on the session themes, with contributions by expert commentators. Is the world really becoming de-globalized? Can the Reserve Bank of India step into a new role in the rapidly digitizing India? Who pays the real penalty for tax avoidance and tax evasion? Does India have a standing in the Indo-Pacific or does it have to work harder to be a serious participant? Is there really a new geopolitics and security game afoot in the waters of Asia? And—the Silk Route was preceded by a cotton route from India to China; can this be revived to strategic advantage in the Great Corridor Buildout by China and Russia in Asia?

We hope that this collection of thoughtful essays will help delegates reflect on the themes and raise pertinent questions during discussions at the Gateway of India Geoeconomic Dialogue and beyond.

Aditya Phatak
Elvira Eilert Pignal
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Editorial Team
Gateway House: Indian Council on Global Relations
Mumbai
February 2017

A new, consensual world order

The era of globalisation is drawing to a close and a new one is emerging—an era of bilateralism over globalisation, of domestic over foreign focus, and reality-based policy-making

Neelam Deo and Manjeet Kripalani

Prime Minister Narendra Modi was voted in with a big majority in 2014 on the agenda of development and job creation. Brexit came about because of shrinking job opportunities in the United Kingdom. And Donald Trump became the President of the U.S. on the promise to bring back jobs to America.

Across the world, the creation of employment at home now supersedes the earlier discourse of democracy promotion and the Washington Consensus of free markets and free trade that has, for many decades, under-written globalisation.

That era of globalisation is drawing to a close, and a new era is emerging—one of bilateralism, domestic focus, and ground reality-based policy setting. It's the opposite of the general theory of physics, which seeks one universal explanation. Instead, the visible diversity is finding political acceptance.

This is apparent in the emergence of a new U.S. foreign policy doctrine—bilateralism—evident in the flurry of executive orders that Donald Trump issued in the first weeks of his administration. These are calling into question the post World War II order—military alliances like NATO, mega trade agreements like the Trans-Pacific Partnership (TPP), political unions like the EU and the Association of Southeast Asian Nations (ASEAN), and financial frameworks, like the World Bank-IMF. It is significant because the U.S. championed these initiatives. Since it remains the world's leading policy-setter with economic, military and scientific might, the new, more collaborative order will still be largely determined by the U.S.

The obligation to create jobs necessitates an inward focus that

is expressed in a nationalistic vocabulary. While the globalisation narrative was led by the edifice of Bretton Woods, it was actually the multinational corporations that benefited the most. Profits multiplied as jobs were sent to low-cost centres, new markets were pried open and taxes efficiently avoided through the mushrooming global tax havens. Recreating jobs for Americans was at the heart of Trump's presidential campaign, and Brexit was a move to protect jobs from the influx of migrants, primarily from East Europe.

It was an ironic situation. A call for de-globalisation decided the outcome of an election, in a country that evangelised and led the charge for globalisation, free trade and open markets in the last seven decades.

There are two major indicators of the direction the New Order will take. First, trade partnerships will change. Instead of mega agreements, bilateral negotiations will prevail. Technology encourages this. For instance, 3D manufacturing does not require the current global supply chains, and keeps manufacturing jobs at home. Similarly, the adoption of modular renewable energy technologies like solar, reduces the need for massive transport of fossil fuels. And in every country's GDP, services is a growing component—53% in India, [1] and 78% in the U.S. [2]—and many are necessarily local.

The shift to bilateralism comes none too soon as the existing trade framework is fast becoming irrelevant. Major economies like China and India were excluded from the TPP. The World Trade Organisation is paralysed, regional trade blocs like the EU and NAFTA are being challenged and India's own experience of the trade agreement with ASEAN has been lopsided in favour of the latter. India's imports increased sharply while its exports languished. In contrast, in the context of a moribund South Asian Association for Regional Cooperation, India's bilateral trade agreements with Sri Lanka and Bangladesh have been more successful in increasing Indian exports.

Second, geopolitical alliances will change. NATO was created to fight communism—which no longer exists. Trump's characterisation of NATO as obsolete and unfit to fight the current global threat of terrorism has already shaken the edifice of security alliances.

His overtures to Russia, which dismayed the European Union, is overturning the Nixon-Kissinger tilt to China. China not only does not confront terrorism, but is the peer competitor to the U.S.

For India, a U.S.-Russia rapprochement creates strategic space because Russia will no longer be obliged to be a junior partner to China as a buyer of fossil fuels and advanced military hardware. This will put some substance into the India-U.S. aim to create a multipolar Asia.

The more countries like the U.S. turn inward, the less they will inflame situations around the world, like the crises of West Asia within which fundamentalism has become such a destructive global force. This will force regions to work for co-existence, rather than to perpetuate conflict. It was, after all, the absence of jobs that began the Arab upheavals.

Emerging giants like India know that the ongoing flux in the world is an opportunity to advance their position commensurate with their current heft and aspirations. India is already a \$2 trillion economy [3] and the fastest growing large economy in the world. It has one of the biggest and youngest workforces on the globe, that is entrepreneurial and skilling itself up.

But to take advantage of the recasting of power hierarchies, India needs to stop acquiescing to pronouncements that its growth and prosperity are an outcome of the liberal trade order alone. Instead, it needs to propagate that the foundations of its re-emergence have largely come from its own efforts—efforts such as building infrastructure and educational institutions, and most of all, its entrepreneurial culture, even while the Washington Consensus worked to force open markets to western trade and finance.

Seventy years ago, at the Bretton Woods Conference, India had no voice or leverage. Today, India has the leverage of already being the seventh largest economy, [4] a non-confrontational power which is working to create a fairer, more flexible and inclusive global framework, more accommodative of local aspirations. This can bring about the new, more consensual world order.

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Is globalisation in reverse?

The contours of globalisation are being reshaped. The Brexit vote and the election of Donald Trump mark a strong anti-globalisation sentiment even as leaders in China, India and Russia successfully marry nationalist rhetoric with a cleverly crafted overseas strategy, premised on the very tenets of globalisation. There seems to be a 'pause' in the unbalanced progress of globalisation of the last three decades—and this could have many positive outcomes

Rohinton P. Medhora

Is globalisation in reverse? The question animates discussion. The evidence is mixed at best, and does not warrant some of the more dire scenarios [1] being bruited about. But globalisation's contours are changing, and this is not a bad thing.

The Brexit vote and the election of Donald Trump are presented as Exhibits A and B of the manifestation of a change in public attitudes to globalisation. These votes did show the power of populist electioneering, much of it having a strong anti-global tinge to it. But in Brexit, turnout by age and socio-economic characteristics played a crucial role [2] in the final result. Turnout was high among older and non-urban voters and low among younger urban ones. Had the turnout been reversed, the results would have been different.

In the case of the United States election, President Donald Trump lost the popular vote by almost three million votes. Besides, not all votes for his ticket reflected anti-global tendencies just as not all votes for the Hillary Clinton ticket embodied pro-global sentiments. The electoral college system magnified what was a qualified victory into a seemingly overwhelming one. Neither the British nor the U.S. votes suggest a large change in underlying attitudes to globalisation.

Other smaller, but no less troubling, instances currently cited, such as elections in Hungary and the Philippines, appear to be driven as much by domestic considerations as by perceptions about the world writ large. There are important unknowns about what the continued strength or

ascension of leaders in China, India and Russia signifies. While each of them, and especially President Xi Jinping and Prime Minister Narendra Modi, has espoused nationalist rhetoric, they have also embarked upon a series of ventures that project their countries overseas and craft a global strategy that is premised on the very tenets of globalisation—trade, and more generally economics first, international alliances, and an eye to making the best of the information age. How else do we explain Prime Minister Modi's visits to 45 countries, (many of them repeat visits) and the resulting accords? China is on nothing less than a global tear, with the creation of the Asian Infrastructure Investment Bank, Silk Road Initiative, Regional Comprehensive Economic Partnership and positioning itself [3] as (at least) half of a "G2".

Such multi-country surveys [4] as there are suggest that support for globalisation, especially its economic aspects, is stronger in emerging countries than in developed countries, and that attitudes towards it are more positive among young people than older ones. But on political and social issues, such differences disappear, or at least require nuance [5] in interpretation. We must recognise that the sample size of such surveys is minuscule and seldom representative of the population as a whole, and that we do not have enough of a time series in the results to discern trends.

The broad storyline of support for globalisation in developing countries (especially the larger ones) and scepticism about it in developed countries is consistent with the underlying economics. Writing in 1995, Adrian Wood was among the first to present globalisation as it was likely to unfold [6], and its implications. To wit, so long as globalisation was driven by freer movement in goods, services and capital, educated and skilled workers in developed and developing countries would benefit, while unskilled workers in developing countries would gain at the expense of unskilled workers in developed countries. When coupled with the lack of compensating [7] retraining, safety net and other social policies in developed countries (especially the U.S. and U.K.), the resulting backlash was predictable.

Globalisation, particularly in trade, has always been a hard sell [8]. The International Trade Organization, proposed at Bretton Woods in 1944,

never got off the ground because of opposition in many countries' legislatures, especially in the U.S. It wasn't until 1995 that the World Trade Organization came into being. By then, the GATT Rounds had lowered tariffs to the point where only the tough nuts—like agriculture and a host of “behind the border” issues like competition and investment policy—remained, grinding multilateral global trade negotiations to a crawl.

What next? As the contours of globalisation are reshaped, a pause might seem like reversal. It isn't; the pause might even be desirable. The globalisation of the past three decades has been unbalanced – high in movement of finance and the spread of information and communications technologies; medium in trade in goods and services; and low in movement of people and the development of regulatory and other policy responses at the national and supranational levels. If the pause is about, at the very least, managing global capital movement more sensibly, developing regimes to promote green technologies and their spread, building up an arsenal of domestic social policies [9], and, more broadly, creating a national consensus around a country's place in the world, then it will be time well spent.

Meanwhile, there is one wild card that no one appears to control. Technological change in areas come to be known as the fourth industrial revolution [10] proceeds apace. We do not know all the risks and opportunities that this movement presents, and—crucially—to whom they will present themselves. But technology is at least as powerful a driver of economic change [11]—and vitally, job displacement—as government policy is. In the absence of a clear sense about this trend, policy responses will either be non-existent or imperfect. The seeds of a reaction to the next wave of globalisation are already being sown, and it too will seem mistakenly like reversal.

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Retreat of globalisation: central banks in the crosshairs

Central banks play a critical role in forging the country's international economic relations. Now, with the rule-based order being reset and new regimes getting established, they are better positioned to influence the playing field. It is, therefore, critical to strengthen the Reserve Bank of India so it can drive an agenda closer to the interests of emerging countries. This will also be a test of India's future leadership capabilities

Bazil Shaikh

The narrative regarding central banks has changed dramatically over the past few years. When the global financial crisis struck, they were seen as institutions that rescued banks, provided liquidity and kept the wheels of finance turning. In its aftermath, they were seen as critical to reviving the world economy. Central banks are now perceived as institutions that laid the seeds of the crisis, and, in its resolution, have acted on behalf of 'the establishment'.

Populist movements see central bankers as a part of the global elite that has driven globalisation, a consequence of which has been growing income and wealth inequalities. [1] This has provoked criticism from the political left; issues of nationalism and definitions of self-interest have sparked a backlash from the political right.

Questions are now being raised regarding the central banks' power and remit, their independence from government, as well as their democratic deficit where they, as unelected technocrats, make decisions that have distributional consequences. [2] Central banking has turned full circle.

This discordance in the discourse has found a resonance in India, with proposals to reimagine the Reserve Bank of India, its governance structure and its mandate. [3]

Decoupling and coupling into the global discourse

Modern banking in India has periodically coupled into and decoupled from the global discourse. When the Reserve Bank was established in 1935, it synchronised with worldwide initiatives to set up central banks as institutions. [4]

The Reserve Bank was well integrated into the global system. It had an office in London, its bank-notes enjoyed wide circulation in the Middle East and were legal tender in the Trucial States and Kuwait and it actively participated in the Bretton Woods Conference in 1944.

Shortly after independence (1947), its trajectory deviated from the practices and knowledge legitimised by the West. The Reserve Bank drove innovations based on local structural factors, constraints and values and pioneered the development model of central banking, establishing institutions and channelising credit to priority sectors.

This model was at variance with and ‘decoupled’ from the consensus of that espoused by the West. The Reserve Bank, thus, acted in what it deemed to be in the national interest and its decoupling initiatives were emulated by many central banks across the developing world. [5]

Indian commercial banks, which were well integrated into the international system in the late 19th and early 20th centuries, grew more insular after independence. The nationalisation of banks in 1969 commenced the first financial inclusion drive, taking banking from the ‘classes to the masses’.

The idea of statism in India reached its apogee around the early 1980s and gradually receded. The seeds of financial liberalisation and the move towards the market mechanism were sown in the mid-1980s. [6] With the balance of payments crisis of 1991 and the adoption of IMF policy reforms,—the Reserve Bank drove the pace and sequencing of banking sector reforms. It liberalised the sector, allowed entry of new private banks in 1993 to make it competitive, adopted global regulatory norms and put in place the financial infrastructure, to develop and gradually integrate its money, debt and forex markets domestically, and in a calibrated manner into the global markets. [7] Monetary

policy evolved from ‘credit policies’ in an administered regime, to monetary targeting, and thence, to a multiple indicator approach. [8] By 2015, India adopted flexible inflation targeting, and in 2016, the formation of a Monetary Policy Committee broadbased the decision making process. [9]

Central banking thought in India, thus, converged into the global discourse. The Reserve Bank’s membership of the G20 and other institutions with a mandate for global economic governance and cooperation brought India’s markets, payments system, regulatory oversight and governance structures in sync with global practices and aligned it squarely into the ‘liberal’ camp.

While muted voices were heard regarding the compliance costs and relevance of international regulations in the post-crisis scenario to the Indian context, the legal implications and extraterritorial jurisdiction of Inter-Governmental Agreements, such as the Foreign Account Tax Compliance Act, the overwhelming consensus was that the benefits of legitimacy conferred by the international community outweighed the costs of being non-compliant.

Although India had a tradition of collaborative consultations between the Reserve Bank and Government, the Financial Sector Legislative Reforms Commission (FSLRC) sought to curtail the powers of the Reserve Bank Governor, narrow the remit of the Reserve Bank, reform governance structures, bring it under performance audit—which has resonances with “Audit the Fed”—and diminish the stature of the Reserve Bank, putting the monetary authority on par with any other regulator. [10]

The subsequent curtailing of the Governor’s powers to appoint deputies, also reflects tensions between the government and the Reserve Bank on issues of independence and regarding measures seen as politically expedient, but rooted in bad economics.

Today, new non-bank players such as peer-to-peer lenders, telecom companies, payment service and e-wallet providers, and issuers of alternate digital money are blurring the line between banks and non-banks and the concept of money. These disruptions call for new rules.

Turbidity, new regime formations and opportunities

With technology disrupting the rules of the game and international treaties being called into question, [11] the cohesion and convergence achieved in the past 25 years of globalisation are set to loosen. As the rule-based international economic order gets reset and new regimes get established, there lie opportunities to influence the playing field.

To perceive and grasp these opportunities, it would be in the national interest to strengthen rather than enfeeble the Reserve Bank to negotiate issues of international cooperation, such as, the responsibility of dominant countries regarding their monetary policies and sharing their spillover costs; [12] backstop and swap arrangements; issues and costs of over-regulation; money laundering compliance; and the extraterritorial jurisdiction of laws, amongst others.

Bazil Shaikh is presently researching a book on the History of Money in India. Before this, he was a central banker for over three decades, and held positions such as Principal Chief General Manager and Secretary to the Board of the Reserve Bank of India.

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Global taxation and the perversion of capital flows

In the wake of trade-based globalisation followed by financial globalisation, a large volume of capital began moving from developing to advanced countries. This has resulted in relatively poor developing countries effectively becoming net creditors to the rest of the world. Reversing this massive outflow of capital requires governments to strengthen governance in all its dimensions and have closer international collaboration to tighten the regulatory oversight of tax havens for greater transparency

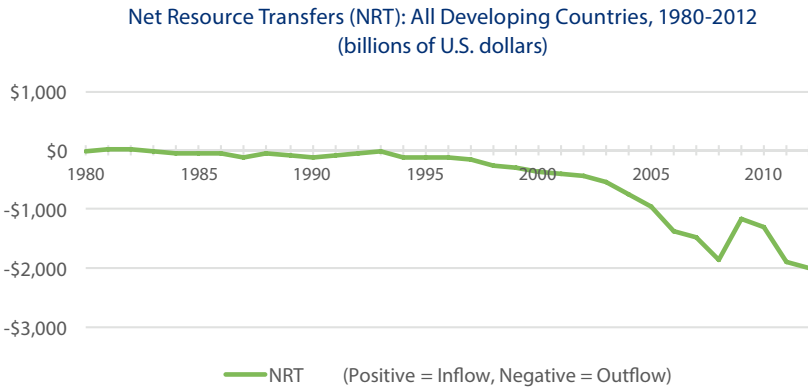
Dev Kar

Any assessment of the role of capital in economic development will need to take into account both recorded and unrecorded flows. Recorded flows enable governments to put the capital to productive use while unrecorded flows, leading to acts of malfeasance such as tax evasion, profit shifting by individuals and corporations, bribery and kickbacks, drain the country's exchequer, swamping the benefits the former confers.

Hence, it is not sufficient to assess the role of capital in economic development merely in terms of recorded flows, such as official development assistance, foreign direct investment, etc. Raymond Baker, president of Global Financial Integrity, says that a comprehensive analysis will require a focus on the *whole of the development equation*, involving an assessment of both recorded and unrecorded capital.

Recorded capital inflows and outflows can be netted out to derive a net position. But unrecorded capital flows, which involve illicit capital in both directions, cannot be netted out *because a net of illicit inflows and outflows is akin to the concept of net crime, which is logically flawed*. Moreover, governments cannot tax or otherwise utilise in any meaningful way unrecorded illicit inflows. What cannot be seen cannot be taxed. Far from being a benefit to governments, illicit inflows like import under-invoicing, are a type of “fiscal termite” driving revenue loss.

Since the late 1990s, in the wake of trade-based globalisation followed by financial globalisation, a large volume of capital began moving from developing to advanced countries. The following chart shows that *relatively poor developing countries have effectively served as net creditors to the rest of the world*. We arrive at this conclusion based on the concept of net resource transfers (NRT), defined as the totality of all recorded capital flows in both directions, then including outflows of illicit capital. Countries get no credit for illicit inflows for the reasons we noted. The long-term behaviour of the NRT, as captured by the chart below, is ironic from a development perspective given that capital is supposed to flow from resource-rich to resource-poor countries and not the other way around.



Source: Financial Flows and Tax Havens (December 2015)

The graph shows that since the 1980s, there have been mostly large and sustained net transfers from developing countries in nominal terms. The loss is just as telling in terms of the GDP of developing countries, regardless of several new countries that joined the group since 1980. These countries contributed much more to net resource outflows from developing countries than they did to their GDP. It should be noted that the upward climb of the NRT into less negative territory in the period 2008-10, can hardly be called an “improvement”. In fact, subsequent developments indicate that the scenario will probably continue to deteriorate under the status quo.

Reversing this massive outflow of capital from the developing countries calls for a two-pronged approach. While governments will need to adopt sustained policies to strengthen governance in all its dimensions—including rule of law, government effectiveness, and control of corruption—closer international collaboration is needed to tighten the regulatory oversight of tax havens to promote greater transparency in their transactions and operations.

For instance, it is well known that tax havens have engaged in a race to the bottom in offering foreign investors zero or near-zero tax rates on their returns to capital, no questions asked. In fact, the legislations in tax havens have a singular focus on enhancing their attractiveness as a destination for all kinds of money. At the same time, many governments also find the ease of moving money in and out of tax havens at near-zero cost very convenient. So tax havens have an advantage over regulated on-shore banks in attracting both licit and illicit funds.

The first order of business is for governments to agree on a clear set of rules to invest in tax havens. They should consider key banking data, at par with those required of on-shore commercial banks, to be mandatory for tax havens to ensure a level playing field. Governments should also seriously consider using the business they provide to tax havens as leverage, thereby providing them a strong incentive to be more transparent regarding the deposits of licit funds by the public sector. We will then be much closer to estimating the stock of illicit funds lodged with them, which will be the first step in monitoring them through greater regulatory oversight.

For another, the use of black lists needs to reflect actual cooperation by tax havens. Presently, such lists tend to be used rather sparingly. Instead, a tax haven should be blacklisted using much more stringent criteria. There should also be punitive financial consequences for being blacklisted, such as potential withdrawal of support by a government with jurisdiction over the tax haven in the event of emergency bailouts and bankruptcies. The rationale is that a blacklisting increases the risks for mainland taxpayers should the tax haven get into financial trouble, as in the case of Cayman Islands and Cyprus in the recent past. The message is simple: comply with the prudential regulations we formulate

or risk losing your “insurance”.

On a final note, international organisations like the BIS, IMF, United Nations, World Bank and its regional affiliates should also develop a system of black lists applicable to tax havens that do not conform to prudential regulations as they present a systemic financial risk. Prudential regulations also cover issues of transparency and accountability, such as requiring tax havens to exchange tax and other information with relevant governments. India should take the lead and raise these issues at the G20.

Efforts to curtail the absorption of illicit capital in the global financial system are just as important as measures to reduce the generation of those funds domestically. Both advanced and developing countries share in the responsibility of implementing this two-pronged approach given that residents of advanced countries hold around 90% of funds lodged in tax havens.

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A democratic quadrilateral in Asia?

A strategic coming together of the U.S., Japan, Australia, and India was close to fruition some years ago, impelled initially by the tsunami of 2004. The spirit of the enterprise remains alive even now, and there are many merits in India joining the quad, but such an arrangement can skew existing Asian equations, jeopardising the Act East policy

Rohan Mukherjee

The idea of a strategic grouping of the United States, Japan, Australia, and India has been doing the diplomatic rounds for at least a decade. Originally inspired by the successful coordination between their navies in the aftermath of the tsunami that struck the Indian Ocean in 2004, the so-called “democratic quad” came closest to being realised in 2007, with U.S. and Japanese backing. However, pointed Chinese demarches seeking to know the purpose of the four-country initiative caused India and Australia to roll back their involvement, and subsequent changes of government in Tokyo and Washington appeared to seal the quad’s fate. [1]

Nonetheless, the four countries in question have continued pursuing stronger bilateral (and trilateral) relations, in a sense, forming a “Quad without the Quad”. [2] For India, the most recent major steps in this process include a Special Strategic and Global Partnership agreement with Japan, [3] a landmark framework for security cooperation with Australia, [4] and the U.S.’s designation of India as a Major Defense Partner. [5] It appears that the spirit of the democratic quad remains alive, though its current form does not match the original intent

It is worth examining, therefore, the merits of India joining such a quad in the future.

There are three major benefits. First and most obviously, the quad is part of a broader U.S. strategy to both constrain and transform China’s

growing power by altering the political landscape of East Asia. If democracy can form the bedrock of partnerships in the region, and if more countries are encouraged to democratise, then the U.S. will have a ready geopolitical bulwark against a rising, authoritarian China, which, in turn, may experience domestic pressures to democratise. [6] India stands to gain from developments that curb Chinese power. Joining the quad would also signal to Beijing that Delhi is willing and able to respond to potential Chinese efforts to strategically encircle, contain, or diminish India's geopolitical position.

The second benefit is the multiplier effect that quad membership will have on India's bilateral relationships with the U.S., Japan, and Australia. As allies of the U.S., Japan and Australia enjoy a level of economic and security cooperation, with assurances from the world's pre-eminent superpower, to which India does not have access. Even if Delhi does not seek such closeness with Washington, joining the quad would allow India to engage in an unprecedented level of policy coordination with three major democratic powers in Asia. This type of relationship could have spillover effects in a number of areas, ranging from economic cooperation to defence deals and military modernisation.

Third, and finally, democracy can be a significant source of influence or soft power for India. India's democratic political system makes it a far less threatening emerging power in the eyes of the world compared to China. Democratic principles tend to enjoy wider appeal, particularly in an international order dominated by the West. So long as the U.S. is prepared to underwrite a democratic quad, India can piggyback on IT to enhance its bilateral leverage with democratic Asian countries, such as Indonesia and Singapore, as also those gradually transitioning to democracy, such as Myanmar.

In contrast to the benefits, there are downsides to joining a democratic quad in Asia. As earlier mentioned, it provoked China into a stern diplomatic response in 2007. [7] Since that time, China has grown considerably more powerful and more assertive in its region. A future attempt at *quad-building* is therefore likely to evoke a stronger response. Accounting for 11% of India's total trade and a trade deficit of \$52 billion, [8] China holds the ability to inflict economic punishment on

India. In addition, Beijing has demonstrated its ability to thwart Delhi's objectives in international organisations, ranging from the UN Security Council to the Nuclear Suppliers Group. Thus, as the Narendra Modi government has already made clear, India can be firm with China, but must also acknowledge the latter's importance as a global power and major trading partner. A democratic quad in Asia will break this prudent rule of thumb.

Contrary to the expectations of U.S. strategists, a democratic quad is likely to alienate a number of Asian countries. [9] Southeast Asian countries, in particular, have expended considerable energy and resources in building a regional organisation (ASEAN), designed to manage political differences through consensus-building with an eye to collective prosperity. A democratic quad, cobbled together by extra-regional powers, would disrupt this carefully-calibrated equilibrium and cause considerable upheaval, particularly in the context of an adverse Chinese response. Joining the quad will, therefore, negatively impact India's long standing Look East (now Act East) policy, which is predicated on developing strong economic and security linkages with Southeast Asian countries, among other factors.

Finally, a democratic quad by itself is a potentially lucrative proposition, but when coupled with larger U.S. and Japanese goals to create an "arc of freedom and prosperity" in Asia, [10] the idea takes on problematic overtones of democracy promotion and regime change. It is in India's interest to ensure that territorial boundaries and national sovereignty are upheld as cornerstones of the global order, at least when it comes to states that have not completely failed in their basic duties to their citizens. Neither India's capabilities nor its interests are sufficiently expansive to support a foreign policy of transforming the political systems of countries that lie beyond its immediate neighbourhood. Therefore, a quad that seeks to exceed the parameters of strategic partnership is likely to produce negative returns for Indian foreign policy in Asia.

On balance, the costs to India of joining a democratic quad in Asia outweigh the benefits. Put simply, India can pursue its goals of containing China, enhancing cooperation with the U.S. and its allies,

and growing its influence among Asian countries without having to join a democratic quad. Indian policymakers have understood this basic calculus and are engaged in seeking the benefits without incurring the costs, mainly by deepening bilateral co-operation with Asian countries, big and small. Eventually, however, the big partnerships will grow to a point where a democratic alliance might seem like the natural next step. Delhi will need to remember the costs of joining such an arrangement at that point in time.

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Indo-Pacific: a scenario of possibilities

The Indo-Pacific region is home to some of the largest and most rapidly growing economies as also powerful military forces. Nuclear threats, international terrorism and climate change are some of the issues that define the region. Uncertainty dogs relations among the four nations in the top league—U.S., China, India and Japan—but what is emerging is a hawkish, policy stance from the U.S. as opposed to an isolationist outlook apprehended earlier

Rajiv Bhatia

The Indo-Pacific is a geopolitical construct that has gained much salience in the current decade. It encompasses oceans and lands, book-ended by the eastern rim of Africa and the western Pacific. But its core is represented by a confluence of the Indian Ocean and the Pacific Ocean, with the membership of the East Asian Summit reflecting its diverse stakeholders.

So viewed, it presents the most active theatre of global politics today. In comparison, other geographies may not be as vital for international affairs, because nowhere else are as many major players as directly involved as they are in the Indo-Pacific.

What prospects for peace, development and conflict does it hold in this decade? Exploring this question days after Donald Trump became the U.S. president is somewhat hazardous, but also fascinating, as he joins an exclusive group of assertive leaders and wields the power to shape the world's destiny.

Stakes in the Indo-Pacific are high indeed. It is home to several of the largest and most rapidly growing economies. It is also host to some of the biggest military forces, caught up in an arms race and a large stock of nuclear weapons. Mega trade deals seemed the central thrust of the region until now. Nuclear threats, climate change, international terrorism, poverty and development and the quest for a peaceful

resolution of disputes on territorial and maritime claims, have lately been the defining issues. They are being addressed at a time when uncertainty prevails about relations among the four nations in the top league: U.S., China, India and Japan.

The blend of U.S.-China strategic contestation, competition and cooperation is not a new phenomenon. As John Pomfret observed in his book, *The Beautiful Country and the Middle Kingdom*, the two are locked “in an entangling embrace that neither can quit”, and this mutual dependence is “vital for the fate of the world”.

A major source of uncertainty is set to diminish as the Trump Administration defines its policy towards East Asia. Already indications are that there is no choice but to accord it a high priority. The earlier fear of a U.S. slide into an isolationist phase, vacating the Asian space to China is proving unfounded. A strong policy stance seems a distinct possibility now. [1]

Experts, therefore, broadly agree that U.S.-China relations could become increasingly tense in the coming months or years, as President Trump asserts himself and shows that he is no conciliatory Barack Obama. China’s “Core Leader” Xi Jinping is now impatient to be treated as the dominant presence in East Asia. Mutual accommodation, therefore, may not be easily achieved or sustained.

On the other hand, U.S. relations with India and Japan are likely to become stronger, in spite of a few differences. Each arm of this triangle—U.S.-India, U.S.-Japan and India-Japan—has a sound foundation. The factors that motivate the three nations to cooperate on a range of vital issues will remain relevant in the future.

Two other nations—Russia and Indonesia—have the potential to influence equations within the Big Four in Asia. In recent years, U.S.-Russia relations deteriorated significantly, [2] a trend that Trump wants to reverse. Should these ties improve on a sustained basis, it could motivate Moscow to reduce its excessive dependence on China, a country with which it otherwise has a natural rivalry. [3] Better U.S.-Russia relations may also pave the way for an easier relationship between Russia and Japan and arrest the recent tensions in India-Russia ties.

Indonesia is perhaps the region's most under-rated player, essentially because it punches below its weight. But this may be changing in the world's third most populous nation. President Joko Widodo's Maritime Fulcrum Policy reflects a veiled ambition to play a larger role in the Indo-Pacific.

For this purpose, Jakarta needs to raise its leadership profile in the ASEAN, saving it from its current disarray, and find a smart balance in its relations with China, on the one hand, and U.S., India and Japan, on the other. The Indonesian leadership is inclined to move in that direction, but it needs to overcome its internal and external constraints.

From now until 2020, the Indo-Pacific faces the full spectrum of possibilities—from peace and prosperity to tensions, accidents, crises and conflict. India will have a crucial role in the area. New Delhi hopes that neither a G2-like accommodation between the U.S. and China that recognises the latter's hegemony in Asia nor an armed conflict between them occurs.

What is almost inevitable is the clash of ambitions, interests and policies of the key players that results in the aggravation of tensions. Statesmanship demands that states cooperate to realise a collective dream of a peaceful and prosperous Asia, instead of pushing their own national dreams. [4] They need to reinforce their habits of working together rather than against each other. This is the most daunting challenge for the Indo-Pacific at present.

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Interweaving the old Cotton and Silk Routes

China's resurrection of the ancient Silk Road is ambitious, sprawling, hegemonic. Its pre-European origins, though, lay in a criss-crossing of nameless caravan routes on which Indian cotton was traded as vigorously as Chinese silk, tangible proof of the interdependence of two ancient civilisations over two millennia

Sifra Lentin

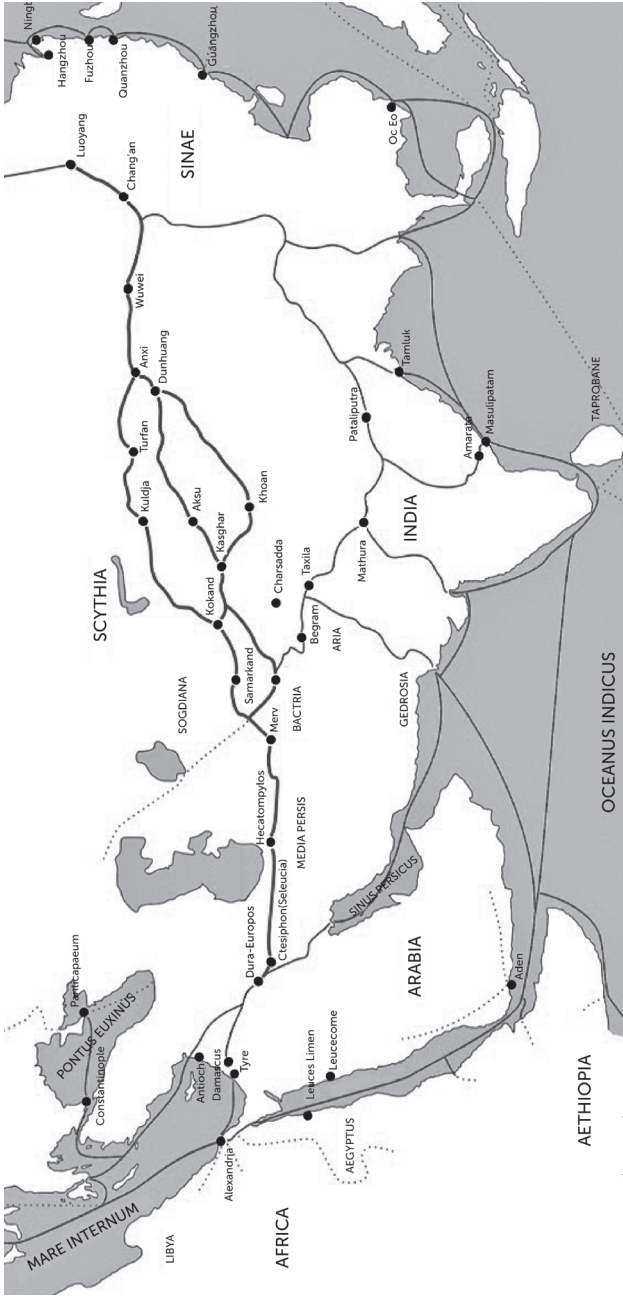
The Belt and Road Initiative (B&RI) or New Silk Road is the ambitious centrepiece of China's strategic geopolitical and geoeconomic initiative. [1] This resurrection of the ancient Silk Road, the longest road known to mankind, is being shaped by Chinese President Xi Jinping's vision (first articulated in September-October 2013), of a resurgent One China in the marketplaces of Eurasia, Europe, and the world.

The Belt and Road Initiative is so expansive, multi-layered—covering road, sea, rail, financial, energy and digital corridors—and hegemonic in its embrace, powered as it is by Chinese finance and infrastructure build-outs, that it obliterates the cosmopolitan nature and multilateral trade history of its template, the Old Silk Road.

Hence, there is an urgency to understand the pre-European history of the Silk Road, how it coalesced, when it was named, and how it facilitated trade. This knowledge has lessons not only for China, but all countries participating in the New Silk Road, and will, when the time is right, provide a context for India's participation in this grand act of Asian inter-connectivity.

Trans-Asian routes and a name

The origin of the name 'Silk Road' is relatively recent. In ancient times, during the Early Han Dynasty (206 BCE to 25 CE), contemporaneous with the powerful Mauryan Empire (322 to 183 BCE) and the Kushans (2 BCE to 3 CE) in the Indian subcontinent, the Parthians of Persia,



Source: Wikimedia

Map 1: Silk and Cotton trading routes used around the 1st Century CE

and the ancient Roman Empire, this road comprised of a network of shifting caravan routes that connected one market town, often an oasis, to the next. In its east-west axis, it covered 7,000 km from Xi'an (ancient Chang'an) to its western termini in present-day Cadiz (then Gades) in Spain. Interestingly, this east-west axis road *never* had a name: instead sections of the route were named quite romantically after the market town they led to, such as, 'the road to Samarkand'. [2]

The name 'Silk Road' was coined in 1877 by the German baron, Ferdinand von Richthofen, a geologist who worked in China from 1868 to 1872, surveying coal deposits and ports. It was his five-volume atlas, which, in map 2-3, shows the route during Roman times, and for the first time, as a trunk road, resembling a straight railway line cutting through Eurasia, and not a network of caravan routes. It was speculated then that the baron's survey was actually a mapping for a possible German railway line. [3] [4]

It was subsequent to this naming that the collective term—Silk Road—gained currency. [5] A negative fall-out of this was the erasure of these trans-Asian caravan routes: how they evolved constitutes a history of collaboration between regional kingdoms, local traders (in ancient times, Parthians, Sogdians, Indians, Chinese) and itinerant merchants. This network of routes functioned very much like the logistics corridors of e-commerce firms today, where traders from each region acted as aggregators and formed caravans that carried goods over a specific length of the road.

The name 'Silk Road' also led to the misconception that Chinese silk was the only reason why the route that was formed by 1 CE assumed priority because of its procurement for the ancient Romans. [6]

The truth, however, is more nuanced. It was much later during the Tang dynasty (618 to 907 CE), a period when trade flourished along these trans-Asian overland routes (due to a strong Tang kingdom), that silk pervaded the markets along the roads as Chinese soldiers, posted to secure the route in the newly annexed north west (a part of modern Xinjiang province), were paid in bolts of silk rather than in grain or bronze coins.

The cotton road to the Indian subcontinent

How does all this connect to the Silk Road trade in Indian cotton, also a valuable commodity in the pre-European commercial transactions conducted via these road and sea networks?

Not many are aware that the Old Silk Road has a southern axis. [7] This comprises routes into the Indian subcontinent via the Chinese province of Xinjiang to Kashmir (the China Pakistan Economic Corridor uses this road). There is the Khyber Pass route too, [8] used by Chinese Buddhist monks Fa-Hien (who travelled from 399 to 414 CE) and Hsüang-tsang (629-645 CE), a route that connects Balkh (northern Afghanistan) to Kabul, and from west Yunnan (a province in south west China) into Bangladesh, Assam and Myanmar.

One of the earliest written records on the Silk Road is *Records of the Great Historian* (compiled by Sima Qian in 1 BCE), written 150 years after the first two Chinese diplomatic missions into Central Asia, led by imperial envoy Zhang Qian during the 2nd BCE. He had been sent by Han emperor Wu to muster support from the Yuezhi people (then settled in the Fergana region of modern Uzbekistan) to ally with the Chinese against their common enemy to the north, the Xiognu tribes from Mongolia.

His details of South Asia are significant, as trade routes in this region were already well-worn and were conduits for the export of cotton products from the subcontinent to Central Asia, China and Rome.

This was a time when the Chinese did not grow cotton and Indians did not know how to manufacture silk (by 5th CE they produced a silk called *kauseya*). Even when guilds of silk manufacturers were established in the subcontinent and cotton weaving centres came up in Central Asian towns, like Khotan (Xinjiang), both simultaneously by the 5th CE, there was always a demand for high quality muslins from Bengal (mentioned in Tang records) and cotton piece goods from Gujarat and the South.

Cotton growing and manufacturing spread from northern and peninsular India from the 1st to 5th CE to Myanmar and South

East Asia through conquest, trade and cultural linkages. This region (comprising present-day ASEAN), and the subcontinent, supplied cotton items to imperial China through the overland and maritime routes, which were well established by the 8th century CE.

That there existed an active Indo-China trade in cotton cloth is also borne out by Ma Huan, the chronicler of the seven Ming voyages (1424-1433 CE), led by the imperial Admiral Zeng He, who lists out six varieties of Bengal cotton (including the renowned Dacca muslins), and one from the south. [9]

The spread of Buddhism from India to Central Asia, China, Sri Lanka and South East Asia, further increased the demand for cottons: Buddhist monks practised the doctrine of *ahimsa* (non-violence), which forbade the wearing of silk, as its manufacture requires boiling mulberry cocoons and killing the silkworms within in order to draw out silk thread.

Indian cotton and Chinese silk remained valuable components of the Silk Road trade that flourished between two ancient civilisations for two millennia. It is this history of inter-dependence—when silk roads were cotton roads and vice versa—which underscores how integrated these two regions were, in fact, Asia itself was, before European intervention. History illustrates that the longest road known to mankind functioned because of a combination of elements—part geography, part politics and part people—but the overriding factor was its inherent multilateralism, where roads were built, maintained and secured not just by empires, but small, independent oasis towns and regional kingdoms.

Perhaps China's B&RI initiative will be more successful were it to infuse this spirit of co-operation into the enterprise. Co-opting India into this vast Eurasian grid will be a coup d'état as not only is it the second largest economy in Asia, but historically, the original home of Buddhism and cotton goods, both hallmarks of the Old Silk Road.

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