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A Geoeconomic Strategy for the New Normal

ABSTRACT

The world is on the cusp of a "new normal": A China that seems to be retreating from domestic economic growth while ascending internationally with the creation of new financial institutions and the internationalisation of the renminbi; a US on the path to full economic recovery following the Global Financial Crisis as evidenced by its decision to raise interest rates; dramatic Chinese initiatives to increase connectivity in Asia; and altered constellations of trade agreements in the Asia-Pacific, following the signing of the Trans-Pacific Partnership. This paper describes the interplay amongst all of these factors shaping the global new normal, as a way to sketch a geoeconomic strategy for India in the medium run. The study is situated in academic literature on geoeconomics and game theory and – as a conclusion – describes the key components of a geoeconomic grand strategy for India.

1. INTRODUCTION

As 2016 begins, it is an opportune time to take stock of the shocks and shifts witnessed globally in the past year and what they mean for India, especially the country's geoeconomic and foreign-policy 'grand strategies'. Such strategies cannot, and should not be static, confined to ideology and unresponsive to global changes. As such, the past year saw a number of important developments which make it a necessity for India to draw up a new geoeconomic strategy for the medium term.

What may be regarded as the biggest economic shift of the past year was the official christening of China's growth transition – from an export-driven manufacturing economy to one driven by domestic consumption. This transition has resulted in the lowest GDP growth rate for China in a couple of decades. China's growth transition has been dubbed the "new normal" where its role – and indeed identity – as the world's factory and a key component of global aggregate demand is now being brought to question. A slowing China can also have serious domestic political consequences which would likely create an impact on India's security.

Yet this 'diminished' China remains the world's second largest economy, and in 2015 gained more traction in the West-led economic order as evidenced by the inclusion of the Chinese renminbi (RMB)[1] into the IMF's Special Drawing Rights (SDR). This is a consequential development given that China's capital account remains under leash of its government. 2015 was also Year Zero of the China-led Asian Infrastructure Investment Bank (AIIB) which is expected to play a major role in its One Belt, One Road (OBOR) initiative, the largest infrastructure development project undertaken by any single nation since the US-led Marshall Plan following the Second World War. The AIIB and an internationalised RMB makes for another new normal, a world where Western institutions have credible competition – for the first time since the fall of the Ottoman Empire around the First World War – and perhaps a return to a bipolar world.

The United States officially announced its recovery from the Global Financial Crisis of 2007-2009 by raising its policy rate in December 2015. This rate increase has the potential to strengthen the US dollar, and cause capital outflow from emerging economies. However, from the US domestic economy point of view, the interest rate hike followed from its unemployment rate dropping to its natural rate for the first time since the crisis of 2007-2009. The US-led Trans-Pacific Partnership (TPP) was also signed in October 2015. As Indian economist Rajiv Kumar noted, "It (TPP) is about developing a 'new normal' for conducting international trade," ranging from stringent and uniform labour and environmental standards, stronger provisions for intellectual property rights, and limiting the competitive advantage of state-owned enterprises.[2] The fact that the TPP was signed by all 12 of its founder-countries is, in no small measure, a vote of confidence for a US-led economic order in the Asia-Pacific.

Indian policymakers now have the (perhaps unenviable) task of incorporating this new normal into their economic, foreign, and strategic policies. As has been noted – since the work of political scientist, Edward Luttwak – these policies are not isolated and should, in fact, move in lockstep. This co-movement has often been dubbed as "geoeconomics". To a huge extent, however, an articulation of a concrete and comprehensive Indian geoeconomic strategy has been missing from most analyses, with their focus on one or more economic or geopolitical factors and, in a few cases, the interactions between these. In other words, a 'systems view' of geoeconomics – with explicit grounding in rational choice behaviour – is the need of the hour, as India navigates the new normal. This paper attempts a first step in laying the groundwork for such a strategy.

At the outset, it must be noted that this paper is rather brief considering the breadth of the subject. For one, the paper dwells on the "new normal" factors at the expense of other economic foreign policy concerns (for example, on India's role in older multilateral trade organisations such as the WTO). A crucial omission in the paper is the ongoing depression in global commodities markets.[3] What follows is thus more of a sketch than a comprehensive study.

The analysis starts in Section 2 with a careful examination of what is meant by "Indian geoeconomics." Ways are identified by which an Indian geoeconomic strategy can be integrated with India's grand strategy. Section 3 examines the Chinese and American new normal, in terms of both their domestic and international consequences. Shifts in regional connectivity – through the recently announced OBOR initiative, and how India can integrate these into its own strategy—is examined in Section 4. Section 5 looks at the recent emergence of mega free trade agreements (FTAs) in the Asia-Pacific such as the TPP and also the Regional Comprehensive Economic Partnership (RCEP) which is still being negotiated. The paper concludes in Section 6 with a sketch of the key components of any putative Indian geoeconomic strategy that takes into account both the new normal of 2015 and other trends of the past decade.

2. ALIGNING INDIAN GEOECONOMICS TO INDIA'S GRAND STRATEGY

Defining India's Geoeconomics

The first order of business facing Indian policymakers tasked with managing the country's geoeconomic interests is twofold: (1) to identify precisely what India means by geoeconomics, and (2) aligning the priorities implied by such a definition to India's grand strategy when it comes to foreign policy. In this section, an attempt is made at both, by drawing on a variety of Indian and foreign official and quasi-official sources, as well as existing academic literature on geoeconomics.

Geoeconomics is not a synonym for economic foreign policy. While economic foreign policy may often move beyond realist considerations of hard national power – and some analysts like Bharat Karnad[4] would argue that Indian foreign policy has, by and large, not paid sufficient attention to it – geoeconomics seeks to understand the concert between domestic economic goals, the global strategic environment and, above all, the opportunities that arise from geography. A geoeconomic strategy would seek to leverage the latter two for the sake of the former. However, the classical definition of geoeconomics as introduced in the seminal work of Edward Luttwak in 1990 suggests that geoeconomics is the theory and practice of use of economic instruments available to the state to further strategic goals which may include economic ones. Luttwak wrote of geoeconomics: "This neologism is the best term I can think of to describe the admixture of the logic of conflict with the methods of commerce – or, as Clausewitz would have written, the logic of war in the grammar of commerce."[5]

Former US Ambassador to India Robert Blackwill at a speech in the Ananta Aspen Centre in 2014 took Luttwak's definition as a given, defining geoeconomics as the "use of economic tools for strategic purposes."[6] While this gives operational clarity to the term, it does suppose that the state has sufficiently many flexible economic tools at hand to further the "logic of war." The two biggest economies – the United States and China – and to some extent Germany, indeed have leveraged them. From India's perspective, the definition of geoeconomics must be broader and, at least for the moment, less adversarial. However, the key focus should be, in Blackwill's words, the need for "a new way of thinking about national interests and state power [that] must aim for a foreign policy suited to a world in which economic concerns often – but not always – outweigh traditional military incentives."[7] The corollary is that the business of diplomacy must be business– to paraphrase foreign-policy expert, C. Raja Mohan.[8] The blueprint of this business-oriented foreign policy will be provided by India's geoeconomic strategy.

While Indian policymakers ponder what precise shape should be taken by this strategy, they also need to keep in mind that neither is geoeconomics a mere synonym for mercantilism. Luttwak explained the teleological difference between the two: while the aim of mercantilism "was to maximise gold stocks … the goal of geo-economics could only be to provide the best possible employment for the largest proportion of the population."[9] A geoeconomic strategy which takes this as the main goal ought to also realise the basic link of trade and conflict between nation-states. The argument – derived from the theory of cooperation in repeated games – is that, *ceteris paribus*, "countries that trade more with each other are less likely to go to war with each other."[10]

Indeed, if the goal of a nation's geoeconomic strategy is, asymptotically, full quality employment for all citizens, as well as peace at its borders, how have the best national practitioners of this art sought to get there? Sanjaya Baru marks the 2007-2009 Global Financial Crisis as the fulcrum used by China and Germany to shift balance of power (economic and, *inter alia*, strategic) to their favour by a careful deployment of economic policy instruments and, in particular, the exchange rate of their respective currencies.[11] Baru identifies four factors that contribute to a country's geoeconomic power:[12]

1. Knowledge power and the capacity to innovate;
2. Agrarian transformation that guarantees food security and improves agricultural productivity;

3. The rise of urbanisation, a middle class, and reduced consumption and income inequality;
4. The fiscal capacity of the state, keeping in mind Kautilya's dictum: "From the strength of the treasury the army is born."

But these four factors should have been part of India's economic strategy since Independence; and indeed to some limited extent they have been. How can these desiderata be fulfilled in the larger context of India's geographical degrees of freedom and shifts in the global political and economic order? In other words, how can India's economic strategy be integrated with India's Grand Strategy for foreign policy in the next couple of decades?

It needs to be noted *en passant* that the notion of Comprehensive National Power (CNP) – as developed by China to guide their national grand strategy – could be another way by which India's geoeconomic posture can be determined. In more formal semantics, India's geoeconomic strategy should be one that maximises Indian CNP (measured suitably) under geopolitical constraints. It is not hard to imagine that this definition would be equivalent to the ones sketched above.

Grand Strategy

India's current grand strategy takes as a basic input the realisation that the foundation of the country's national power is determined by its economic footprint.[13] This determination, in effect, is an acknowledgement that economic primacy matters. As Samuel Huntington writes: "Economic primacy matters because economic power is both the most fundamental and most fungible form of power."[14] Realisation of this goal necessitated a fundamental shift in Indian foreign policy—from ensuring that no other actors impinged on India's economics and politics, to shaping an international environment conducive to its economic growth, through both bilateral and multilateral activity.[15] The strategic geoeconomic goal then becomes ensuring the existence of an "open economic order"[16] while leveraging this order for self-interest. To operationalise this goal, however, one must – following the realist dictum – on one hand be able to influence other states and, on the other, resist being influenced. Indeed, the quest for strategic influence then ceases becoming a matter of choice and turns into an imperative.[17]

For proponents of strategic autonomy as the driving principle of Indian grand strategy, geoeconomic concerns play a central role. As Baru writes, strategic autonomy in an interdependent world is built on mutually beneficial interdependent relationships, and not from any putative moral assertion of non-alignment.[18] This cooperative engagement – when it is possible, and competitive posture when it is not – becomes key as India engages the world as a geoeconomic power.

In 2010, Admiral Raja Menon and economist Rajiv Kumar authored a seminal report that sought to draw out and describe India's grand strategy for foreign policy. The study was based on the Net Assessment methodology and examined a plethora of drivers – geographical, political, economic, security, and sustainability – to conclude that the US and China are the two main exogenous influences that must be accounted for in India's strategy.[19] Menon and Kumar essentially reduced India's Grand Strategy choices to four, each of them corresponding to a rise/decline pair for US and China. Scenario 1 – "US Reinvents Itself" – corresponds to a US on the rise while China declines. Scenario 2 – "Eagle Disorder" – is exactly the opposite. Scenario 4 – "Depressed Trajectory" – is where both the US and China slow down, and Scenario 3 – "Duopoly" – is where both gain.[20]

While this Net Assessment study does not attach probabilities to each of these scenarios and only lays out strategy choices for each, it does ask whether "India should wait for a macro scenario to emerge and craft a strategy, or craft a strategy to influence the outcome towards a particular scenario."[21] It is clear that should India opt for the latter, it is in its national interest to continue to balance China leveraging the US, until such time that India emerges as a great power itself. But the latter goal demands that India also leveraged China in the short run, especially for infrastructure, while expanding the country's reach to American innovation in return for greater US access to domestic markets. As Indian analyst Samir Saran described the country's goal in the long run: "We should free-ride on China's infrastructural ambitions to build our capabilities, much like the Chinese free-rode the American-led security system to reinvent itself."[22] Indeed, "if China is a challenge as well as an opportunity," writes C. Raja Mohan, "New Delhi must learn to walk on two legs – productive bilateral cooperation and effective competition."[23]

Economic Priorities

India's economic priorities are simple to state: a high rate of output growth, commensurate job creation to leverage the demographic advantage and reduce income and consumption inequality, and strengthening its manufacturing base. For the latter, India seeks to simultaneously build its labour-intensive manufacturing capabilities, as well as grow innovative capabilities in high technology.[24] Further, India seeks to meet its development goals sustainably as measured, for example, through the recently adopted Sustainable Development Goals (SDGs).[25]

Kumar puts India's economic priorities in a similar fashion: a high rate of GDP growth (between 8-10 percent annually), an economic strategy that promotes domestic inclusion, and a growth strategy that is sustainable.[26] According to Kumar, a precondition to high output growth is the need to "maintain a benign external environment" that promotes: (1) market access (the basic premise being the existence of a credible and well-functioning multilateral trading system[27]); (2) technology acquisition (including those with dual use); and (3) access to natural resources (whether in Africa or South East or East Asia). This desired external environment must be complemented by two internal capabilities: (a) macroeconomic stability; and (b) infrastructural base. The new normal presents both opportunities and threats for India, as explained in the following sections – on points (1) – (3), as well as (a) – (b). It should be emphasised that its terms of priorities, (a) and (b) are foundational on top of which (1) – (3) "sits" (with the proviso that there are feedback and feed-forward loops between all five goals).

Indeed as Ashley Tell remarks, macroeconomic stability is what converts the long view to the short in getting India back on track.[28] But greater integration of Indian markets with the global economy necessitates accepting the fact that India too will have business cycles. As Ila Patnaik notes, policymaking in India has implicitly assumed that "Indian economy does not have business cycles."[29] At the same time, India must create policies that guarantee "fiscal space" – the extent to which the Indian government would be able to borrow internationally faced with "exogenous" and rare crises, including global recessionary conditions.[30]

Geoeconomic Strategy in the New Normal

In matching India's economic priorities with its foreign policy grand strategy, it is clear that the country needs to pay particular attention to the following:

1. Monitoring global economic conditions and aligning its macroeconomic stability interventions with the same.
2. Building on recent infrastructure initiatives and leveraging the G7 + China economies for the same. At the same time, shedding passivity when it comes to building greater regional connectivity.
3. Capitalising on emerging multilateral trading architectures and exploiting the competition between "China-led" trading orders and "US-led" ones. The "negotiating modalities" in these trading architectures are to be guided by the principle of more active role of India in global governance was well as the desirability of access to domestic markets in a pragmatic way.[31]
4. Integrating its economy more closely with the US – to leverage American innovation – while convincing China that its strategic autonomy posture will mean closer cooperation with that nation as well.

In the context of the new normal, the following conceptual matrix can be created to incorporate all of the above four areas of focus by concentrating on India's responses to opportunities and challenges presented by both the US and China.

Country	US	China
Trade	TPP and TTIP	OBOR and RCEP
Monetary and Fiscal	Interest rate - ↑ and ↓	RMB de- and re-valuation and internationalisation

What would be most important from the Indian perspective is not just to look at responses to these four factors but also the interaction between the factors themselves. The Indian strategy – as a response to these factors – should also keep in mind that each of them have domestic consequences and drivers (i.e., to the respective national economies) as well as foreign strategic impact. The following sections probes these four factors.

3. CHINA AND THE UNITED STATES

China

Perhaps the greatest story of 2015 was the slowdown in the Chinese economy; currently, the official GDP growth projection of 2015 stands at seven percent, the slowest in a couple of decades. The Citi Group's forecast for real GDP growth for China pegs it at 6.2 percent in 2019, down from their real GDP growth forecast of 6.8 percent for 2015.[32] Citi analysts have gone as far as to warn their clients in the second half of 2015 of a global recession "made in China."

The official Chinese position is that their country is undergoing a growth transition – a structural shift from export-driven manufacturing to increased domestic consumption in the Chinese economy, with a greater share for the services sector. Were China not to be still an industrialising middle-income economy, this transition would have been understandable. The fear is that the Chinese economy would be caught in what is called a "middle income trap", or a situation where an emerging economy does not manage to rise to the upper income category.

China's slowdown rattled its domestic stock markets in the summer of 2015. To make matters worse, it seemed that government interventions in the equity markets was not yielding the required effects, further shattering investor confidence. The decision to sharply devalue the RMB in August 2015 – leading to a four-year new low at the time of writing[33] – has led many to question whether the recent downturn in China's economy is less cyclical in nature and represents a trend sloping downward instead. The greatest of the “known unknown” about the Chinese economy is the extent to which the country's banking system is exposed to non-performing assets. What continues to act as determining factor for China's long-run economic and financial systems is the possible "crypto-insolvency" of state-owned enterprises (SOEs) and local governments. The fear that the Chinese banking system may be exposed to a lot of undiversified risks through investments in SOEs and local governments is boosted by the recent decision in China to swap 3.25 trillion RMB of bank loans to bonds.[34]

When it comes to managing its financial markets, China's controlled exposure to global markets – whether through its currency rate or relaxation of capital controls – have made regulatory control fairly difficult. These were initially designed to benefit China asymmetrically and, with the changed circumstances, the PRC government is increasingly finding it difficult to recover from these compromised central planning capabilities.[35] The only way China can find a way out of these ideological dilemmas is through great retrenchment, something India will have to carefully monitor as it crafts its own geoeconomic strategy towards China.[36]

On the monetary and capital account front, two main events have recently dominated the news. In August 2015, China devalued the RMB as a way to boost its export competitiveness. What was interesting about this devaluation – an expected move, otherwise, given the state of play in the Chinese economy – was that Premier Li Keqiang had announced only a couple of months before the event that China had no intention of any more devaluations, leading analysts to comment on whether the control of China's economy has indeed passed from the Premier's office to that of President Xi Jinping.[37] China further “stress-tested” devaluation in December 2015, bringing the RMB down to 6.4280 to a US dollar in onshore trading.[38] Further devaluation occurred after the increase in US policy rate in December 2015.

The second significant event for the Chinese currency was its inclusion in the IMF Special Drawing Rights (SDR) basket on 30 November 2015. China has promoted internationalisation of the RMB through onshore and offshore trading and clearing centres for some time now; the inclusion of the RMB in the SDR is a significant recognition for China in terms of its new prominence in the Bretton Woods system. The curious fact about this inclusion lies with the recognition that a currency need not be fully convertible to be included in the SDR – China officially operates a "managed float" currency system. While the Japanese Yen too was a managed currency when it was included in the SDR, there were no significant questions raised about its "manipulation", something the Chinese have been repeatedly accused of by US officials.

For China, "SDR inclusion is a tool to promote domestic economic and financial reforms and part of a strategy to gradually increase the international usage of the RMB in order to make China's economy less vulnerable to foreign exchange risks."[39] The RMB share in the SDR is 10.9 percent – this is compensated by a decline of the share of Euro and the GBP in the basket.[40] RMB inclusion in the SDR will most likely mean that sovereign funds, central banks and institutional foreign investors will increase their RMB holdings in the coming years. For India, this presents a threat as well as an opportunity. The threat lies in the fact that RMB is a managed currency, which means that hedging RMB risks is not straightforward. The RBI has typically managed foreign exchange risks through interventions in spot and forward market, in addition to the proposed intervention in the exchange-traded currency derivatives (ETCD) market as a response to a surge in the American dollar's value. The ETCD market is shallow in India – any RBI intervention to tame RMB risks would require increasing the depth of that market, as well as vigilante action in the currency forwards market. The opportunity of an international RMB lies in India's potential to leverage it as a policy tool, much in the same fashion Chinese holdings of the USD has deterred the US from launching an all-out trade war with China.

The United States[41]

The United States in the new normal is, first, a country that has finally exorcised the ghosts of the 2007-2009 Global Financial Crisis. The foremost metric to measure the newfound stability of the American economy is in terms of its unemployment rate, which stands at 5.1 percent compared to 10 percent in December 2009.[42] The US puts its "natural rate" of employment between 4.9 percent and 5.2 percent, measured as the non-accelerating inflation rate of unemployment (NAIRU). With American unemployment put at par with the natural rate and significant economic stimulus through rounds of Quantitative Easing (QE), the US Federal Reserve increased the benchmark policy rate on 16 December 2015. The increase, as expected by the RBI, was around 25 basis points.[43] This would be a first hike in the US policy rate since 2006, and has significant consequences for India, China and other emerging markets (EMs).

From the US domestic point of view, many economists have argued that high interest rates can in fact have a negative effect on real sector growth by pushing money into the financial sector. As a monetary policy instrument, interest rates are, first and foremost, directed at targeting inflation. The link between inflation and employment is through the classical Phillips Curve which broke down during the "stagflation" of the 1970s and led to the prominence of the monetarist school of Milton Friedman which long argued that monetary policy has little to no impact on unemployment rates.

The pre-monetarist approach to unemployment – which appears to be the implicit approach of the US Federal Reserve under Janet Yellen – would posit that unemployment rate and interest rate have an inverse relationship. Therefore, an increase in interest rates is only justified, *ceteris paribus*, if unemployment rate is around NAIRU, which seems to be the case with the US economy. With unemployment under control, a hike in the policy rate would act as a deflationary instrument. The hike is expected to be the first in the recovery phase of the business cycle and more are likely to come (though at a lower frequency) in the next years. This is one cornerstone of the new normal of the American economy.

An increase in the policy rate will strengthen the dollar, the simplest reason being that bond yields co-move with the policy rate, so an increase in the latter makes US bonds more attractive in the international market. (More technically: the efficient market hypothesis for the global currency market implies no arbitrage opportunities, which in turn would imply a stronger dollar compared to any other arbitrary currency, assuming interest rate in that currency falls; the assumption that interest rate in other currencies will fall follows from the open economy trilemma of international macroeconomics.) For EMs holding dollar-denominated debt during the QE binge that followed the Crisis of 2007-2009, such a hike presents an obvious problem. Large EM commodities exporters like China – which is the world's largest exporter of steel – will be hit the hardest.

A stronger dollar will also lead to capital outflows from EMs, an increase in their current account deficit, and short-run volatility in the foreign exchange markets. China anticipates that a Fed policy rate hike will contribute to slower growth there, by depressing their commodities markets and by increasing capital outflow from China. The 9 December 2015 "stress test" devaluation of the RMB was a response to the anticipated action of the US Federal Reserve; in this new normal part of the US business cycle, one would expect many more devaluations of the RMB possibly leading to a mini "trade war" between China and the US.[44] However, the People's Bank of China will carefully weigh the costs versus benefits of any further devaluation – the August 2015 devaluation is expected to have cost the Chinese treasury about US$ 90 billion.[45]

From India's point of view, a strengthened dollar will contribute to volatility in the Indian foreign exchange market. In anticipation of the Fed rate hike, the INR/USD exchange rate is already showing significant fluctuations. The RBI on 9 December 2015 has decided to intervene in the ETCD markets in addition to the spot and forwards markets to combat volatility, a decision interpreted by a currency analyst as "looking like (RBI Governor) Raghuram Rajan is expecting serious global trouble ahead."[46] On the other hand, if the rate hike does depress global commodities markets, such a hike could be leveraged further. (India's stake in the global commodities markets as a net exporter is limited, so the domestic commodities markets are likely to remain unaffected.) This is in addition to possible capital outflows which all other EMs faces in the event of a Fed rate hike.

In the new normal of a resurgent US – measured through confident and successful increases in interest rate – and an internationalised RMB presents both threats and opportunities for long-run macroeconomic stability. Both have to be carefully considered in formulating India's geoeconomic strategy.

4. ONE BELT, ONE ROAD: "HARD-WIRING THE WORLD"[47]

Background and Chinese Domestic Impetus

China's One Belt, One Road (OBOR) initiative is widely seen as the largest global development initiative undertaken by any single nation since the Marshall Plan for the reconstruction of Europe after the Second World War. The China-led OBOR seeks to connect mainland China (especially the inner cities there and its western region) to large swathes of Central Asia and, eventually, to Europe. The maritime component of OBOR – the Maritime Silk Route (MSR) – will connect China and South East Asia through the South China Sea and the Indian Ocean to West Asia and Africa. OBOR was announced by Xi during visits to Kazakhstan and Indonesia in 2013, and covers over 60 countries.[48] As such, OBOR is a culmination – and integration – of a variety of China-led initiatives such as the China-Pakistan Economic Corridor, various arrangements under the Shanghai Cooperation Organization, the Bangladesh-China-India-Myanmar connectivity project, and the China-Mongolia-Russia corridor. OBOR is estimated to cost about US$ 900 billion.[49]

The OBOR – a 21st-century version of the Silk Road – is widely seen as China's response to the US' own "Pivot to Asia." As Chinese analyst Zhang Yunling puts it, OBOR is China's "Pivot to the West."[50] OBOR represents the third leg of China's self-perceived strategy of great power; if Mao Zedong consolidated the CPC, the PLA, and the Chinese territory, Deng Xiaoping opened up China inwards, then in this last leg, Xi Jinping will open up China outwards. The fact that China had long believed that the Silk Road was "Chinese" is reflected by its decision not to support the idea of the revival of the same under the American watch, scuttling a proposal made by then US Secretary of State Hillary Clinton in the summer of 2011.[51] The Chinese commitments to OBOR are far from being merely symbolic. It has currently allocated about US$ 40 billion for the Silk Road Fund, and a budgetary commitment of a similar amount to the Asian Infrastructure Investment Bank (AIIB) – widely seen as the "OBOR Bank" – demonstrates the seriousness of Chinese intentions. The initiative is expected to be fully completed by 2049, the 100th anniversary of Communist China.[52]

From its domestic perspective, OBOR fits perfectly with China's economic grand strategy of intertwining growth enhancement, trade facilitation, and economic rebalancing objectives of a move away from exports-driven labour-intensive manufacturing to an economy led by technology, capital, and the services sector.[53] China needs to restructure its trade to exploit low labour costs in other OBOR states while, at the same time, leverage the geographical access these countries provide. In terms of OBOR as an extension of China's development strategy for the 21st century, it fits into existing national objectives such as "Develop the West," "Revive the North East," "Raise the Central Region," and "National-level New Zones."[54] With OBOR, China also seeks to promote RMB-denominated investments. As American analyst William Over holt puts it: "China's over-accumulation of foreign reserves was a major strategic error."[55] RMB internationalisation, thus, represents a major component of OBOR, and an unappreciated one.

The fact that Chinese economy circa 2015 faces a problem with excess capacity is a truism. The transition to the new normal for the Chinese economy will imply that a significant fraction of its productive facilities will remain under-utilised as China shifts to a services-driven "high tech" economy. Indeed as a market analyst put it: "China's move from investment-led growth to consumption-led growth is inherently contractionary."[56] OBOR will seek to correct this contractionary problem. While most of OBOR is visualised to be a Public-Private Partnership, it is well known – through careful econometric modelling[58] – that public expenditure has a significant multiplier effect (greater than three) in the Chinese economy. OBOR will leverage this multiplier effect as well. At the same time, trade facilitation – especially with Europe, the end-destination of OBOR (as it is currently conceived) – will reorient Chinese economy in the direction of innovation, correcting the persistent Chinese problem with total factor productivity (TFP) growth.[59] TFP growth is known – since the seminal work of Solow and Swan – to be the largest input for long-run economic growth.

Europe and Russia

The Silk Road is very much a part of Europe's geographical consciousness. Indeed, it was a German geographer, Ferdinand von Richthofen, who first coined the term in 1877 (*"die siedenstrasse"*). The European position on OBOR is simple:"Europe wants in."[60] Promoting European interest through OBOR fits well with Germany's aggressive geoeconomics following the Global Financial Crisis of 2007-2009. By consorting with China, Germany seeks to achieve two objectives: a better bargaining power when it comes to the American Transatlantic Trade and Investment Partnership (TTIP), and a way to channel German capital surplus to Central Asia without having to deal with the Russians.

Further, Jean-Claude Juncker's Euro 315 billion European Fund for Strategic Investment (EFSI) seeks to utilise OBOR as a China-EU bridge.[61] Simply put, the European calculation is that China will contribute capital to the EFSI. The growing China-EU relationship is also reflected in the fact that the AIIB currently has 14 EU members. However, as one analyst pointed out, European economic sovereignty is likely to emerge as the main issue of concern for the Europeans as Juncker seeks to bring China to the EFSI table. How the EU-China concert over OBOR plays out will be crucial for India as it seeks to iron out the EU-India FTA. An exogenous unknown here would be the extent to which TTIP succeeds in displacing China from Europe and bringing America back front and centre. Indeed as former Indian Foreign Secretary Shyam Saran noted, "the longer it takes for TTIP to be actualized, the greater the chances of the Chinese Eurasian project succeeding."[62] The Europeans are also wary of the strategic signalling from China during the

Greece crisis of 2015, when China moved to acquire Piraeus, a major Greek port.

Russia, in ways more than one, is the most crucial player in OBOR after China. By drawing it to OBOR, China has implicitly sought to "let" Russia act as a security guarantor in Central Asia which implicitly means that China will not pose a military challenge to Russia in Eurasia. In return, Russia will not constrain China's economic expansion in Central Asia; at least that is what China hopes. Russia had floated their own initiative in the region – the Eurasian Economic Union (EEU) – and the Putin-Xi meeting of May 2015 led to an agreement between both sides to "harmonise" OBOR with EEU.[63]

The Russian calculation in supporting OBOR is part of a greater strategy. As Dmitri Trenin puts it: "China, in the post Crimea world, is the only major economy that is not following the US/EU-led sanctions policy against Russia."[64] OBOR is the latest episode in the Sino-Russian rapprochement which has now extended to major defence sales from Russia to China, including the finalisation in November 2015 of the agreement to sell 24 Russian Su-35 fighter jets.[65] China will most certainly be able to reverse-engineer these jets, and so in effect the sale represents a transfer of extremely sensitive military technology between the two countries.

East and South East Asia

In announcing OBOR from Indonesia, the signal from Xi is clear. East and South East Asia remain a key part of the initiative. The economics of this is quite simple: OBOR seeks to perform a market clearing function by matching supply of infrastructure from China, and demand for it, from South East Asia. As Nataraj and Sekhani recently noted, "for countries like Cambodia and Laos, OBOR project could be a game changer."[66] After all, South East Asia accounts for nine percent of the world's population though less than a percent of the world's GDP. The countries in that region seek to correct such imbalance by integrating with OBOR. On the other hand, East and South East Asia already has a number of free-trade agreements in place, including ASEAN (and augmented ASEAN) as well as the US-led Trans-Pacific Partnership (TPP).

Analysts have noted that OBOR and TPP are complementary in many ways: OBOR is the hardware that will provide the infrastructure, and TPP is the software that will standardise conditions needed to lift trade barriers.[67] Thus countries that are on the intersection of the two – like Malaysia – are the ones that would benefit the most from trading with each other. These countries will have both the necessary and sufficient conditions that facilitate deeper economic integration. As India contemplates its geoeconomic strategy for South East Asia, these would be countries to focus on.

South Asia and India

From India's security perspective, the China-Pakistan Economic Corridor (CPEC) remains the main concern. One, the CPEC passes through Pakistan-Occupied Kashmir, thus legitimising Pakistan's claim over that territory.[68] Two, the CPEC could be used by Pakistan to obtain spare parts for its military hardware obtained from China in event of any China-Pakistan conflict.[69] In fact, Gwadar – from the OBOR point of view – is crucial simply because it is where the Belt (the land link to Europe) meets the Road (MSR linking to South East Asia).[70] It is difficult to imagine ways to effectively neutralise the dual-use value of CPEC in event of a conflict with Pakistan without drawing China into it.

India has been invited to join OBOR through the Bangladesh-China-India-Myanmar (BCIM) corridor, something Prime Minister Narendra Modi committed to strengthen during his May 2015 visit to China.[71] But India is acutely aware of the fact that a successful BCIM corridor will mean, for example, Bangladesh being flooded with Chinese goods that have a much greater cost advantage to India's own. The fact that there are tremendous barriers to flow of capital and labour between India and its neighbours has been noted at many instances in the past. OBOR has renewed the push for initiatives such as the Bangladesh-Bhutan-India-Nepal (BBIN) corridor; but ongoing political uncertainties – such as the recent divergence between Nepal and India over the new Nepalese constitution – have the potential to jeopardise it. But whatever the reservations to BCIM, Modi's public statements of May 2015 imply that BCIM is far from being dead.

A productive Indian response to OBOR could be to build initiatives that complement OBOR but are not driven by China. For example, a China-India-Bangladesh trilateral agreement could see the India-driven BBIN complement the China-led MSR. As Indian analyst Samir Saran remarked: “While China builds highways we should build slip roads.”[72] India should also demonstrate leadership in re-invigorating alliances like the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) which could be further integrated with BBIN and offer countries like Thailand, Nepal, and Bangladesh a credible alternative to OBOR. A concrete step in this direction would be to develop the Andaman and Nicobar Islands as a “regional shipping hub” for littoral states.[73] A recent paper by Ghosh has also emphasised intrinsic synergies between MSR and the Indian Sagarmala initiative for the Indian Ocean.[74]

Interplay with Monetary and Fiscal Factors

As noted in the introductory sections, India's geoeconomic strategy should look at the interaction between the four factors driving the new normal. In the context of OBOR: internationalisation of the RMB will mean countries in the OBOR region will be more comfortable entering into currency swaps with China as well as serve as offshore centres for RMB clearing and host trade in RMB-denominated bonds (the so-called “dim sum”-type). On the other hand, a strong dollar and low bond yields will also mean that T-bonds will continue to be attractive as investment holdings. There is an intrinsic tension – and not an easy one to resolve – between the two which should be carefully studied as India crafts its strategy. An increased adoption of the RMB by the OBOR region points to a situation where the RMB can become fully internationalised. Indian macroeconomic policy should ensure that the RMB is not allowed to depreciate against the rupee to the point that the competitiveness of Indian goods is challenged. This would involve fairly creative manoeuvring in the currency futures markets by the RBI.

5. CONFIGURING TRADE IN ASIA: BETWEEN BEIJING AND WASHINGTON

Theoretical Background

In a seminal work, Staiger defined the principal goal of trade agreements: "Codify attempts by countries to mutually restrain the degree of trade intervention from what might otherwise obtain."[75] This view of trade agreements as a restraining tool fits perfectly with the practice of geoeconomics. Staiger however shows – through a game theory argument – that unilateral incentives by all countries to pursue a beggar-thy-neighbour trade policy can, in fact, lead to a Prisoner's Dilemma type of situation where "mutual cooperation would be better for all than mutual non-cooperation, but defecting when everyone else cooperates would be better still."[76]

Trade agreements have three elements: "Substantive obligations" (around eliminating quotas and tariffs); "permissible exceptions" (escape clauses to substantive obligations); and "enforcement mechanisms."[77] It is precisely through the last element that strong states stand to benefit from entering into *multilateral* trade agreements. Maggi argues – again from a game theoretic point of view – that even though such a state might not benefit from the enforcement power of a single small country, it might do so from a conglomeration of smaller states.[78] This remains one of the key theoretical geoeconomic justifications behind entering into a multilateral trade agreement.

The theoretical context for regional integration through multilateral FTAs has, classically, been grounded in the realist school of international relations. According to this school – grounded in the work of Hans Morgenthau – the key feature of regional integration efforts is not inclusion but exclusion.[79] For example, the distinct feature of TPP is that China is excluded, while the distinction of RCEP lies in the fact that the US is excluded. In Morgenthau's conception of balance of power, competition is between two alliances, rather than the "equilibrium of two isolated nations."[80] Clearly, this does not explain the current Asian regional trade integration efforts since there are countries like Japan and South Korea which are RCEP members but are seriously invested in the TPP. Indeed, ASEAN countries are often seen as orienting their economics towards China, and their politics towards the US.[81]

In geoeconomics (in contradistinction to geopolitics) 'balance of power' gets replaced by the 'balance of influence' or, rather, plays a secondary role. But therein lies the central circularity of geoeconomics of trade – powerful states set the agenda of a multilateral agreement, while the power of the states themselves depends on their capacity to set agendas.[82] Indeed, as Hamanaka argues, "the formation of regional economic groupings can be best understood as a competition for control of both membership and the agenda."[83] This can be best understood in terms of two games being played simultaneously. The first game determines the exclusion of rivals and the second game determines who sets the agenda. Both games are played simultaneously and both are determined at the stage of the formation of the multilateral institution in question.[84]

In geoeconomics – especially in the strong definition of the word, as adopted by Blackwill – trade agreements and arrangements acquire a strategic import, a fact that needs more discussion in India.[85] Using this lens, one can make a strong argument that TPP, OBOR, and RCEP all have components that go beyond the agenda of furthering access to markets or making an economic impact. In particular, FTAs go beyond pure economic purposes to (1) reward security partners, (2) signal diplomatic intentions, and (3) assume non-trade forms of economic cooperation, such as resource security cooperation.[86] Blackwill and Tellis, in a recent paper articulating a US grand strategy for China, explicitly identify multilateral trade agreements in the Asia-Pacific as a strategic tool.[87] US Defence Secretary Ashton Carter went as far as to compare the TPP agreement to an acquisition of a new aircraft carrier.[88] Indeed, TPP will benefit American firms over Chinese ones only marginally since there is little overlap between what the US and China imports to countries that now make the TPP zone[89] – this further bolsters the argument that TPP *is* a strategic tool.

On the other hand, it is often argued that the proliferation of regional FTAs and preferential trade agreements (PTAs) will eventually lead to full regional economic integration. The crux of this argument is that simultaneous mushrooming of PTAs along with "ongoing unbundling of production will generate political economy forces that favour the creation of larger and more coherent trade agreements, eventually leading to full multilateralisation."[90] From the standpoint of this argument, India should in fact welcome TPP and RCEP – along with the other alphabet soup of regional FTAs – since full multilateralisation is a key to maintaining an open economic order, a cornerstone of India's strategy, and is driven by three considerations, as identified by a former Indian Ambassador H.H.S. Viswanathan: (1) multilateralism as a way to "protect and project" national interests in a hegemonic world; (2) as a way to limit great power behaviour; and (3) as coming with a lower domestic political price.[91]

TPP and RCEP

The number of FTAs in the Asia-Pacific has grown enormously in the last 25 years, from three in 2000 to 40 in 2014; the latest number jumps to 71 if the unreported and under-negotiation are included.[92] This inevitably leads to what is called the "noodle bowl" problem: inconsistencies in technical standards and enforcements which may lead to undermining the cohesiveness of global and regional trade systems, an increase in transaction costs for businesses, and even lead to the emergence of competing trade blocs.[93] Another problem with the multiplication of FTAs or PTAs – in the absence of a cohesive multilateral trading regime – are potential disputes that could arise due to conflicting obligations for members of two or more such agreements. It is unclear how such disputes could be resolved. One way out could be the refashioning of the WTO following the implosion of the Doha round as a dispute resolution mechanism for inter- and intra- FTA regimes. Either way, each of the major players in these FTAs have their own strategic calculations that need to be factored in by India as it ponders it choices.

From the Chinese point of view, the impact of TPP and RCEP essentially reduced to three scenarios, based on a GTAP simulation carried out by Li and Hu.[94] A *post facto* analysis of their scenarios – now that TPP has been signed but not RCEP – points to the US emerging as the winner in terms of net welfare improvement. The Chinese surely must have known of the influential study by Petri, Plamer, and Fan Zhai, which showed that China stood to gain US$ 809 billion by 2025 by being in the TPP, and lose US$ 46 billion by the same year by not.[95] Moving beyond any trade diversion losses through TPP, they will however recognise what Bilahari Kausikan, a former permanent secretary of Singapore's Foreign Ministry said: "This [TPP] is not going to erode what China does."[96] China is certain that the foreign policy impact of TPP can be easily countered with its other mega-initiatives like OBOR or even through taking the helm of the RCEP.

Essentially, China's strategic options given TPP reduce to one of the following:[97]

- Formalise bilateral FTAs with TPP members or potential ones.
- Design the contents of the FTAs with more flexibility that works to China's national advantage.
- Treat bilateral FTAs as stepping stones for larger regional integration, with the view of RCEP and the bilateral FTAs eventually emerging into a mega FTA for the Asia-Pacific (FTA-AP).

There are three possibilities for how TPP and RCEP could interact: (1) a consolidation of the two, (2) an expansion of either into a truly comprehensive FTA-AP, and (3) co-existence of both.[98] The Chinese smart money will be on (3) since (1) is not realistic asit would mean suspension of each agreement, and (2) would involve other countries joining either TPP or RCEP through accession clauses, something that neither China nor the US can force.[99] In a game-theoretic sense – where mutual exclusion of China and the US in the TPP and RCEP respectively remains the dominant strategy – (3) is a stable equilibrium.

China would also seek to counter the under-negotiation TTIP with a hybrid strategy that links RCEP with OBOR. Their thinking would be the following: OBOR will be the key hardware prerequisite for trade – namely, infrastructure that facilitates geographical connectivity – with the software of the RCEP FTA. Europe, through OBOR, will have access to those East and

South East Asian markets that are members of RCEP as well as 'consumers' of OBOR. China can wilfully control this architecture to its own needs.

For RCEP members, the agreement represents a “double-edged sword” where the upside is that the low level of ambition makes RCEP the quickest and easiest way to achieve a modest degree of regional integration, the most consequential being the absence of “behind-the-border” measures unlike TPP. On the other hand, there is a genuine risk that RCEP will lock “the region into a pattern of low-quality FTAs, which may prove hard to break in the future.”[100] Clearly, China (or India, for that matter) cannot afford to meet the TPP prerequisites. It is also unclear how effective the TPP enforcement of these standards would be for many countries like Vietnam – if trade disputes within TPP become very pervasive, the agreement runs the risk of being effectively dissolved. This may make way for an enhanced RCEP (with OBOR providing access to markets in Europe and Africa), and may emerge as the dominant trade agreement in the Asia-Pacific.

India's position vis-à-vis TPP and RCEP has been carefully explained by various analysts. The gist of these analyses is that while RCEP presents many advantages for India like better integration with South East and East Asian countries, a greater role – with Chinese support – in ASEAN, and potential connections with Japan and South Korea, and also Australia and New Zealand,[101] the main India concern remains entering into any FTA with China, which could potentially put Indian products as a competitive disadvantage.[102] Geopolitically, the Sino-Indian maritime competition in the IOR also remains a dividing factor vis-à-vis RCEP.[103]

However, India can mitigate some of the economic concerns through macroeconomic monetary controls such as preventing the RMB from being unnaturally devalued against the INR, or even introduce competitive devaluation – without contrivance of the existing IMF regulations – of the INR if trade statistics calls for it. Preventing unnatural revaluation of the INR against the RMB would require active intervention by the RBI along the lines of what they have proposed in light of a possible strengthening of the USD following the Fed policy rate hike: active intervention in spot, forwards, as well as currency futures markets. If it is Chinese retaliatory actions that India fears: China pegs its currency to the USD and has recently moved towards pegging it against the SDR. Any Chinese retaliation against the INR will in effect be retaliation against the USD or the ones in the SDR basket which would meet with steep actions from these countries. This geoeconomic hedge will protect India's actions. India should decouple its economics and its geopolitics when it comes to RCEP and China, much like the way the ASEAN states have economically oriented themselves towards China, and politically towards the US. Indian trade share with RCEP members (as percent of total Indian trade) has increased over the past 15 years, while that with TTIP and TPP countries have decreased.[104] India in RCEP will build on this momentum. It will also seek to use its comparative advantage in the services sector.[105]

It has been noted that India – because of the prerequisites in terms of labour and environmental standards, and intellectual property rights clauses – cannot join TPP at the present. An Indian analyst notes: “Remaining outside the TPP will create trade diversion but membership could entail heavy costs without commensurate gains.”[106] However, India could compensate for being outside TPP by seriously contemplating entering into FTAs with TPP countries which are not in RCEP, principally, the United States.

The case for a renewed economic relationship between India and the US has been forcefully made in the recent years, notably by Ashley Tellis and C. Raja Mohan. Tellis situates any putative economic cooperation between the US and India with China in mind – his case for a closer US-India relationship is as India acting as a guarantor of American hegemony and the America-led international liberal order.[107] He makes the case for a US-India FTA in terms of US-India trade complementarities and sectoral trade specialisations of the two countries.[108] The main advantage that Tellis sees for India, in pushing for a US-India FTA, is securing American support for India's membership in the G7 and the Asia-Pacific Economic Cooperation (APEC) forum. Mohan, for his part, situates a potential US-India FTA in terms of five domestic policy considerations: “national development, regional primacy, the Asian balance of power, global multilateralism, and India's own political values.”[109] A renewed Indian engagement through a bilateral FTA with the US that takes trade complementarities into account will also help affect a scenario where an economically rejuvenated US is leveraged – especially in high-technology areas – for greater domestic growth.

However, it would be the broader security architecture in the Asia-Pacific that would ultimately determine the US-India relationship; so would the outcomes of the 2016 elections in the US. For the former: would India trade a posture of strategic autonomy to emerge as a "net security provider' in the Indian Ocean – within the framework of the Indian Ocean Rim Association – as the US has urged it to do in the past? This is conceivable that if China decides, in the process of consolidating the MSR, that the Indian Ocean is indeed not "India's ocean." The run-up to the US elections later in 2016 also point to a national mood that may encourage greater retrenchment in the coming years, with two anti-establishment candidates (Donald Trump and Bernie Sanders) gaining eyeballs while raising eyebrows. A retrenched US ultimately remains the key uncertainty in the future of the US-India relationship, the possibility of which Indian planners may now have to take quite seriously.[110]

6. CONCLUSION

In this paper, changes in the global economy witnessed in 2015 have been described that would necessarily require a revision to any putative Indian geoeconomic strategy; necessarily, since these changes are by and large both significant and irreversible. By way of conclusion, a telegraphic sketch will be presented of what an Indian geoeconomic strategy should look like, taking into account the developments of 2015, as well as larger trends over the last decade or so.

The first component of such a strategy would be to leverage changes in the global financial architecture. India's target would be to support the creation of a post-Bretton Woods financial system. At the same time, India should exploit a weakened Bretton Woods system for further influence there. Towards this end, India should put a set of supporting actions in place. One, India should back China on AIIB and NDB, as a Chinese push towards these institutions should be leveraged for reforms of Bretton Woods institutions. India should also push – with the entire strength of its diplomatic arsenal – for an Indian candidate to head the IMF. Two, India should push for a democratisation of the AIIB, in order for that institution to move beyond being an OBOR-financing tool. India should also leverage this attempt in assuaging EU/UK that AIIB has moved beyond Chinese geopolitical strategy and utilise this lever to convince the Chinese, in turn, that AIIB is not just China's bank. Three, if Chinese attention shifts from NDB to AIIB, India should assume a leadership role in the former and use it to push an Indian agenda for financing sustainable development and thereby taking the global leadership in implementing SDGs. A concrete first step in that direction would be to play the role of a nodal knowledge hub for NDB and to use this position to revive BRICS with Indian leadership. When it comes to existing Bretton Woods institutions, India should aggressively promote counter-views on IMF stabilisation and debt strategies – but those that go beyond historical rhetoric. India needs to revise its strategy of fence-sitting (like the time of the Greece crisis was unfolding in the summer of 2015). At the same time, the Indian view should be productive in terms of offering detailed technical counter-views – simply put, India should influence by offering solutions. Finally, India should play a more proactive role in shaping World Bank strategies for Less Developing Countries. A soft-power component of this approach would be to leverage the large pool of Indian development economists around the world to shape these strategies by providing them a visible government-supported platform.

The second component of an Indian geoeconomic strategy would be to utilise the recently emerging trade configurations to improve connectivity for India's benefit and better integration into global value chains. In order to achieve this goal, India should take the following steps. One, India should get onboard OBOR. A first step would be to convince the Indian military-strategic community that there is more to OBOR than a pure "land-grab"; India should play a key role in implementing the BMIC corridor. At the same time, India should make it clear to China that its enthusiasm for OBOR is contingent on Chinese acquiescence on Project Mausam and the Sagramala initiative. In other words, India should highlight the complementarities between the two, and at the same time prevent a greater role for the Chinese in the IOR. Two, India should jump-start BIMSTEC with an eye on whether

BIMSTEC, BBIN, and BMIC could eventually be integrated. Three, India should seriously push the EU-India FTA forward and explore the possibility of a US-India FTA. At the same time, an India-China FTA is not out of the question, provided foreign exchange counter-measures are put in place if the INR/RMB exchange rate is seen to put Indian goods at a competitive disadvantage. Four, India should see how the TPP plays out before making a commitment. It should also carefully follow Japan's economic grand strategy and leverage it suitably. Also, India should join RCEP as a founder and not as a latecomer, thereby avoiding the penalties in terms of agenda-taking imposed by the incumbents. Finally, India should leverage the perceived tension between TPP and RCEP to secure China's help to play a larger role in ASEAN beyond its position in ASEAN + 6. Given that joining the TPP is not feasible for India at the moment largely due its intrusive behind-the-border measures – India should seek China's support to join the APEC, in return of any Indian support for OBOR (for example, by fast-tracking the BCIM proposal) and RCEP. Finally, India should leverage the geoeconomic advantages offered by closer cooperation with China when it comes to complementary strengths, for example, between China's manufacturing and infrastructure expertise in return of Indian services exports to China (where it has a proven advantage).

The third component of India's geoeconomic strategy would be to put aggressive counter-measures for instabilities in global financial flows in place by managing foreign exchange risks, especially INR/RMB exchange risks. This would be, in effect, the risk management component that offsets downside risks of greater economic integration. Towards this end, India should take the following supporting actions. One, it should continue to follow up on the recently announced RBI decision to enter the currency futures markets during periods of global volatility. Two, it should increase RMB holdings and allow RMB-denominated bonds to be sold in India. Three, India should encourage corporates to minimise their foreign exchange risks by issuing INR-denominated corporate bonds. This would in turn contribute to INR internationalisation. Four, India should contribute to the BRICS Currency Reserve Arrangement (CRA), promote the enlargement of the CRA and secure binding and unconditional rights to use of the CRA in event of a serious crisis. Five, India should promote the cause of macro policy coordination between Asian, India, European and the American central banks and make this a precondition to any putative FTAs with the US and the EU. Finally, and most crucially, India should create fiscal space by keeping current account deficit to as low as possible. It should also diversify foreign exchange holdings to prepare for the financial "Doomsday", however unlikely, that in the event of a serious geopolitical or geoeconomic crisis, China decides to offload its USD holdings.

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ENDNOTES:

1. All through the paper, the Chinese currency is referred to as the 'renminbi' and abbreviated as RMB. This is equivalent to the Chinese Yuan (CNY).
2. Rajiv Kumar, "The Coming Trade Storm: Tides Are Shifting, India Must Decide Fast on a Strategy to Cope With Post-TPP Era," *Times of India*, November 20, 2015, accessed December 4, 2015, http://blogs.timesofindia.indiatimes.com/toi-edit-page/the-coming-trade-storm-tides-are-shifting-india-must-decide-fast-on-a-strategy-to-cope-with-post-tpp-era/.
3. Such an omission is justified since the recent downturn in the commodities markets are cyclical in effect and not signal an irreversible trend.
4. Bharat Karnad, *Why India is Not a Great Power (Yet)* (New Delhi: Oxford University Press, 2015), 11.
5. Edward N. Luttwak, "From Geopolitics to Geo-economics: Logic of Conflict, Grammar of Commerce," *The National Interest* (Summer 1990): 19.
6. Robert Blackwill, speech at Ananta Aspen Centre, June 10, 2014, accessed December 24, 2015, http://belfercenter.ksg.harvard.edu/files/2014-06-09%20RB%20Aspen%20India%20Speech.pdf. Blackwill's position is reflected in the title of his forthcoming book with Jennifer Harris which seeks to extend Clausewitz's classic formulation, see: Robert D. Blackwill and Jennifer M. Harris, *War by Other Means: Geoeconomics and Statecraft* (Cambridge MA: Belknap Press, forthcoming 2016).
7. Ibid.
8. C. Raja Mohan, *Modi's World: Expanding India's Sphere of Influence* (Noida: Harper Collins India: 2015), 203.
9. Luttwak, "From Geopolitics to Geo-economics," 20.
10. Avinash Dixit, "International Trade, Foreign Direct Investment, and Security," 3. Accessed December 24, 2015, https://www.princeton.edu/~dixitak/home/Dixit_TradeSec_Final.pdf.
11. Sanjaya Baru, "Geoeconomics and Strategy," *Survival* 54:3 (2012): 53.
12. Baru, "Geoeconomics and Strategy," 54-55.
13. Sunil Khilnani et al., *Nonalignment 2.0: A Foreign and Strategic Policy for India in the 21st Century* (New Delhi: Penguin Books India, 2013), 61.
14. Samuel P. Huntington, "Why International Primacy Matters," *International Security*, 17:4 (1993), 81.

15. Ashley J. Tellis and C. Raja Mohan, *The Strategic Rationale for Deeper US-Indian Economic Ties* (Washington DC: Carnegie Endowment for International Peace, 2015), 82.

16. Khilnani et al, *Nonalignment 2.0*, 64.

17. C. Raja Mohan, "Rejuvenating Foreign Policy," in *Getting India Back on Track: An Action Agenda for Reform*, ed. Bibek Debroy, Ashley J. Tellis, and Reece Trevor (Gurgaon: Random House India, 2014), 302.

18. Sanjaya Baru, "India and the World: A Geoeconomics Perspective," *Economic and Political Weekly*, February 2013, 41.

19. Admiral Raja Menon and Rajiv Kumar, *The Long View from Delhi: To Define The Indian Grand Strategy for Foreign Policy* (New Delhi: Academic Foundation, 2010), 29. An examination of all 159 drivers shows that US and China was directly or indirectly in 39 and 27 factors respectively. These numbers "show drivers that pertain not only to a country but the number of times that country's drivers reappear in the scenarios of other countries."

20. Menon and Kumar, *The Long View from Delhi*, 175.

21. Menon and Kumar, *The Long View from Delhi*, 176.

22. Samir Saran, private communication, November 2015.

23. Mohan, "Rejuvenating Foreign Policy," 308.

24. Khilnani et al, *Nonalignment 2.0*, 61-62.

25. For example – the SDG 2, pertaining to better nutritional provisions and eradication of hunger, has an additional Target 2(a) which pertain to global trade (and trade-distortions) in agricultural markets. Meeting 2(a) will – in effect – also need a geoeconomic strategy, a challenge the author leaves for a future work.

26. Rajiv Kumar, "Taking a Long View," *Seminar*, 617.

27. Rajiv Kumar and Santosh Kumar, *In the National Interest: A Strategic Foreign Policy For India* (New Delhi: BS Books, 2010), 18.

28. Ashley J. Tellis, "Completing Unfinished Business: From the Long View to the Short," in *Getting India Back on Track: An Action Agenda for Reform*, ed. Bibek Debroy, Ashley J. Tellis, and Reece Trevor (Gurgaon: Random House India, 2014), 27.

29. Ila Patnaik, "Maintaining Macroeconomic Stability" in *Getting India Back on Track: An Action Agenda for Reform*, ed. Bibek Debroy, Ashley J. Tellis, and Reece Trevor (Gurgaon: Random House India, 2014), 31.

30. Ajay Shah, "Economic Policy Dimensions of India's International Strategy" in *Grand Strategy for India 2020 and Beyond*, ed. V. Krishnappa and Princy Marin George (New Delhi: Pentagon Security Press, 2012), 164.

31. Kumar and Kumar, *In the National Interest*, 103.

32. William Buiter, "Is China Leading the World into Recession?" *Citi Research Economics*, September 8, 2015.

33. Anjani Trivedi, "China Sets Yuan to a Four-Year Low in 'Stress Test," *The Wall Street Journal*, December 9, 2015, accessed December 12, 2015, http://www.wsj.com/articles/china-sets-yuan-at-weakest-level-since-2011-1449638383.

34. Reuters, "China expands debt-for-bond swap plan to 3.2 trillion yuan: Xinhua", August 27, 2015, accessed December 24, 2015, http://www.cnbc.com/2015/08/27/china-expands-debt-for-bond-swap-plan-to-32-trillion-yuan-xinhua.html.

35. "Global Economic Outlook Update," *The Conference Board*, September 2015.

36. A retrenched Chinese economic strategy with significant consequences for India's security environment is Chinese military Keynesianism, see Abhijnan Rej, "Will Xi Adopt Keynes? Post-2015 Military Spending and Economic Growth in China," *Observer Research Foundation Occasional Paper*, No. 85, January 2016.

37. "A Very Chinese Coup," *The Economist,* reprinted in *The Indian Express*, October 22, 2015.

38. Trivedi, "China Sets Yuan to a Four-Year Low in 'Stress Test'."

39. Scott Kennedy, "The RMB Joins the SDR: Historic Inchstone in Global Financial System," CSIS Critical Questions, November 30, 2015.

40. Ibid.

41. Note added in proof: The US Federal Reserve has – indeed – raised its policy rate by 25 basis points on December 16, 2015, as noted in the paper.

42. US Bureau of Labour Statistics, "Labour Force Statistics from Current Population Survey 2005 -- 2015." Data extracted on December 24, 2015. http://data.bls.gov/timeseries/LNS14000000.

43. One basis point is one hundredth of 1 percent, so a 25 bps increase is an increase of 0.25 percent.

44. The military futurist Andrew Krepinevich visualizes a scenario where an increase in US interest rate is a significant link in a chain of events first leading to the US Congress imposing trade sanctions on China and

eventually to a full military conflagration between the two powers. See: Andrew F. Krepinevich, *Seven Deadly Scenarios: A Military Futurist Explores War in the Twenty-First Century* (New York, NY: Bantam Books, 2009), 175.

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