TIME TO REVITALISE THE ACT EAST POLICY

By SHYAM SARAN

The new normal is anything but ‘normal’. 2022 will be a more unpredictable year than the one we left behind. The Covid-19 virus is mutating all the time and the world is unable to keep up. Just when we thought the worst may be behind us, the more transmissible Omicron variant is spreading across the world. Borders which were being opened tentatively, gingerly are snapping shut again. Airline business, which was limping back to solvency, is likely to face terminal decline and most service industries, such as hotels, restaurants, travel and retail, will further suffer severe blows. The major world economies responded to the health crisis and the acute economic and social disruptions in the wake of the pandemic by expending an estimated $11 trillion (Rs 819 lakh crore) over the past two years. There is not much firepower left in their economic armouries to sustain such massive outlays for another year.

We are experiencing the beginning of an inflationary surge. This is likely to sharpen in 2022. If central banks in the advanced economies react by raising interest rates and reducing the liquidity overhang built up over the recent past, then developing countries, including India, are likely to see significant financial outflows. Their cost of external borrowing will go up. 2022 will be a more challenging year for

Illustration by SIDDHANT JUMDE
both the developed and developing economies but as is always the case, the latter will suffer the most. India has seen some welcome signs of economic recovery lately, but this will be difficult to sustain.

China introduced and has recently reintroduced the most severe lockdowns by any country. Their impact has been offset to some extent by a surge in Chinese exports of health equipment and pharmaceutical ingredients. China was an island of relative economic stability in a highly disrupted global economy, and this reinforced its geopolitical profile. But as we head into the new year, the Chinese economy looks more vulnerable. The debt to GDP ratio of over 280 per cent looks unsustainable for an economy likely to grow by a slower 5 per cent in 2022. Another vulnerability relates to the property and construction sectors, which contribute roughly 30 per cent to China’s growth. The largest real estate firm, Evergrande, is facing bankruptcy and others are also in dire straits. This may trigger an economic and financial crisis which even China’s state-led dispensation may not be able to contain. The pandemic has adversely affected the country’s ambitious Belt and Road Initiative (BRI) projects and concerns over debt exposure and political pushback have surfaced in several partner countries. A slowing Chinese economy may pose a bigger problem than the relentlessly advancing one because there are no other drivers of global growth remotely close to China’s scale.

Geopolitics is in a churn and is likely to become even more volatile. The key equation is between China and the US. Since the global economic crisis of 2008, China has assessed that it has fundamentally altered the balance of power in its favour and entered a phase of significant strategic opportunity. Its assertive and even aggressive foreign policy is anchored in this perception. Will China have passed its peak in 2022 and could this result in the reenactment of its “wolf warrior diplomacy”? Or will it double down on its increasingly coercive and unilateral assertion of its interests—interests that have expanded as its power has? Either trend is possible and may become apparent in Chinese actions on Taiwan and its posture on the India-China border.

China looks at power in relative terms. It may be entering a phase of diminished growth and even over-extension, but its perception of the credibility of the US has diminished even further thanks to the precipitate and chaotic American withdrawal from Afghanistan. It may well be tempted to resolve the ruling dispensation in Kabul is the Haqqani group, which was described by former Pentagon chief Mike Mullen as a “veritable arm of the ISI”. It is the Haqqanis who targeted the Indian embassy and Indian nationals in Afghanistan on behalf of the ISI. Any effort by India to revive its presence in the country in any form will always be risky. Indian humanitarian and economic aid will be welcome at a time when the country is facing famine and economic collapse but this will not provide any meaningful leverage.

The Taliban takeover is proving to be a major morale booster for jihadi groups, who are already turning their attention to Jammu and Kashmir and other targets in India. China will be a more powerful shield for Pakistan in international fora, frustrating Indian efforts to isolate Pakistan diplomatically on the issue of cross-border terrorism. India has done well to coordinate with regional countries to deal with the security challenge posed by the political change in Kabul. Inviting the Central Asian states as chief guests at the forthcoming Republic Day is an imaginative move but its substantive impact must not be overrated.

One hopes that 2022 will be the year of a revitalised Act East policy. The key to this is a return to the Regional Comprehensive Economic Partnership (RCEP) Agreement. India cannot dispense with the economic and commercial pillar of Act East. It should also revive its application to become a member of Asia-Pacific Economic Cooperation (APEC), which does not entail making trade concessions but will provide a networking and learning platform for Indian business and industry. India is the only Quad member which is not an APEC member. It should leverage its Quad credentials to become one. These are some of the initiatives which may help India navigate what will be another year of unpredictability and fresh challenges.

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