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India's Geo-Economic Foreign Policy

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Economic considerations are now driving India's seemingly adroit steps in the foreign policy arena. Foreign policy has become a tool through which India is absorbing critical economic pressures, and clinches and advances emergent opportunities.

India sits at the centre of global summits in 2023. From the presidency of the Group of Twenty (G20), stints as chair of the United Nations Security Council (UNSC) and the Global Partnership on Artificial Intelligence (GPAI), rotating head of the Shanghai Cooperation Organization (SCO), and participation at critical summits like the Group of Seven (G7), BRICS (Brazil, Russia, India, China, and South Africa), Quad, and Association of Southeast Asian Nations (ASEAN), India's 2023 diplomatic calendar looks stacked.

Summits aside, India's foreign policy agenda has widened with new partnerships forged, developed, and consolidated to maximise the country's path in a fractious international environment characterised by major power tensions, resource constraints, debt crises, and relentless digital disruptions. Relations with the United States (US) appear to be on cruise control. Positive ties with Washington have propelled strategic partnerships with Japan and Australia, both Quad partners. Indeed, the Quad's turn to address transnational issues like global health, climate change, and digital issues gives New Delhi an opportunity to contribute to regional public goods in the Indo-Pacific.

European Union (EU)-India relations have been on the ascent, driven by a shared desire to enhance economic security. Importantly, dissonance with such major powers on Russia's invasion of Ukraine has not dented or slowed their diplomatic prioritisation of India. New Delhi's star remains undimmed. Despite entreaties to change tack, New Delhi has maintained a stoic neutrality on Ukraine, refusing to publicly chastise Moscow for instigating and continuing the crisis. India's Ukraine position continues to confound partners who rely on Delhi to challenge and check Chinese assertiveness in the Indo-Pacific.

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Delhi has also pivoted to seize diplomatic opportunities in the Middle East, Latin America, and Southeast Asia. Countries such as Israel, Egypt, the UAE, Singapore, and Brazil are forming partnerships with India to improve economic ties and help address regional challenges. Surprisingly, burgeoning convergence with major and middle powers has not come at the expense of defending and backing the interests of Global South countries. Indian officials are emphasising the concerns and interests of developing countries, particularly on economic issues at regular multilateral summits, including Conference of the Parties (COPs) and World Bank meetings, and have pledged to centre their priorities through its G20 presidency.

Countries worldwide are watching how India behaves abroad and what is influencing its seemingly nimble foreign policy that straddles different fora and relationships with elan. No doubt, Indian diplomacy's moment is a recognition of its incipient rise and growing economic and geopolitical stature. Yet, questions linger on what factors drive such seemingly adroit steps, manoeuvring in an international order that has become particularly gruelling for powers such as India that eschew tilting towards the US or China or the US and Russia. What does this juncture reveal about India's foreign policy? Is there a thread that connects India's recent foreign policy positions?

Scholars have tried to understand and explain what drives Indian foreign policy. In a landmark 2012 volume on the subject, David Malone, C. Raja Mohan, and Srinath Raghavan claimed four factors were crucial: history, geography, capabilities – largely economic – and leadership. It is undeniable that the colonial experience profoundly shaped India's international orientation. The choices made by governments since Prime Minister Jawaharlal Nehru have generally revolved around maximising space for their and successive governments to advance core interests. The British Raj laid the foundations for the institutions that would govern India's international affairs, leaving behind certain features that have ostensibly lasted.

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Partition continues to shape Delhi's regional resolve. The neighbourhood's location and topography, stretching from towering mountains to a sprawling coastline, have frustrated Indian efforts to wield influence beyond its vicinity. Recurring tensions with China and Pakistan, driven by historic grievances and compounded by strategic choices, have consumed Indian diplomacy through the Cold War and after. Of late, China's extraordinary rise has compelled Delhi to assiduously seek strategic and economic partnerships with like-minded powers such as Japan, the US, South Korea, and France to balance and possibly deter hostile Chinese actions.

Until the 1980s, India's weak economic capabilities heightened the reliance on rhetoric and moral-politik to achieve diplomatic ends, particularly multilaterally. The lack of market-oriented domestic growth coupled with a preference for dirigiste policies meant that economic policy would seldom drive diplomatic outreach. Expansion of specific industries globally, especially services, has pushed economic diplomacy to the fore as India's economy widens the diplomatic ambit. Finally, leadership matters. The impact of leaders have ostensibly been conspicuous on India's foreign policy despite the presence of intractable factors that have constrained India's strategic choices. That India's first prime minister and the present one have engineered significant turns in Indian diplomacy testifies to the importance of leaders in driving the country's path abroad.

Such factors appear to have less utility to explain the current raison d'etre of Indian foreign policy that has increasingly become a vehicle through which India manages, navigates, and exploits a highly contested and fickle international economy. Geographic and historical explanations cannot adequately explain the clinching of partnerships beyond the region with countries, particularly the Arab world, that have historically not had warm relations with Delhi. Blossoming relations with Europe and the US testify to the dynamism of India's economic trajectory and future potentials.

Delhi's multilateral leadership and desire to use discussions at the G20 to highlight the plight of developing countries while ensuring the interests of the developed are not sacrificed do not necessarily comport with incumbent capacities or capabilities. This "collectivist"' multilateral disposition reveals India's unique position within the international economy as a developing country that has interests which align with that of the developed world and has the ability to represent and advance those priorities in an international system riven with major power tensions and rivalries.

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Economic considerations are chief, if not the most important, among the drivers of Indian foreign policy now. Economic considerations have affected three recent foreign policy matters: the Ukraine war and India's response, G20 presidency, and US-India and EU-India relations. The prospects of adopting a geo-economic foreign policy has become more relevant and necessary as external shocks such as the pandemic, supply chain constraints, the Ukraine war, commodity hikes, inflation, and competitive industrial policies arrived from 2020. Foreign policy, in effect, becomes a tool through which the Indian government absorbs critical economic pressures, clinches and advances emergent opportunities, and defends core interests through various economic instruments such as trade, technology and financing.

That said, the efficacy of a geo-economic foreign policy fundamentally hinges on how credibly India manages and sustains economic policy. Despite optimistic prognostications on the economy, difficulties in establishing and adhering to a predictable economic policy framework could dent the use of economic instruments to achieve foreign policy goals (Subramanian and Felman 2022). Surveying recent Indian foreign policy issues, however, it is possible to discern the salience and likely impact of economic considerations relative to other factors such as identity, geography, and history.

Ukraine: sanctions and commodities

Critics alike have questioned and been puzzled by India's response to Russia's war in Ukraine. India's response differs markedly from strategic partners such as Japan and the US and European countries. Despite Prime Minister Narendra Modi's ostensible aversion to the war, New Delhi has not openly condemned or sidelined Moscow. Instead, the attitude has largely been to ascertain how the war pans out without incurring a loss of trust with India's strategic partners, including Russia. Reasons for why India opted to abstain from voting against Russia at the United Nations range from historical ties and defence dependencies to security and geopolitical exigencies, and the need to keep Russia and China apart (Menon and Rumer 2022). Yet, economic considerations likely affected India's calculus.

India's economic relationship with Russia means less now than it did during the Cold War. In those years, Russia sent arms and economic and technical assistance but the trading partnership has evolved from the 1990s to one characterised by commodities and arms exports. In fact, non-arms Russian exports to India in 2020 was US$6 billion and Indian exports to Russia around US$3 billion. Russia's investment footprint in India since 2000 (US$1.2 billion) is miniscule. Oil dominates the Russia-India economic relationship today and more so since Ukraine. Energy supply could become the mainstay of the relationship going forward.

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India now ranks third in global oil consumption and imports 83% of its oil requirement, with estimates expected to rise further as the country grows. This untenable and demanding energy balance meant Delhi had little choice but to purchase Russian oil given staggering domestic demand following the pandemic with the economy picking up steam. As the price of Russian oil dropped, New Delhi bought more and more, from 50,000 barrels per day in 2021 to around 1.2 million barrels per day, roughly 20% of total oil imports in December 2022.

Additional sanctions from the G7, including a $60 price cap, has not deterred Indian purchases. Sanctions have become a vital geo-economic instrument used by the US and its partners to constrain Russia's war-making capacity. Ironically, India has exercised and arguably increased its leverage over Russia by not joining the West's sanctions against Russia through continued oil purchases, creating an opening to influence Moscow as it veers closer to Beijing for strategic support.

Russia is now in a more difficult strategic position trying to balance relations with Delhi and Beijing as they increasingly clash across their border. Being a de facto vassal state to China and economically beholden to India for oil could weaken Russia further, potentially constraining Moscow from playing a role in the Indo-Pacific. India's influence over Moscow could increase as oil prices dip, at some point, as Delhi prioritises decarbonisation and as more attractive and competitive sources emerge to provide arms for Delhi. Ongoing economic shifts could strengthen India's hand vis-a-vis Russia.

G-20: debt relief and digitalisation

Another geo-economic tool through which India can exercise influence is financing, which includes deploying global frameworks and institutions such as the G20, the World Bank, and other bilateral and plurilateral mechanisms, and development assistance. India's G20 agenda, thus far, appears ambitious, focusing on what Delhi perceives as critical global challenges: climate change and sustainable growth, women's empowerment, digital public goods, food security, and reform of international financial institutions (IFIs). As deliberations continue across G20 working groups, it is possible to discern what India hopes to mainstream through the G20: politics and inequities of global development vividly revealed through Covid-19 and the Ukraine crisis without officially identifying the latter as a signature cause.

The war has had a cascading effect on global supply chains, dramatically raising the costs of goods and services while creating massive food shortages, particularly wheat. Ukraine and Russia provide nearly a third of the world's wheat supply, generating new forms of scarcity that were already being tested by climate change. Oil prices have spiked. Besides resource constraints, the war has slowed growth and kept inflation high, both lingering from the pandemic that have redounded to erode incomes, depress demand, cut off remittances, tightened financial conditions and spurred an exodus of capital from developing countries.

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Like last year's host, Indonesia, India appears keen to focus the G20 around economic and development issues, not security. New Delhi sees the G20 as a unique opportunity to use and leverage India's rising clout to highlight issues left by the pandemic and the Ukraine war and generate global support for India's development agenda. Indonesia's triumph as G20 host has lessons for India that Delhi appears to have internalised.

Debt relief is a crucial priority for India. The pandemic left behind profound economic effects that are deepening and accelerating, especially inflation. Facing unprecedented challenges, developing countries relied on fiscal stimulus to minimise the economic damage. This unhealthy reliance has, however, saddled them with fiscal deficits and high levels of public debt that constrain economic recovery.

High debt levels, largely dollar denominated, across South Asia have forced countries to abjure spending on critical public goods, especially climate change, public health, and social welfare that places them at a further disadvantage when crises hit. Low-income countries were forced to significantly increase spending to counter the pandemic cash transfers, wage subsidies, and related measures to offset job losses. High inflation, low growth conditions, and capital exodus have left some South Asian countries teetering and requiring urgent financial support. India's neighbours such as Pakistan, Sri Lanka, and Bangladesh have had debt restructuring talks with the International Monetary Fund (IMF).

Bilaterally, India has worked to relieve Sri Lanka's debt but there are limits to this approach given funding constraints and instruments at Delhi's disposal. Using the G20 to bring sustainable debt relief allows Delhi to signal its credentials as a reliable economic partner and gradually whittle China's economic relationship with low and middle income countries that has produced economic dependence, hardship, and insolvency, in some cases. Most of the debt incurred by these low and middle income countries is owed to China that provided concessionary finance through the Belt and Road Initiative.

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World Bank estimates suggest that China is now the biggest lender to low and low middle income countries (LMICs) but Beijing's disinclination to provide meaningful debt relief has given India a diplomatic opening to address difficulties in a region on which its own development hinges. India has the opportunity to use the G20 to not just reduce debt burdens across the Global South but also encourage other governments, especially China and the US, private firms, and multilateral development banks like the World Bank to support more equitable debt burden sharing to ensure the current crisis does not engulf countries. Nearly 60% of LMICs stand at the precipice of default which makes the situation precarious. India can use the G20 to move multilateral development banks to provide more concessional financing to LMICs that allows these countries to offset external outflows.

Debt relief aside, India seeks to use the G20 to internationalise successful domestic initiatives like the India Stack and United Payments Interface (UPI). Covid-19 accelerated digitalisation and automation, reshaping patterns and interactions of work across countries. It is likely such trends are irreversible with possibly permanent wage and employment effects that amplify and increase unemployment and inequality. Digitalisation has generated some positive effects. The dramatic growth of online transactions and digital work platforms has necessitated the need for governments to establish centralised arrangements that can collect and leverage data being generated for public good. The digital economy is creating new economic assets for governments to organise industries around. This move has been underway in India through New Delhi's efforts to ramp up digitisation efforts through the creation of digital identities, enhancing access to digital finance, and improving the digital provision of subsidies and related welfare provisions.

Plans are also afoot to democratise e-commerce through an initiative Open Network for Digital Commerce that allows firms and customers to transact on various e-commerce platforms. Through the 'India Stack', Indian agencies and businesses are providing services from health insurance to e-commerce. Some of these initiatives are nascent but the success of UPI and digital payments testifies to the importance of using technologies to advance development. Moreover, the desire to export UPI through digital diplomacy should connect India's digital economy to other countries, facilitating cross border financial transactions with ease. Already, the Reserve Bank of India (RBI) and the National Payments Corporation of India (NPCI) have had discussions with countries like Singapore to make their payment systems interoperable with the India Stack and the G20 could be another vehicle to advance that objective. Some countries like Singapore, UAE and Nepal are increasing their use of India's payments systems while talks continue with countries like US, UK, Australia and Canada where large Indian diaspora communities reside. These digital platforms can boost the economy through remittances from diaspora countries. Such digital public infrastructures could generate economic and foreign policy dividends.

India-US and India-EU relations

The last few years have seen relations thrive between India and the United States and India and the European Union. Mutual strategic clarity vis-a-vis China has arguably brought these countries closer but so has the potentials of the Indian economy. Undoubtedly, India remains a tough place to invest and the Indian market presents challenges that frustrate western countries and firms but the potentials are staggering given India's industrial and digital transformations. A thriving economy amid a deteriorating international economic context presents the government opportunities to use the Indian economy to shape strategic partnerships with the United States and the European Union.

Market attractiveness aside, India's reformist bent hinges on the prospect of attracting more capital into the Indian economy that is now imperilled by the competitive industrial policies being rolled out in the United States and Europe. The Biden administration appears keen to revive and re-engineer the US economy through muscular industrial policies. Most investments are intended to protect strategic technology sectors given competition with China and drive the US' clean energy transition. Washington's embrace of supply side (re)-industrialisation through the CHIPS Act, Infrastructure Investment and Jobs Act, and the Inflation Reduction Act (IRA) has created pressures on global capital, hoovering up external demand and capital that could have gone elsewhere. In response, the EU has announced its own green industrial strategy 'Green Deal Industrial Plan' that hopes to enhance Europe's industrial and clean tech competitiveness for the future. The newly approved EU Carbon Border Adjustment Mechanism (CBAM) could also deprive developing countries of valuable climate finance to steer their own transitions. The combination of Brussels joining Washington to engage in rival industrial policy presages an era of industrial policy nationalism that could have dramatic effects on the allocation and deployment of global capital and investment, leaving low and middle income countries lurching for capital to boost future growth.

This scenario poses constraints for countries like India that rely on foreign capital and technology to drive economic growth. The decade leading to the pandemic was not a rosy one for the Indian economy. India faced financial difficulties due to unsustainable lending that dramatically increased the credit to GDP ratio, which increased bank debts and reduced capital available to push growth. New Delhi and the RBI helped banks bolster their balance sheets and restore credit pathways. Concurrently, the government instituted several reforms including the Goods and Services Tax (GST), Insolvency and Bankruptcy code, updated privatisation policy, expanded state-led digitalisation, devising a national logistics policy, provided credits for businesses to increase production and reduced taxes for individuals and firms, all of which stabilised India's macroeconomic outlook. Battered during the pandemic, the Indian economy exited the crisis poised for growth. GDP growth for 2022 is estimated to be 7%. Capital needs and demands persist but could be complicated by ongoing efforts by the US and EU to restructure their economies.

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India's G20 sherpa, Amitabh Kant, voiced his displeasure on the Biden Administration's IRA, calling the law "the most protectionist act ever drafted in the world." The effects of such industrial policies are profound for developing countries like India. It redirects resources, materials, financing, and trade networks to service the global north's climate and technological trajectories ostensibly at the expense of the global south. Moreover, the impetus to protect how US and EU's industrial policies are financed means that Indian officials would ostensibly have to negotiate and establish specific technology and clean energy partnerships with the US and EU to ensure sufficient avenues and mechanisms exist to tap and leverage both financing and technology. Progress has occurred on this front.

Last month, high-level US and Indian officials launched the United States-India initiative on Critical and Emerging Technologies (iCET) designed as a framework to catalyse technological collaboration between governments, private sector, research labs, and academia across critical areas like semiconductors, quantum computing, space, etc. The US and India are also partnering through a strategic clean energy partnership (SCEP) that seeks to increase energy investments to drive decarbonisation through various technologies. Such partnerships could be critical to fulfil the Modi government's pledges to cut the emissions intensity of India's GDP by 45 percent and increase the share of non-fossil fuel sources of energy to 50% by 2030.

Finally, the establishment of the EU-India Trade and Technology Council (TTC) that covers digital technologies, green and clean energy technologies and resilient supply chains further signals India's preference to sign and leverage strategic partnerships to help drive domestic technological and climate transitions. That said, the preference to develop close strategic ties with the EU and the US on such issues does not preclude or trump the influence of geopolitical considerations that bind their relationship. The nature of the international economy, pressures, and challenges generated therein, the strategy of certain powers to deal with, resist, and leverage certain opportunities allows such factors to influence and shape foreign policy that is increasingly becoming more geo-economic in India.

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