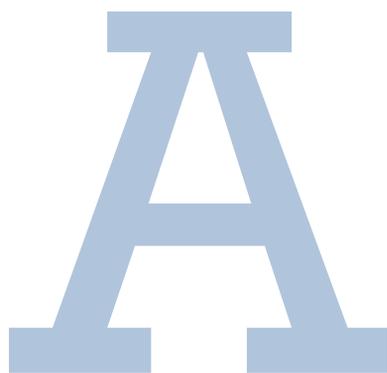


Asian Connectivity and its Geoeconomic Imperatives

Abhijnan Rej

“The history of mankind is the instant between two strides taken by a traveller.”

– Franz Kafka, *The Blue Octavo Notebooks*



As the geopolitical centre of gravity shifts back to the Eurasian landmass—after the brief interlude between 1989 and 2001, of the unipolar moment—the question that emerges for strategists is how to maximise national power under the precondition of geopolitical stability in inner Asia and its rims. Former United States national security advisor Zbigniew Brzezinski defined geostrategy as the strategic management of geopolitical interests.¹ This essay defines geoeconomics as the economic management of such interests—where the notion of ‘balance of power’ is broadened by ‘balance of influence.’ It argues that an Asian Century is one where Asia emerges as a connected entity which will, in turn, ensure geopolitical stability at the inter- or intra-continental levels.

But if connectivity—understood in all its manifestations: physical, policy, digital or human—is a geoeconomic

1 Zbigniew Brzezinski, *The Grand Chessboard: American Primacy and Its Geostrategic Imperatives* (New York: Basic Books, 1997), xiv.

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conomic imperative, it is also a key determinant of national power which fuels socio-economic growth at home. As India seeks to grow with a stated reliance on international trade, connecting itself to the world becomes a key way in which its main domestic goals of rapid poverty alleviation and ex ante provision of opportunities are served. The question of regional connectivity can thus be framed in terms of bridging domestic goals and geopolitical ambitions.

The discourse around Asian connectivity so far has been primarily focused on the Chinese 'One Belt, One Road' (OBOR) initiative that proposes to link the two flanks of the Eurasian landmass both through land (the Belt) and sea (the Road). China watchers over the past year can attest to the financial and political will China's leadership has shown towards pushing OBOR. As India asserts itself as a confident power conscious of its geographical centrality in South Asia, it too has sought to transform the region into a loose economic confederation, beginning with its leadership in the South Asian Association for Regional Cooperation (SAARC), created in 1985; its interest in creating

a Bay of Bengal economic forum—the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) initiative is an example; and its outreach to the Association of Southeast Asian Nations.

The physical—pipelines, highways and sea routes—is only one aspect of connectivity. If physical connectivity is made to work to the advantage of all parties, it should be predicated by policy connectivity—a set of institutions and formal and informal norms that facilitate and harmo-

nise the flow of labour, capital and goods. Indeed, it is argued in this essay that there ought to be a feedback and feed-forward loop between the “software” of policy and the “hardware” of infrastructure, to rephrase David Dollar.² The recent geoeconomic component of the US Asia-Pacific rebalance, the Trans-Pacific Partnership (TPP), seeks to provide the software; the hardware of physical links is being, almost exclusively, being promot-

ed by the Chinese. One expects that as OBOR progresses, China will also introduce a set of norms, albeit informally, on top of the existing mega-free trade agreements (FTAs) in Eurasia. Thus, the real geoeconomic competition that will define Asia in the 21st century will be between the two drivers of connectivity in the region: the actors who shape norms and the ones who provide the infrastructure.

Connectivity Constellations in the Geoeconomic Order

Both physical and policy connectivity initiatives have to be situated in the contemporary geoeconomic architecture. This is characterised by the two drivers of the 'new normal': a China that is in retreat in terms of its

domestic growth and yet on an ascent when it comes to playing a greater—and more muscular—role in establishing new international institutions and initiatives; and a US that has finally put the global financial crisis of 2007-2009 behind it and has sought to aggressively reshape the Asian trade agenda as a strategic policy to rebalance the Asia Pacific.

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2 David Dollar, “China's Rise as a Regional and Global Power,” *Horizons*, Summer 2015, 164.

China's "opening outwards," as it calls the OBOR initiative, is driven by three domestic problems that it seeks to redress. One, China's economy is experiencing a significant slowdown after a couple of decades of very high growth rates. As it moves from exporting manufactured goods to a path of economic growth driven by domestic consumption, China will most definitely experience problems associated with industrial overcapacity. The OBOR initiative seeks to absorb some of this.³ Two, as William Overholt wrote last year, Beijing's massive accumulation of foreign reserves was a major strategic error, and OBOR will act as redressal.⁴ Three, China seeks to correct its persistent problems with total factor productivity by an increased focus on innovation in high-end manufacturing. OBOR states will act as natural markets for Chinese innovation, as well as provide cheap labour that will feed the lower ends of China-designed global value chains.

The TPP, signed last year by 12 countries, represents a more balanced American rebalance in the Asia Pacific. The US Pivot to Asia had, for far too long, focussed exclusively on military capacity; with the TPP, it seeks to dramatically expand its economic presence in the region as well. US Defence Secretary Ashton Carter famously noted last year that the TPP "was worth an aircraft carrier"—the strategic component is thus far from being understated. But equally pres-

3 "China's One Belt, One Road: The Land Strategies, Part 2 of 2," BNP Paribas, July 8, 2015.
4 William H. Overholt, "Posture Problems Undermining One Belt, One Road and the US Pivot," *Global Asia*, Fall 2015, 16.

ent in the American calculation is the diminishing role of the World Trade Organization (WTO) as the final arbiter of international trade. With the Doha Development Agenda finally buried in the December 2015 WTO Ministerial Meeting in Nairobi, the US will seek other ways to shape global trade regimes. The TPP—with its intrusive and extensive 'behind-the-border' measures that run the gamut from labour to environmental standards—along with the

under-discussion Transatlantic Trade and Investment Partnership (TTIP), seeks to reengineer the global trade architecture as economic containment of China.

The shape of the geo-economic order that is emerging is clear. China seeks to push physical connectivity before policy connectivity. The US, having failed at promoting its own version of the Silk Route under then Secretary of State Hillary Clinton, is now left to push policy connectivity along the lines of TPP and TTIP alone. If connectivity is indeed destiny, in the words of geostrategist Parag Khanna, it will be shaped by the push and pull between its hardware and software.

Beyond any security challenges OBOR poses for India, as a physical economic

connectivity project it is unprecedented. It seeks to link, by land and sea, the western flank of Eurasia to the eastern, connecting more than 60 countries at the last count. Indeed, if Indonesia is where OBOR was co-announced by Chinese President Xi Jinping in 2013, "Europe [too] wants in," in the words of François Godement.⁵ China has put aside \$40 billion for the

5 François Godement, "Europe Stands to Benefit from China's 21st Century Silk Road," *Global Asia*, Fall 2015, 35.

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Silk Road Fund, and seeks an equal amount from the new Asian Infrastructure Investment Bank towards OBOR. The maritime component of the initiative, the Maritime Silk Route, will stretch beyond the Eurasian landmass and seek to connect with Africa. OBOR can also be viewed as a culmination of a variety of China-led initiatives, such as the China-Pakistan Economic Corridor, various arrangements under the Shanghai

Cooperation Organisation, the proposed Bangladesh-China-India-Myanmar connectivity project, and the China-Mongolia-Russia corridor.⁶

One of the goals of OBOR, as stated above, is physical connectivity that seeks to create alternative global value chains where China becomes the locus of innovation. But at the same time, it passes through some of the most politically unstable regions of the world, in South, Central and West Asia. The world has, speaking candidly, bought China's 'peaceful rise' narrative mainly because of remarkable self-restraint exercised by China in terms of non-interference as it sought to expand its economic interests. As China continues to push OBOR, this will be severely tested, and will become the arbiter of the project's success in the long run. Ultimately, the lack of explicit policy connectivity underlying OBOR will mean that any Chinese hard intervention to secure the Belt and Road will be unilateral and contrary to the image China has promoted for itself.

6 Alain Guidetti, "Confront or Accommodate? The Maritime Silk Road Will Test US-China Rivalries," *Global Asia*, Fall 2015, 43.

India in the Connectivity 'New Normal'

Where does India fit in these emerging connectivity constellations? The answer can be broken down to the *why* and the *how*. The 'why' is, in many ways, the simpler aspect to answer.

One, as India's economy seeks greater integration into the world—more than 40 percent of India's GDP

is through international trade—it becomes paramount that it is networked, both physically and in terms of shaping the norms and practices of global trade. This will inevitably call for shedding some prejudices when it comes to security concerns, real and imagined, something this essay turns to later.

Two, as is known from literature on international bargaining, a state either becomes an 'agenda-maker' as a first mover, or ends up being an 'agenda-taker.' Not participating in the Chinese and/or American initiatives at their formative stages risks India being left out much in the same way it was in the second wave of globalisation of the 1980s.

Three, the failure of the 'single undertaking' Doha Development Agenda and the

ascend of mega-FTAs point to a diminishing role of the WTO and simultaneous increasingly larger role of arrangements such as the draft US Trade in Services Agreement, along with TPP and TTIP, that are shaped by plurilateral consensus.⁷ It becomes imper-

7 Chakravarthi Raghavan, "How the US is Using Secret Agreements on Services to Wriggle Out of Its WTO Obligations," *The Wire*, July 17, 2015, <http://thewire.in/2015/07/17/how-the-us-is-using-a-secret-agreement-on-services-to-wriggle-out-of-its-wto-obligations-6459/>.

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ative that India engage with these arrangements. For those who imagine the still-to-be-finalised Regional Comprehensive Economic Partnership as a 'counterweight' to TPP, the low ambition levels of the former could very well render it ineffective as such. Plurilateral policy connectivity—as a pathway to larger multilateralism—that integrates India's economy selectively then becomes the only way forward in this 'new normal.'

Four, both Beijing and New Delhi share the Hormuz Dilemma. From the energy security point of view, it becomes important that India routes some of its energy needs through land pipelines. The recent progress on the Turkmenistan-Afghanistan-Pakistan-India (TAPI) pipeline is a welcome development, with an added bonus: By integrating Pakistan and Afghanistan into a single initiative with India, TAPI can become the harbinger of better ties between India and its immediate neighbours.

Coming to the 'how,' it goes without saying that the fiscal capacities of Beijing and New Delhi are vastly different at present, so an Indian version of OBOR is little more than a pipe dream. India's options essentially boil down to promoting plurilateral physical connectivity in the Indian Subcontinent, buttressed by co-opting regional components of OBOR but in a way that does not compromise its core national security interests.

The Bangladesh-Bhutan-India-Nepal (BBIN) initiative is a signature example of a physical connectivity initiative built on top of policy convergence. The BBIN initiative

is broad-based, contained in scope and consultative in design. (A separate essay in this volume focuses exclusively on it.) An exclusively policy connectivity initiative, albeit at a low-ambition level, is BIMSTEC. Often viewed as "SAARC sans Pakistan," it could serve as a natural entity to facilitate further trade in the Bay of Bengal region. Setting environmental concerns aside, the Andaman and Nicobar Islands could emerge as a regional shipping hub for BIMSTEC in the future.

But these initiatives are, welcome as they may be, too small in scale to fully serve India's connectivity interests. This is where co-opting OBOR becomes a very important part of India's geoeconomic strategy. The Indian argument against OBOR is clear, and is largely driven by two concerns. One, the China-Pakistan Economic Corridor complicates India's strategic environment seriously—not to mention that it legitimises Pakistan's occupation of Kashmir. Two, for China's Mari-

time Silk Route to fructify, India would have to allow for greater Chinese naval presence in the Indian Ocean which would, in turn, nullify the strategic advantage India has there. India can, however, creatively reimagine OBOR, and sell it to China as such, in a way that either or both concerns are mitigated even as the two coun-

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tries' connectivity objectives remain intact.

One potential strategy to address the first concern would be the following.⁸ India should mitigate Beijing's Malacca Dilemma by offering to co-develop an Indian port in the Arabian Sea through the Sagarmala initiative, connect this port through a land-based economic corridor centred around a highway that links the west of India to Kolkata, and finally greenlight through all rungs of the Indian bureaucracy the Bangladesh-China-India-Myanmar component of OBOR that will link Kolkata to Kunming. This way, CPEC's attractiveness is reduced without compromising the Chinese objectives that had taken them to Gwadar in the first place. By building a land highway running parallel to the Tropic of Cancer through the heart of India, this corridor can be controlled by New Delhi at will, thus vastly diminishing any strategic use of the same by Beijing—unlike a land corridor through India's Northeast, for example.

Conclusion

This essay has laid down the geoeconomic imperatives for Asian connectivity from an Indian perspective. As has been argued, India ought to engage plurilaterally when it comes to both physical and policy connectivity initiatives, without forsaking the benefits that come from leveraging Chinese and American initiatives as well as without compromising core security interests. This might sound like a tall order. How might India do all this, giv-

8 Samir Saran and Abhijnan Rej, "Engage the Dragon on Balochistan," *The Times of India*, February 4, 2016.

en its rather limited fiscal ability?

The answer lies in revisiting David Dollar's metaphor of physical infrastructure as the "hardware" of connectivity and policy connectivity initiatives such as free/preferential trade agreements as the "software." In a computer, the hardware and software interface at the 'middleware,' which connects the operating system that drives the hardware to more complex software applications. India ought to be that 'middleware' in the new geoeconomic architecture.

To explain this point further: India's foreign policy, (strangely) free from any domestic impetus, was activist-internationalist for most of the post-independence era. Whatever be the costs of this posture—and there were indeed many—it did win India a certain goodwill throughout the erstwhile Third World. By pragmatically engaging both Beijing, the supplier of the "hardware" of connectivity, and Washington, the maker of the "software" of new norms, and cashing in on its goodwill from the non-alignment era, India can emerge as an honest broker between the two powers and shape competing visions at the same time. If connectivity is what would make Asia an

entity in its fullest sense, New Delhi must realise that its real strength lies in this role.

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