STUDIES & COMMENTS 4

Subrata K. Mitra / Bernd Rill (eds)

India's New Dynamics in Foreign Policy

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Introduction

Subrata K. Mitra/Bernd Rill

The image of India in the Western world has altered radically over the past decade. Thanks to the cumulative effects of globalization, rapid and successful introduction of new technologies of communication and nuclearization, the picture of India has changed from that of a backward country with mass poverty to one with global ambitions.

No doubt, immediately after independence in 1947 India faced the challenge of developing the infrastructure required to sustain modern life. Barring some exceptions such as a network of railways, everything had to be built afresh. This is the challenge that independent India undertook as one of the first, important countries to emerge into the community of nations after the Second World War. During those early decades, with Jawaharlal Nehru at the helm of affairs, India engaged in providing leadership to the movement of non-aligned countries, carefully looking for a middle path between West and East. At home, this was reinforced by a model based on the mixed economy that sought to combine the productivity of the market with the compassion of the welfare state. A structure of democratic planning sought to combine these two contradictory principles into a coherent design of development.

The profile of foreign policy alluded to above kept its course as long as it corresponded to the division of the political world, roughly speaking, into an Eastern and Western Bloc. But after the demise of the Soviet Union in 1991, it became necessary for India to formulate a new foreign policy to cope with the requirements of a changing international context that is differently described by scholars and politicians alike, as either multipolar or as one predominantly influenced by the United States of America.

This radically new environment demanded a major course correction on the part of India's foreign policy. The definition of the relationship between India and the United States had to be the pivotal point of the new orientation that Indian foreign policy has to undergo. There are three main reasons for this.

In the first place, clearly, India needs a 'normalization' of relations with the United States, to be on the safer side for the political (not juridical) legitimation of her nuclear armour which has been produced over the last three to four decades while Inda has remained a non-signatory of the Nuclear Proliferation Regime.

Secondly, India has to face up to two strong neighbouring powers, Pakistan and the People's Republic of China, both of which remain a constant threat to her security. The situation remains perilous as a lasting solution to the apparently never-ending dispute over Kashmir still seems far from sight. The readiness of both sides to discuss issues along the Sino-Indian border bears promise but still there is no guarantee that other areas of common or overlapping interests, for instance in South East Asia, will not cause tensions. Constructive ties with Washington can be highly advantageous for India, if the use New Delhi puts them to is well calculated.

Thirdly, India perceives herself as a global player and therefore wants to be seen as such by the international community. The most appropriate way to convince the world that this is not only a claim based on rhetoric but one backed by substantial

reality, is an elaborate relationship, more or less on an equal footing, with the paramount power of the current decades. Questions of prestige must not be underestimated, since they are basic to the career of nations. And the constant attention India enjoys presently by all the important states around the globe is an infallible indicator that this ascendant process is under way.

So it has become obligatory for the observers not only of the South Asian region but of the Asian continent as a whole and of the entire international political network (we hesitate to call it a "system") to enter into a deeper analysis of India's new dynamics in foreign politics. The editors of the present publication, the Department for Political Science at the South Asia Institute, University of Heidelberg, and the Academy for Politics and Current Affairs of the Hanns Seidel Foundation, Munich, acting in cooperation with the Center for International Trade & Security at the University of Georgia, USA, are therefore glad to submit to the academic but also to the generally interested public this collection of essays on the principal aspects of contemporary issues in India's foreign policy. The papers which are presented here are based on a conference held during June 2005 in Berlin in the premises of the Indian embassy, and have been updated since. The editors are very happy to acknowledge the roles of Professor Erich Pohl of the University of Heidelberg, and Professor Gary Bertsch**,** Director, Center for International Trade and Security, University of Georgia, for their help in bringing the internationally reputed scholars to the conference. The meticulous attention of Mr Amit Dasgupta, Deputy Chief of Mission, Indian Embassy, Berlin, to every single logistical detail of the conference is gratefully acknowledged. In addition we would like to thank the Embassy's supporting staff who ensured that the conference ran smoothly and Ms Jivanta Schöttli and Mr Siegfried O. Wolf, Lecturers in Politics, South Asia Institute, University of Heidelberg, for making the event a success. Finally, it is our honour and joy to thank His Excellency Ambassador Rangachari who not only gave his generous help for the organization of the conference, but also enabled the participants to experience the *genius loci* of the incomparable atmosphere of India, transported into the heart of the capital of Germany.

Engaging the World: the Ambiguity of India's Power

Subrata K. Mitra

1. An Indian exceptionalism? The problem stated

Judged by the conventional criteria of international diplomacy, India is alone among the major powers of the world to publicly possess the nuclear bomb and delivery capacity, but not an explicit doctrine of what these ultimate weapons of mass destruction are meant for nor who they are aimed against.[1] The Indian nuclear test of 1998 was not merely a flash in the pan, nor, judging from the reference to the nuclear option in the UPA's Common Minimum Programme, was it merely an expedient ruse of the Hindu nationalists. Still, there is no coherent doctrine that underpins India's nuclear policy.[2] Americans, never coy in these matters, justify their status as the world's only superpower. The G8 countries validate their power in terms of control over the resources of the world, and the Chinese see their race to the top as a method of challenging this Western hegemony. Closer home, Pakistan very openly treats the nuclear option as a guarantee against any temptations that India might have to stray off the narrow and straight path of neighbourly virtue. Power backed by doctrine is a fact of international politics. While doctrine without power is mere rhetoric, power without doctrine is unconventional and unconvincing. India's difference and ambiguity produce confusion about her real intentions.

Not surprisingly, the 'peaceful nuclear explosion' of 1974 and subsequently the nuclear tests of 1998[3] have both been the source of intense speculation.[4] The ambiguity produces the urge to 'engage' India, through sophisticated scholarly attempts at comprehension[5] or the more straightforward method of sanctions to constrain her errant ways.[6]

The paper raises some of the issues connected with the core fact of the ambiguity of Indian power. Is Indian policy out of sync with India's power? Is India still the Quixotic lone warrior, seeking a form of world politics without power in a Nehruvian mould, despite her recently acquired nuclear teeth? Or, is 'power-without-doctrine' merely a pragmatic gambit to put a foot in the door of the nuclear club (without quite appearing to want to do so); in other words, "playing poker", albeit in the name of morality and sweet reasonableness?[7] I explore some of these issues by juxtaposing India's military capacity, arms procurement and deployment, threat perception and the explicit and implicit ways in which India relates to the South Asia region and beyond. The analysis of these empirical problems prepares the ground for some larger issues. Does an Indian doctrine underpin her military capacities? How does the absence of an explicit canon affect India's role in international politics? Even if there is no explicit dogma, can one be construed from the recent pronouncements, policies and choices?

2. India's military capacity: still an emerging power?

India's contested status as a nuclear power[8], the scale of her arms purchases,[9] her investment in missile technology and the huge deployment of ground troops on the western front, particularly in Kashmir, are issues of immediate concern to her South Asian neighbours. Since tension feeds on tension, war in Afghanistan, ter-

rorist attacks in Kolkata, Delhi, Jammu and Srinagar, mounting tension between India and Pakistan over the issue of cross-border terrorism in Kashmir and the formal policy of Pakistan to consider the first strike option as part of her strategic response to Indian aggression have contributed to the seriousness of the state of affairs. The probability of the regional conflict escalating into large-scale nuclear war, or weapons of mass destruction finding their way into the hands of non-state actors, have drawn world attention to South Asia, which has had visits in quick succession by political leaders and military delegations from the United States, UK, Germany, France, Russia and China.

The paper juxtaposes the views of observers and actors. These factors of contemporary politics are to be seen in the larger context of India's political and security culture, history, and the structure of the political system. Western nation states, products of a long process of nation building, industrialization and state-formation, seek the promotion of national interest through their strategic initiatives. Post-colonial state-nations, engaged in the process of nation-creation, are more complex in their rhetoric. For these actors, international politics, in addition to being used as an instrument of national interest, also plays a symbolic role in the building of a national profile. The paper seeks to combine both the material and symbolic aspects of Indian policy in a manner that can bring potential power into an effective focus, in the absence of which mere appurtenances of power like guns and ships are just that and not much more.[10]

Though there is considerable force to the argument that South Asian security is crucially contingent on the India-China-Pakistan triangle,[11] India remains the biggest power in South Asia, and her significance, in terms of how India sees herself and how others see her, is a key consideration for regional politics. The need for a sophisticated methodological analysis arises paradoxically from the fact that India is a democratic state and an open society, both of which give a false sense of visibility to India's security profile.[12] Foreign observers, depending on their own national origin and the context, place their bets on predictions of India's next move either as the 'regional bully' or the 'regional push-over', and India, Janus-like, often proves both speculations to be right, appearing in the process to be either mystical-moral, or utterly devoid of principle or doctrine.[13]

One of the main difficulties of approaching the theme of India's position as an emerging major power is that it is difficult to measure India's power with any degree of precision. Methods of ranking such as the one based on economic resources and military hardware, the reputational method and a 'class analysis' which measures a state's net power in relation to putative adversaries[14] come up with conflicting results. The net outcome is a sense of ambiguity with regard to India's rank as a power and the conclusion that India belongs to the class of countries that are always emerging but never quite arriving.

The data on the conventional criteria of power such as population, economy, military personnel and hardware, are generally accessible. In terms of gross indicators of size of the population and the economy, India is among the leading states in the world. As regards the number of inhabitants, India has the world's second largest population, having just passed the billion mark, and on current trends, could surpass China in the next few decades. India is far ahead of the United States (270 million), and other points of reference like Russia, Indonesia, Japan, Pakistan, Brazil, and Nigeria all of which are home to between 100 million and 250 million people. According to the World Bank's World Development Report 1999/2000, India's economy is gigantic in terms of overall gross

national product (GNP). It ranks eleventh in the world, with a total figure of US$421 billion, compared with China's US$929 billion, and Japan's US$4,090 billion. When measured by purchasing power parity (PPP) taking into account local rates of exchange, India scores higher with US$1,661 billion, the fourth largest in the world. As international politics recognizes states as the main actors, these figures should rank India among the leading 'powers' of the world. But from the point of view of relative power, these figures are misleading, for the transformation of GNP to power must take into account the ability of an actor to mobilize the economy to a war economy, and for the population to be able to sustain a war over an indefinite period. Seen in this light, the impact of India's size is modest on her relative power position because of the poor performance on the per capita indicator. India ranks low in terms of GNP per capita, with a figure of only US$430, far below China's US$750. On social indicators, the picture is just as dismal, for India does rather badly on the human development index of the United Nations Development Program (UNDP).[15]

India, with a huge economy and a poor population, thus presents a somewhat contradictory picture. The picture has changed since the beginning of liberalization in the early nineties, and the quality of life is slowly going up. But, in terms of relative power, this does not help India, for both GNP per capita and the quality of life are going up even faster among her competitors. It is also an intensely politicized society, and a contentious democracy, which affects the ratio of potential power to effective force negatively, contributing to the overall ambiguity of India's international presence.

With regard to India's defence outlay, the state spends approximately 3 percent of its gross domestic product (GDP) on defence, amounting in 1998 to only US$14 per person. By comparison, India's adversaries spend more. Pakistan spends over 6.5 percent of national income on the armed forces, and, about US$28 per person, while China spends 5.3 percent and US$30 per person.[16] In terms of aggregate figures, India is usually in the top dozen states in terms of overall military expenditures, ranking twelfth in 1999-2000 with spending at about US$14 billion.[17] This is modest compared to China's US$40 billion or Japan's US$37 billion, which is equivalent to the amount spent by most major European powers. Russia spends US$54 billion, but the United States, which spends well over US$250 billion in military equipment and personnel is ahead of everyone else.

How do these figures translate into actual power? Cohen[18] mentions a multiplier effect of "low wages and generally high quality of Indian armed forces" which "magnify the effect of India's mere US$14 billion in defence spending." India has the largest volunteer military establishment in the world, with well over one million regular soldiers, sailors and airmen, and nearly the same number of paramilitary forces. But, in terms of effective logistics, as we learn from Jaswant Singh's influential Defending India[19], a large part of this force is tied up with other tasks and as such, should be discounted for when it comes to the calculation of national power.

The growing use of the Army for Internal Security (IS) duties, senior Army officers fear, has affected the morale and fighting qualities of the soldier by realigning his mission and adversary orientation from external to internal enemies, which can be potentially very dangerous, blunting his battlefield skills - the time he would otherwise spend in training for conventional war is spent on IS duties, providing him no rest and respite, and exposing him to, and infecting him with, the lax and corrupt values of the police and paramilitary forces. It is not the occasional but full-time 'aid to civil power' which is the problem.[20]

Singh's criticism of the Indian strategy of withdrawing troops from the border to employ Army personnel for the maintenance of internal security for which the Army was not intended, is echoed by the results of a high level inquiry commission set up by the Government of India which states that the withdrawal of paramilitary (Army) forces from the borders has in the past exacerbated the problems of border management.[21] This internal-external security link persists in recent discussions of India's security management and underscores the necessity for political science to see both themes as connected. India's contentious democracy and the worsening communal relations have greatly exacerbated the need for effective policing. The police are a State subject under the federal division of powers and, being under the control of India's regional governments, are not always considered politically neutral. At the slightest outbreak of communal violence, therefore, there is a clamour for the deployment of the army. Already overstretched in view of its engagement with anti-insurgency operations in Jammu and Kashmir, Punjab, the Northeast and sundry other trouble spots where the state is engaged in fighting Naxalites (a left-wing guerrilla), the additional demands on its personnel greatly reduce the effective fire power of the armed forces.

In contrast to armed personnel, the situation is marginally better when it comes to hardware. As we learn from Cohen,[22] India's armed forces have a significant number of armoured vehicles: 4,000 tanks, and about 500 armoured personnel carriers organized into 60 tank regiments, almost 200 artillery regiments, including a few equipped with short-range "Prithvi" missiles manufactured in India. To further improve and to modernize this arsenal, in 2000, India signed the biggest MBT-deal in Asia with Russia, which provides for the delivery of no less than 310 modern T-90S Main Battle Tanks, 184 of which will be build in India by licence.[23] Indian airpower has an edge over Pakistan in terms of numbers, with almost double the aircraft (India has 774 combat aircraft, mostly multipurpose fighters; Pakistan has only 389). But in comparison, China is better endowed than India, with a vast armoured force, more than 8,000 tanks and more than 3,000 combat aircraft. Ironically, India, China and Pakistan share vintage Soviet air technology for a variety of reasons: China because of the old Soviet links in the early years after the second world war, India because of the years of close collaboration and technology transfer and Pakistan because of the trading relation with China! However, Cohen writes that each of these three countries possesses a small core of advanced fighters, capable of serving as delivery vehicles for nuclear weapons. India and China possess the nuclear-capable Sukhoi 30; India and Pakistan each possess a variant of the Mirage 2000, although Pakistan is the only air force in this triad that flies the relatively advanced American F-16.

India had sought in the past to increase her room to manoeuvre against Pakistan through diversification in arms procurement which lowers the dependence on any particular arms supplier, and through a programme of indigenization which required supply contracts to include a provision for their production in India under licence. The 1965 Indo-Pak war had demonstrated the advantage of this strategy, for India, unlike Pakistan, was not dependent on an outside supplier for spare parts, or for continued supply. But these advantages, as the paper will argue below, have been neutralized through nuclearization, which has helped Pakistan bridge the 'strategic depth' against India, and the ability of Pakistan to draw on both China and the USA against India. In addition, there have been allegations that Indian armed forces are suffering from waste and corruption and are under-equipped compared even with Pakistan.[24] A recent 17 percent increase in defence spending will still have

a limited impact on India's power projection capabilities.[25]

India and Pakistan are self-declared nuclear powers and their devices, with the multiplicator of delivery vehicles, must also be factored into the regional military balance. China is supposed to have nearly 300 deployed nuclear weapons. While the question of deployed nuclear weapons in India is still subject to speculation, India is estimated to have the capacity for building between 25 and 100 warheads, and Pakistan to have enough fissile material to produce between 10 and 15 "devices", although recent reports suggest that Pakistan holds the larger inventory.[26] It remains unclear as to how many weapons are deployed at a given time, but one can safely assume that both have at least a few devices and could produce many more on fairly short notice. China is believed by some Indian analysts to have several nuclear weapons deployed in bases in Tibet. As for delivery, aircraft still remains the main mode, but Pakistan is assumed to be moving toward a missile-based capability. Some experts assert that India lags behind Pakistan in this category, with only a few short-range missiles (the Prithvi) in its inventory, and a medium-range missile (the Agni) still under development. China has nearly seventy medium-range missiles, a few intercontinental ballistic missiles (ICBMs), and a dozen sea-launched medium-range missiles (India has neither an ICBM nor a sea-launch capability, although programmes of both are under way). Most of these Chinese systems could theoretically target major Indian cities or Indian nuclear weapons based in northern and eastern India.[27]

In terms of naval power, India's fleet is smaller than China's, but anecdotal evidence suggests that it is better trained and more experienced. Indian ships range throughout the Indian Ocean, paying regular calls on ports in East Africa and Southeast Asia. Although in terms of quantity, the Indian navy is shrinking, since many obsolete vessels are being retired, and although a new carrier[28] may be out of (financial) reach for the Indian Navy, the quality of the Indian warships is gradually improving through the acquisition of Russian Kashin-Class destroyers or Russian Granit-SLCMs for their Kilo-Class submarines. So, the Indian Navy may currently not be able to conduct sustained operations far from base (for example in the South China Sea), but it is definitely well positioned to defend India's interests in the Bay of Bengal and in the Arabian Sea. India's capacity to deploy a substantial air-sea operation within forty-eight hours of the Tsunami catastrophe demonstrates this point.

As far as India is concerned, a brief perusal of her nuclear programme quickly reveals a long, expensive engagement with technical development but without the backing of a well conceptualized doctrine.[29] The programme started way back in 1944, with the founding of the Tata Institute for Fundamental Research under the leadership of the noted physicist Homi J. Bhabha who had the ear of Nehru. The original intention was to use nuclear research as a source of energy which nicely dovetailed into Nehru's economic plans for self-sufficiency in energy-deficient India. In 1948 the Atomic Energy Commission (AEC) was established. In 1956 and 1960 the first two civilian nuclear reactors were opened. An inconclusive national debate about exercising this option, chiefly between Homi Bhabha and V.K. Menon, India's defence minister, ensued. China tested its nuclear bomb for the first time in 1964. India, with enough nuclear material and the necessary technology, has the option of "going nuclear" for the first time in 1965. However, no clear policy evolved during these politically turbulent times of India. From 1968 onwards a second nuclear debate begins due to pressure from the West, the Soviet Union and Japan to sign the Nuclear Non-Proliferation Treaty

(NPT). India developed the counter argument of the "discriminatory" international nuclear order. In 1974 India tested a 'peaceful nuclear device' for the first time at Pokhran. During the 1970s India gained respect for its nuclear advances but failed to develop a plan for the future policies on nuclearization. The 1980s show India developing a nuclear doctrine[30] of "recessed deterrence", meaning nuclearization to a point where deployable weapons can be produced at very short notice, but short of full weaponization, since the threat of that should suffice politically.

The bomb gradually came to acquire the aura of a symbol of India's power. Support for this view ranged from the Hindu nationalist Bharatiya Janata Party to others, including the socialist George Fernandes, originally opposed to the bomb, but even more opposed to the bullying by other nuclear powers. The 'Subrahmanyam logic', so-called after the most celebrated Indian 'hawk', pressuring the "nuclear haves" into disarmament while protecting India against nuclear blackmail by nuclearization (dating back to the mid-1970s) still applies today to India's official position.

The push towards nuclearization appears to have been authorized by Prime Minister Rajiv Gandhi in the late eighties after his own de-nuclearization initiative was cold-shouldered by Western powers. In Indian eyes, from 1990 on Pakistan was considered a nuclear weapons state. From 1995 to 1997 the NPT/Arms Control Regime became greatly tightened, threatening closer scrutiny of India's nuclear programme. The advent of the Bharatiya Janata Party to power turned the bomb into a symbol of Indian nationhood and an act of peaceful resistance to international bullying. The integration of India's search for power and her nuclearization is however far from complete. In Cohen's view, if at all India is to be viewed as a major power, it is "despite [and] not because of its overt nuclear capabilities."[31]

The last variable that needs to be taken into consideration with regard to the extent and ambiguity of India's power is 'morale', that ultimate force-multiplier, which Cohen holds to be high in the case of India.[32] But still, the sum of parts is less than the whole. Pulling all these factors together, Cohen concludes that "for the past several decades, India has had a weak or at least highly variable reputation, as judged by the ability to influence without attempting to exercise influence, ... one that is easily written off as a regional power."[33] India's relative weakness was not fully visible at the height of the Cold War. Inevitably, her ranking has been adversely affected by the decline of the Soviet Union, though the fact does not appear to have been fully registered by Indian policy makers. India, of course, continues to be regarded warily by her neighbours but any comparison with her neighbours is seen by Indian policy makers as condescending towards India and unappreciative of her true power.

India's ambiguous profile results from the hiatus between self-perception and the evaluation by others. This is compounded by the contradiction between nostalgic self-perception as a major player in the international arena at par with China, the real attainment of which would require a commensurate strategic engagement, and the current commitments in South Asia which restrict her strategic vision and engagement basically to the region. This hiatus between the perception of India and her self-perception also causes her to shuttle uneasily between grandstanding on the one hand, and inexplicable acquiescence with situations that are contrary to her interests or declared principles on the other, lowering, in the process, her credibility even further.

With regard to the Asian strategic landscape, thus, India's position remains unspecified. While quite clearly the leading military power on the subcontinent, India is not accepted as the paramount power.

Indeed, the Indian analyst Raju Thomas argues that "India does not yet have clear superiority in the event of a combined attack by Pakistan and China, a point borne out by the situation on the border with Pakistan, where because of demands on Indian forces elsewhere, Pakistan is still able to match India almost division for division."[34] India has been making efforts to counter this by attempting to revive closer relations with Russia and undertaking high level diplomatic exchanges with China. What does this make out of India in so far as her rank is concerned?

3. Nuclear, and still non-aligned? India's threat perception and response

India has a nuclear programme, but "one without clear purpose or direction."[35] Indian public opinion supports the bomb, but not for warlike purposes (Tables 1 and 2 below). India is engaged in the production of weapons and missiles but there are no plans for or policies about the sale or diffusion of such technology. President A.P.J. Kalam, one of India's leading military scientists and the 'father' of India's missile programme, has urged India to get into the business of missile sales in order to break up the "monopolies" of the dominant powers and their unfair regulating mechanisms, such as the Missile Technology Control Regime. Kalam's rejection of the MTCR (Missile Technology Control Regime) reflects the ambiguous, often contradictory Indian stance on international regimes to restrict proliferation of nuclear and missile technology. Accordingly, in the course of negotiations on the Comprehensive Test Ban Treaty in the mid-1990s, India, which initially had been a committed advocate, turned to its most outspoken opponent. Finally, in a move to save both parties face, India accepted the provisions of the CTBT and declared a moratorium on nuclear tests in 1999 without formally signing the treaty. India continues to reject the Non-Proliferation Treaty (NPT) as well as any binding commitment to full-scope safeguards of the International Atomic Energy Agency (IAEA). As IAEA regularities prohibit exports of nuclear technology into states which do not accept safeguards, India's nuclear energy sector has been cut off from urgently needed know-how and hardware. Since India's nuclear test of 1974, technology imports from the West almost ceased, which led to a steady decline in the efficiency of the civilian nuclear energy sector. Nuclear energy has never been produced cost-effectively and until the mid-1990s, India produced no more than 1500 megawatts of nuclear power, as compared to the target of 10.000 megawatts planned in 1985, and less than 2% of India's overall power supply.[36]

India's active media and contentious democracy provide effective conditions for an influential role of Indian public opinion in the formulation and implementation of strategic decisions. The data reported in Table 1 show that Indian security and foreign policy are both firmly in the realm of national political consciousness, a fact that no government in politically contentious India can afford to ignore. But, while the Indian public appears to be conscious of the problem of security, what do they really want from their government? The data reported in Table 2, possibly reflecting the effects of Kargil, show a public that is agitated but indecisive. Whereas Table 1 shows the perception of Pakistan as India's 'public enemy number one', with regard to the right course of action to follow, the Indian public is surprisingly conciliatory. Significantly many more people agree that 'India should make efforts to develop friendly relations with Pakistan' compared to those who disagree.[37] On the general issue of "war as the only solution to Indo-Pakistan problem", the number of those who disagree far exceeds those who agree (while a substantial number express no opinion), but these conciliatory and peace-like opinions are contradicted by the strong

support for "increased spending on the army even if it increases the burden on ordinary people", with over half of the total sample agreeing to the proposition and less than a fifth expressing their disagreement.

Table 1. Public Opinion on State-to-State Relations

Q: Now I will read the names of some countries. Have you heard the name of these countries?			(**If yes**) How is their relationship with India – friend, neither friend nor enemy or enemy?		
	Yes	**No**	**Friend**	**Neither**	**Enemy**
Nepal	65.3	34.7	41.3	16.8	1.7
America	70.3	29.7	27.1	25.9	11.1
Pakistan	82.9	17.1	6.9	7.4	64.2
Bangladesh	65.5	34.5	32.5	21.4	5.7
China	64.3	35.7	21.7	23.4	13.0
Sri Lanka	66.5	33.5	36.1	21.0	3.3
Russia	61.9	38.1	42.1	12.7	1.4

Source: post-poll survey of the Indian electorate, CSDS, Delhi, 1999

Table 2. Public Opinion on Security Issues

Q: Now I will talk about some specific issues on which different people have different opinions. I will read out some statements to which you may agree or disagree.			
Statements	**Agree**	**No Opinion**	**Disagree**
India should make efforts to develop friendly relations with Pakistan. Do you…	42.4	33.9	23.7
Country should increase spending on army even if it increases the burden on ordinary people. Do you…	50.1	32.6	17.3
War is the only solution to Indo-Pakistan problem. Do you…	25.2	35.6	39.1

Source: post-poll survey of the Indian electorate, CSDS, Delhi, 1999

How does India's status as a nuclear power affect her self-image as a non-aligned country, committed to international peace? Panchasheela, the five principles of peaceful coexistence to which Jawaharlal Nehru gave an institutional expression in terms of the Non-aligned Movement provided a complete if not coherent statement of India's strategic doctrine at the height of the Cold War.[38] Following the decline of Nehru's Panchasheela, despite attempts by Indira Gandhi to formulate a general framework for India's engagement with the world, no single coherent doctrine has emerged. New generations of policy makers, voters, parties and major changes in the regional and international contexts have influenced the development of strategic thinking. Each of the major wars of South Asia, or war-like incidents (see table 3 above) have sparked off both bouts of doctrine elaboration by the government and political controversies around them.

Table 3. Major Military Operations of India (1947-2005)[39]

A. Inter-State Wars

1947-48	The First Indo-Pak Conflict
1962	Sino-Indian Border War
1965	The Second Indo-Pak War
1971	The Third Indo-Pak War: Creation of Bangladesh

B. Other Internal Military Operations

1947	Punjab Boundary Force
1947	Junagarh deployment
1948	Hyderabad police action
1961	'Liberation' of Goa
1984	The sending of the IPKF to Sri Lanka

C. Counter-insurgency Operations

1954-74	Anti-insurgency operations in Nagaland
1965-67	Anti-insurgency operations in Mizoram
1971	Anti-insurgency operations in Tripura and Mizoram.
1985-90	Anti-terrorist deployments in Punjab
1989-	Anti-terrorist deployments in Jammu and Kashmir
1991	Anti-insurgency operation in Assam: Operation Rhino

As things stood at the outset, foreign policy and strategic planning were almost exclusively in the hands of Nehru and his close advisers during his tenure as Prime Minister until 1964. More recently, this formerly relatively closed circle of policy experts has opened up to allow regional political forces (which have come to wield influence as coalition partners at the centre) to air their respective views on strategic planning. Essentially, as Cohen argues, the defence and strategic planning of India

has come from one voice (Nehru's) in the early years to many voices and coalitions in more recent times.

The Nehruvian Tradition of strategic thinking, which went through many metamorphoses under his successors, namely Lal Bahadur Shastri (1964-66), Indira Gandhi (1966-77, 80-84) and Rajiv Gandhi (1984-89), represents a mix of liberal internationalism and a "strong state" approach. It was originally characterized by a sceptical view of the US and a reliance on the Soviet Union and support for other anticolonial movements. Nehru acknowledged the problems facing a weak state in the international system and consequently aimed at co-operation where possible and necessary. The "Militant Nehruvians" entered the scene after India's defeat in the 1962 Indo-Chinese border war. They shared Nehru's suspicion of the unbalanced international power system. Subcontinental hegemony became the goal of foreign policy. Pakistan, China and the US were seen as basically hostile towards India. This thinking persisted from 1972 to about 1992.

According to Cohen, the Nehruvian origins of strategic thinking in post-independence India have been enriched by two additional currents which he calls, respectively, realists and revitalists, to distinguish them from the overall idealism of Jawaharlal Nehru. The realists started as offshoots from the generally liberal, market oriented, pro-American Swatantra party in the mid-1960s. The realists hold a more pragmatic view of Sino-Indian and Indo-US relations and support increased economic openness and integration with the international market forces. The revitalists take a more regional perspective, stemming from their preoccupation with indianizing South Asia, which they see as essentially the main theatre of action for Indian foreign policy. They, like the realists, deem nuclearization necessary. For Cohen the modern synthesis of realist and revitalist perspectives was Prime Minister Atal Behari Vajpayee's approach.[40]

Nehru saw himself first and foremost as a great modernizer and as such, social and economic development was the cornerstone of his political thinking. Defence as a political and strategic issue was mainly used to advance these objectives. Nehru was deeply distrustful of the military as such. Not surprisingly, no coherent security doctrine developed during the period of Nehru's stewardship, non-alignment being an overall guide to the ways and means of avoiding conflict rather than a strategy of the enhancement of national power and security. India established good neighbourly relations with her smaller neighbours on the basis of treaties with Bhutan 1949, Sikkim 1950, Nepal 1950, Burma 1951 and Ceylon 1954/1964. Force during this phase was used primarily for domestic purposes, the invasion of Goa in 1961 being the exception.

The period during the Indo-China war of 1962 and the Indo-Pak war of 1971 caused a major re-thinking, for India had to conceptualize the possibility of a war on two fronts. The increase in defence allocation during this period, and increased military co-operation with the West saw the beginning of a greater security consciousness. After Indira Gandhi came to power in 1966 she displayed a greater willingness to link politics and military affairs. She also turned India firmly in the direction of the Soviet Union with the Indo-Soviet Treaty of Peace, Friendship and Co-operation, signed on 9 August 1971. After 1971, the balance of power in South Asia was altered significantly, with the defeat of Pakistan in 1971, the emergence of Bangladesh and the "peaceful nuclear explosion" of 1974 which gave yet another indication of an 'Indira Doctrine', which visualized India as the hegemonic power of South Asia.[41]

The defeat of Indira Gandhi in the Parliamentary elections of 1977 and the ushering

in of the first Janata government in Delhi under the leadership of Morarji Desai, seen at that time as pro-American, tilted the balance away from the Soviet Union, but at the same time, introduced another dose of uncertainty to India's strategic vision. This changed again in 1980 with the return of Indira, but the period of 1980 to 1984 saw India isolated, and funds for defence spending getting scarce. Increased US support to Pakistan after the Soviet invasion in Afghanistan saw India's return to reliance on the Soviet Union and greater Soviet arms imports in India.

In retrospect, the period that intervened during the two assassinations, of Indira Gandhi in 1984 by her Sikh bodyguards and Rajiv Gandhi by Tamil terrorists in 1991, were one of continued 'Indira Doctrine' which saw attempts to expand India's influence in South Asia and hostility towards China, Pakistan and the US grew stronger. Missile programmes were initiated after 1983 and defence spending doubled from 1980 to 1989. Operations Siachen (1984) and Brasstacks (1986-87) occurred. Support was lent to the Tamil Tigers (1987-90) and an Indian intervention in Male (Maledives) took place in 1988.

Though the onset of liberalization of the Indian economy in 1991 prepared the ground for a rapprochement with the United States, the contradictory pulls within India's strategic thinking continued from 1990 to 1999. The collapse of the Soviet Union necessitated a radical change in policy, while economic reforms in India necessitated budget cuts, affecting the military adversely. This might have opened a window of opportunity for Pakistan, which, taking advantage of the onset of militancy in Kashmir started supporting cross-border insurgency in Kashmir and covert military operations. While on the political front the unilateralist Gujral doctrine and subsequently, the BJP initiatives for a diplomatic deal with Pakistan first of the Lahore bus trip and subsequently the Agra summit continued, the Pakistani military operated on more conservative lines and sought to take advantage of the perceived weakness of the Indian military establishment. One consequence was the war in Kargil in 1999, but the forceful reaction of India's army once again underscored the need for a coherent Indian strategic doctrine.

The conceptual disarray and the lack of strategic vision that characterize Indian thinking on strategic and security issues can be attributed, in Jaswant Singh's view, to the lack of mapping skills and geographical knowledge of the North-east and North-west frontiers. This in fact is in continuation with British colonial times when borders were deliberately left inexact in order to act as buffer zones. The continuation of this policy, however, assumed the same amount of force that the British had been able to mobilize as an imperial power. The continuation of these soft frontiers, particularly with China, was to be a major contributory cause to the conflict of 1962.[42]

All modern states, as Tilly has argued, seek to develop an integrated security doctrine that combines internal and external security, basically to safeguard the interests of the ruling elites.[43] That India did not go in that direction during the crucial two decades following independence is an issue of great theoretical interest. Could this be the consequence of the lack of a strategic culture in India?

The issue has been investigated at length by Jaswant Singh. The fact that though India is a full-fledged state with all the rights and obligations due to a state under the conventions of the international system and still one has to discuss why India has not pursued national power like others is of particular significance. It arises in this form primarily because of the attribution of a non-strategic, spiritual culture to India by

colonial anthropology. In its loose, idealistic formulation, Panchasheela appears to give institutional form to this non-strategic attitude. Singh, taking issue against this reading of Indian history, shows how, buried under the layers of spiritual rhetoric and rituals there was a strategic culture and appropriate institutions in pre-modern India. As a key member of the NDA government and one of its main strategists, Singh argued that the government was able to build on this basis in order to bring in a new institutional arrangement of security management.

Since the existence of a tradition of strategic culture in India is not often acknowledged by specialists in the field, it is important to take cognizance of it at this stage. The evidence that Singh builds his assertions on comes chiefly from Kautilya's Arthaśastra, a text on governance that has been traced to four centuries before Christ. The text has an obsessive occupation with "spies, secrets, and treachery. When listing the virtues of a king, Kautilya includes, along with energy, controlling his sensual nature, cultivating his intellect, and associating with his elders, the need to keep ‚a watchful eye by means of spies'."[44]

Exactly why India's strategic tradition failed to develop on the same lines as the modern state in the West is a larger debate on India's state tradition, which need not detain us here. The important point here is that the loss of autonomy in the wake of foreign invasion caused India's strategic culture to get internalized, and got obsessed with curbing the enemy within rather than combating external foes. This, Singh contends, "created a yawning chasm of mutual suspicion between the state and the citizen. This signal failure, the establishment of a confident, viable and efficient Indian state, nourished by effective institutional instruments, and sustained by a willing and co-operative citizenry has become a political and cultural trait; it both prescribes the form and constricts the functioning of the Indian state, even today. In the process it has prevented India from developing a proper strategic doctrine."

The 'rediscovery' of India's strategic culture has now become the basis of an avid discourse within India's security establishment. Singh's Defending India[45] in a way has set the pace but there are several other texts[46] that have come out with institutional arrangements that base themselves on this revival of India's security culture. Jaswant Singh's evocation of how this security culture formed the basis of the continuation of Indian resistance to foreign aggression is of great interest.

Quoting extensively from the writings of the main actors involved in some of India's recent security issues, particularly the disastrous experience of the IPKF in Sri Lanka, Singh shows the negative consequences of the absence of a clear strategic doctrine. In early 2001, the Group of Ministers (GoM), comprising of four key ministers of Defence, External Affairs, Home and Finance submitted its own report to the Prime Minister. The report summarized several reform proposals proposed since 1998. On the suggestions of the GoM report, the government created an Integrated Defence Staff as well as a Defence Intelligence Agency. In its attempt to create a Chief of Defence Staff, it faced some resistance from the services, who feared a loss of authority.

In January 2003, the government finally decided to establish a Nuclear Command Authority (NCA) with the highest competence for nuclear weapons. The NCA is linked to the Political Council, chaired by the Prime Minister, and the Executive Council, chaired by the National Security Adviser to the Prime Minister. Next to the Nuclear Command Authority, the post of a Commander-in-Chief or the Strategic Forces Command was established as the responsible decision maker for nuclear deployment and warfare. Parallel to the

introduction of the NCA, the government gave an official status to the Nuclear Doctrine drafted the National Security Advisory Board in 1999. With a single exception, the official doctrine remained unchanged from its draft version. The comprehensive no-first-strike-use posture of the draft was softened by introducing the option of a nuclear first strike in the case of an attack with biological or chemical weapons.[47]

The discussion of the assumptions that go into Pakistani decision-making are indicative of the thinking at the highest level of the government of India with regard to the Indian strategic doctrine. There is every indication that there are similar deliberations in process with regard to China as well. In view of the sensitivity of the issue, the declassified report withheld this information, but made an oblique reference to the unsettled problems with regard to China through a general reference to the problems of India's borders which are undefined and undemarcated on the ground. The report acknowledges that disputed and unsettled borders are matters of contention. In addition, it mentions the porousness of borders due to their artificial character (i.e., not necessarily corresponding to natural boundaries), lack of clear accountability for border security, command and control problems arising out of divided responsibility among too many different forces deemed to be responsible for border management duties, and finally, the unsatisfactory equipment situation, lacking in night vision and surveillance capacity are mentioned as major problems facing India's security management.

4. Engaging the world: challenges to Indian diplomacy and the pattern of non-alliances

Sophisticated observers of the Indian scene like Stephen Cohen and Sandy Gordon have reported on India's ambitions for great power status. At least in terms of rhetoric, quite discernibly, an attitude to that effect often lurks behind the moral postures and grandstanding by India's leaders, when they are asked to pronounce themselves on global problems. How much of this is empty rhetoric and should necessarily be discounted as Indian garrulity, and how much of it is for real, which India's counter-players can ignore only at their peril? This section attempts to answer this question with reference to a series of specific issues.

4.1 India and the international system

At the height of the Cold War, Panchasheela, the 'five principles of peaceful coexistence', spelt out the ideal state of an international system from the Indian point of view. The ideal scenario for India was to be a world of largely status quo powers where just national interests would be mediated through international law, arbitration and fair use of the natural resources of the world. In such a perfect world, it was assumed by Nehru, India, whose commitment to the third way between the East and the West, communism and capitalism, hallowed by the legacy of Aśoka and Gandhi, would play an important role, one that the world would see as both natural and legitimate. Major powers would act responsibly to keep order and promote justice in their parts of the globe. International politics would be governed by mature and responsible states that would not meddle in the affairs of others.[48] In his terse description of Indian expectations during the early years after Independence when the foundations of her foreign policy were being laid, Cohen points out how little thought Indians gave to how the policies of such states could be co-ordinated or how deviance from the system by rogue states could be sanctioned. The fact that India got a hearing in international conflicts and played a mediating role with some distinction was attributed to the inherent virtue of

the Indian position and not to contextual factors such as the bipolar world where India played a pivotal role. The Nehruvians, taken in by the hectoring tone and pedagogical intents of their leader, assumed that the Soviets were committed to peace and that the United States would eventually retreat to its own hemisphere and cease its interference elsewhere around the world. Failing that, in the short term, the United States and to a lesser extent its allies and dependencies, such as Japan, could possibly be "educated" into the proper norms of international behaviour.[49]

During the Cold War India could afford to sit on the fence rather than entering a conflict or siding with one bloc or another, rationalizing its non-engagement in moral terms. Similarly, Cohen explains, India, a large, important and democratic power, did not need to join an alliance. However, the emergence of Sino-Soviet rivalry, the decline of global bipolarity, and most crucially, the humiliating defeat of India in the 1962 Indo-China conflict forced India to rethink many of the assumptions that went into the Panchasheela. The positioning of India in the international arena today requires nothing short of two paradigm-shifts, from non-alignment to a world based on alliances, and from a state-centric mode of thinking to an international arena where non-state actors are an increasingly important presence.

India does not have much of a choice with regard to holding aloof from the world. Her declared status as a nuclear power invites an engagement by the world, which her poverty and peacelike gestures of an earlier period did not. Her commitment to liberalization of the economy, while opening up opportunities for her vigorous and vibrant middle classes, also puts an obligation on the part of the government to engage with the rich, capitalist world. The Hindu nationalist sentiments of the government led to the initiative to link Indian diplomacy with overseas Indians. Finally, being energy-deficient, India needs to maintain good ties with some of the major oil producers, whose sympathies are mainly with Pakistan.

4.2 Global and regional security regimes

Under the impact of the new contextual and indigenous developments, India is re-examining its approach to international and regional organizations. Nehru was a great supporter of international peacekeeping and mediation initiatives[50] and, a staunch advocate of Asian regional co-operation, it was Nehru who organized the Asian Relations Conference even before India achieved independence. In the new scheme of things, with much of the world clamouring for mediation in Kashmir, and India holding out obstinately, claiming that Kashmir is an internal problem of India, the Indian position needs to be looked at seriously afresh. This holds out both a challenge and an opportunity. The United Nations, as Cohen suggests, can be a dangerous place for India where, if Kashmir comes to a vote in the General Assembly, "India runs the risk of having its Kashmir policies come under critical scrutiny, and perhaps fresh UN resolutions, and even sanctions."[51] On the other hand, a proper deal can expedite India's case for a seat on the Security Council. The problem is similar in nature though different in scale with regard to India's security links with her South Asian neighbours. Although the remote sources of India's insecurity often lie within the territories of her neighbours, India has so far refused to have the issues discussed as a common problem of South Asia, preferring, instead, to take things up at the bilateral level. There is a structural problem here that India needs to solve. As Cohen points out, regional co-operation will only work when one of two conditions exists. The first is the presence of a benevolent, dominant regional power that can regulate regional behaviour, or the exis-

tence of a set of regional players with roughly similar resource endowments, or similar threat perceptions from outside the region. The leading role of the United States in the western hemisphere, and the successful regional organizations in Europe and South East Asia are pointed out as examples of these conditions. However, neither condition obtains in South Asia.[52] A successful solution to the issue of joint management of security threats at the regional level will reduce India's security burden and increase her support from regional powers at the international arena, but, for reasons to be discussed below, India might not find it easy to move in that direction.

4.3 India, Pakistan and Kashmir

Though at a reduced scale compared to the recent past, India is still at war in Kashmir. It is a war of attrition, which India cannot manage to win and Pakistan cannot afford to lose. South Asian discourse on this issue is particularly rich in analogies and allusions. Cohen cites an observation by G. Parthasarathy, a former adviser to Indira Gandhi, that an India-Pakistan reconciliation is like trying to treat two patients whose only disease is an allergy to each other.[53] An all-party resolution of the Indian Parliament, voted unanimously by the Lok Sabha in 1995, affirms Kashmir as an integral part of Indian territory and Kashmir as India's internal problem. Any move away from that, liable to be perceived in India as 'giving in to the demand for plebiscite in Kashmir' can thus be blocked both by opportunist political parties or determined special interests. A 'land for peace deal' in Kashmir, under these circumstances, is difficult to conceptualize, nor is the Israeli experience in this regard particularly encouraging. In addition, beleaguered with similar problems with secessionist movements in the Northeast, the Indian fear of 'setting the wrong example' has to be seen as realistic.[54]

4.4 India's future procurement problems

In view of the above, it is difficult to imagine how India can afford to reduce the heavy outlay of resources in regional security in the short term, which only adds to the overall burden of security. Other, contextual factors make it even harder for India to meet these needs financially. Cohen summarizes these arguments in terms of the following, namely, the cessation of defence credits from the erstwhile Soviet Union forcing the Indian military procurements to be done on a 'cash and carry' basis, the economic restructuring in Russia and CIS leading to persistent demands for steep price hikes for defence exports to India, and, the steep fall in the exchange value of the rupee, resulting in an equally steep increase in the debt repayment obligations for past purchases from both Western and Russian supply sources.[55]

The consequences are the erosion and depletion of the already lean defence resources, which is likely to continue into the foreseeable future. Hence, India's defence financial planning will continue to be out of sync with the Services' force planning and also because Russian and CIS pressures will persist owing to the 70-85 per cent dependency on ex-Soviet military equipment. This situation cannot be reversed quickly because the effects of, at best, a slower devaluation of the Indian currency relative to hard currency will mean restrictions on what and how much a shrinking defence rupee can buy from alternative Western sources. India's defence demands are caught in a pincer of rising rouble and dollar value conjoined to dearer, internationally available military hardware, spares and services. Therefore, almost any reasonable level of funding of

defence programmes will be found to be inadequate to sustain the existing and planned force structure.

4.5 A thaw in India-China relations?

The easing of tension in India-China relations can help India free up some of the resources tied up in the Northeast. From all indications, such efforts are afoot. But the legacy of 1962 is hard to live down. In addition, the relative freedom of political expression and association in India which results in periodic movements in favour of human rights in Tibet, particularly on the occasion of high level visits from China, set limits to India's room for manoeuvre. Beijing has supported separatist and autonomist groups within India in the past. Stephen Cohen is sceptical of any chances of early breakthroughs: "As its own requirements for Middle Eastern oil draw it into the Indian Ocean, China could also emerge as a naval rival to India. The realists in Delhi see China continuing its strategy of encircling and counterbalancing India, preventing it from achieving its rightful dominance of the Subcontinent. This next decade is seen as a transition period, when India must cope with expanding Chinese power, achieve a working relationship with the Americans, and cautiously use each to balance the other's military, economic, and strategic influence. India's new balancing act combines appeasement of China on the issues of Tibet and Taiwan with the pursuit of improved ties with China's other potential balancers, especially Vietnam and Russia."[56] There are shared interests such as the threat of terrorism combined with increasingly restive Muslim minorities. Both sides clearly need to search for a political formula that will allow for minor adjustments in their respective claims so that political honour is served on both sides.

4.6 India and the 'small' South Asian neighbours

The so-called 'small' neighbours, namely Nepal, Bangladesh and Sri Lanka, are comparable in terms of population to larger European states. The epithet 'small' is indicative of an approach that is part of India's problem in the region. In addition, there are historic and demographic reasons that contribute to the complexity of the problem. Soft borders, illegal immigration, terrorism, smuggling, drugs, water resources and the treatment of minorities are among the factors that create pressures on India to intervene in what these countries perceive strictly as their domestic affairs. Cohen reports two positive developments in this regard. First of all, the revolution in economic policy that has swept over India makes it a far more attractive country for all of its neighbours and the more developed states of Southeast Asia. Indian management expertise, technology, and organizational skills are now widely exported to the rest of Asia, giving substance to the Indian claim that it is a major power. Secondly, India's democracy is having a great impact on many of its Asian neighbours. For the smaller states of the region, India is something of a model of how to peacefully manage a multiethnic, multireligious state.

4.7 India and the Indian Ocean

Unfortunately, it seems that up to now, India has not actually developed an Indian Ocean policy, not even an Indian Ocean economic policy. Despite some efforts of some institutions like the Institute for Defence and Strategic Analyses (IDSA) or the Society of Indian Ocean Studies (SIOS), both in Delhi, there is no maritime strategic doctrine as such in India. According to, for example, Commodore C. Uday Bhaskar[57], there is neither an understanding of

India's maritime history nor an Indian Ocean awareness. India is part of the Indian Ocean region, but that is not very important for its foreign policy, especially so since all conflicts with neighbouring states are situated at India's land borders. In the perception of most Indian specialists on maritime affairs, an Indian Ocean awareness began to develop because of the importance of SLOCs (Sea Lines of Communication) and the EEZ (Exclusive Economic Zones) only very recently.

Perhaps the most important factor for this neglect is that the current security environment in the Indian Ocean is being perceived as a stable and overall positive low threat environment. Compared with the superpower conflict in the 1970s and 1980s, the security situation has improved considerably since the beginning of the 1990s. Also, there is a consensus among naval officers interviewed that those major sea powers which are capable of disrupting the SLOCs are agreed that the Indian Ocean should remain peaceful. So, in the opinion of all Indian experts, today there is no power competition visible in this area. Somewhat surprisingly, both the United States Navy and the Chinese Navy (People's Liberation Army Navy, PLAN) are not seen as threatening by Indian naval officers, either. In the wake of the events of September 11, the USN and the Indian Navy even embarked on a bilateral policing of SLOCs in the Arabian Sea. "India is a maritime nation strategically straddling the Indian Ocean, with a substantive sea borne trade. The country's economic well-being is thus very closely linked to our ability to keep our sea-lanes free and open at all times."[58]

Rahul Roy-Chaudhury goes into more detail to drive this point home: virtually all of India's foreign trade, some 97 per cent in volume, is transported over the sea; in 1994-95 this accounted for an estimated 20 per cent of GNP. In addition, as much as 80 per cent of India's demand for oil is met from the sea, either carried aboard ships (46 per cent) or extracted from offshore areas (34 per cent).[59]

In Indian perception, the only possible source of threat to stability in the Indian Ocean are non-state actors like pirates (mainly in the Bay of Bengal and the Straits of Malacca and the South China Sea), drug traffickers, gun runners or fish poachers. However, India is well aware of the fact that the Indian Navy does create some unease, especially among Bay of Bengal rim states like Sri Lanka, Bangladesh and Myanmar. The reason for this is, in the opinion of the experts, a capability mismatch between the Indian Navy and other regional navies. For this reason, a process of confidence building has been encouraged by the Indian Navy, like invitations for port visits or invitation of delegates from countries with only a small navy or no navy at all. Milan (an annual initiative under which the Navy ships make port calls in most countries through South-east Asia and Japan) in the Bay of Bengal (now Milan East) can be mentioned as a successful example of such confidence building measures. In 1999, Milan was introduced to the Arabian Sea as Milan West, where naval co-operation already exists between the Indian Navy and the navies of Iraq, Iran, Oman and the United Arab Emirates. Whether the new Milan West will be as successful as Milan East remains to be seen – in the eyes of some Indian naval officers, the success of Milan East was due to the happy fact that "the trouble maker [Pakistan] is not present there".[60] In the Arabian Sea he is present, and both states' navies are trapped in something akin to a naval Cold War.[61]

4.8 Ambivalent attitudes towards the United States

A lot of Indian dilemmas are summed up in terms of the Indian ambivalence towards the United States. The Indian public and

policy makers alike have problems understanding why the United States, itself a secular state and a democracy, does not, as a result of such shared values and institutions, necessarily favour India, as against Pakistan, and to a limited extent, against China. The fact that the United States decries atrocities against minorities in India but accepts the institutional discrimination against minorities in Pakistan raises questions about the real American intentions in Asia.

India has remained ambivalent with regard to the United States in the recent past. Thus, during the Operation Desert Storm against Iraq, the world was first treated to pictures of a smiling Indian foreign minister in Baghdad, then the grant of refuelling facilities to American aircraft, which were promptly withdrawn when the Indian anti-American lobby got wind of it. Americans, who had their fall-back arrangements anyway and had only needed an Indian show of support for propaganda purposes, were not amused. On the other hand, the supportive rhetoric of the United States in the 1962 India-China war did not translate into actual support on the ground and the sending of the USS Enterprise to the Bay of Bengal at the height of the India-Pakistan war of 1971 remains a reminder of American incomprehension of South Asian realities and insensitivity towards Indian sentiments. The increasingly visible and politically active Indian-American lobby in the United States and accommodation of American interests in the Indian Ocean are two factors that the current government appears to have taken on board with regard to the conceptualization and implementation of Indian policy.

5. Panchasheela redux: An evolving Indian doctrine?[62]

Almost six decades after Independence, the state in India has come to its own. Both the state and the "… the soul of a nation, long suppressed" of Nehru's vision have found an enduring home in the institutional infrastructure of the Indian Republic, reinforced during the past decade with unprecedented growth and foreign exchange reserves, a thriving Indian Diaspora whose links with India have been institutionally established, and at home, a dramatic democratic transition in rule from the NDA to the UPA, juxtaposed with spectacular policy stability.

It is important here to note that the militant Hindu nationalists took the initiatives to send Prime Minister Vajpayee on the bus diplomacy to Lahore, and invited General Musharraf, for many the main architect of the failure of Lahore and the betrayal of Kargil. The Congress, long identified with the firm India policy of Indira Gandhi and Rajiv Gandhi might have turned of late to a conciliatory tone out of political opportunism, but in power, it has come back to where the NDA government located itself.

Analysed critically, the statement by Prime Minister Dr. Manmohan Singh at the Asian-African Conference,[63] evocative of the heady days of the Bandung spirit not seen since the 1950s euphoria of panchasheela and Afro-Asian solidarity, reveals an important, new and potentially enduring step in the evolution of an Indian doctrine. Once one gets past the familiar litany of the "internationalism of visionary leaders of Africa and Asia such as Prime Minister Jawaharlal Nehru, President Sukarno, Premir Zhou Enlai, President Gamal Abdul Nasser, Prime Minister U Nu, Prince Sihanouk, and Prime Minister Phan van Dong", one finds a fine balance of national self-interest and idealism. The idea of Afro-Asian solidarity is pragmatically adapted to the imperatives of our times. The commitment to justice and solidarity is tempered with the imperative of change. "Increased competition – internal and external – helps those who are strong enough to benefit from the new opportunities. However, it can hurt those who are ill-

equipped to face the challenges of competition. We must adopt concerted measures, both at the national and the international level, for an equitable management of increased global interdependence of nations. At the national level, the state must be modernized to create an environment conducive to creativity and growth and also to ensure that the fruits of growth are fairly and equitably distributed."

The difference in tone and content of the new Panchasheela from the old is remarkable. Whereas its invocation during the earlier phases started, continued and ended with idealistic evocations of Afro-Asian solidarity and abstract goals of peace, an instrumental approach to abstract goals triumphs in the current form.

At the global level India must devise instrumentalities to deal with imbalances built into the functioning of the international political and economic order. We should aim to expand the constituency that supports processes of globalization…. To meet these challenges and constraints, we must respond in a manner worthy of the Bandung spirit. Just as that historic meeting redefined the agenda for its time, we must do so once again here today. The declaration on a new Asian African Strategic Partnership outlines guiding principles for joint action to achieve our goals in a changed global environment." With his insuperable command over the technical aspects of the international political economy and the newly acquired aura of confident actor in international politics, the Prime Minister outlines a series of specific measures that should be at the top of the international agenda. These measures are to include the demands to phase out trade-distorting agricultural subsidies in developed countries and to remove barriers to 'our' agricultural exports; lowering of tariff barriers to 'our' other exports; to balance the protection of the environment with the development aspirations of the developing nations; urgent measures to generate additional financial resources for development especially for the least developed countries and the highly indebted poor countries.

Towards the end of the speech, the Prime Minister made a thinly disguised demand for India's fair share in the UN system in the name of democratization of the United Nations and its specialized agencies.

Jawaharlal Nehru has said that when we march step in step with history, success will be ours. The breathtaking pace of change in our times gives an opportunity and a responsibility to act decisively. We can transcend past rancour and take new initiatives to create new cooperative mechanisms and regional partnership. In this spirit, in cooperation with our neighbour Pakistan, we have embarked upon a journey of peace and good neighbourly ties. I appreciate the positive sentiments expressed by President Musharraf yesterday which I fully reciprocate. We are sincere in our desire to resolve all issues in a mutually acceptable manner. This will surely bring benefit to our people and to our region. The Bandung conference of 1955 followed the awakening of Asia and Africa. We meet today in similarly historic circumstances, at the threshold of change that place us centre-stage-globally.

These elements have remarkable commonalities with the Joint Statement, India-Pakistan, of 18.4.2005.[64] Among other measures, the two countries agreed to "pursue further measures to enhance interaction and cooperation across the LoC including agreed meeting points for divided families, trade, pilgrimages and cultural interactions", "condemned attempts to disrupt the Srinagar-Muzaffarabad bus service and welcomed its successful operationalisation", "pledged that they would not allow terrorism to impede the peace process" "decided to increase the frequency of the bus service and also decided that trucks would be allowed to use this route to promote trade", "agreed to operationalise ad-

ditional routes including that between Poonch and Rwalakot" and "to re-establish the Khokhrapar-Munnabao route by 1st January 2006" and to open "the Consulates General of the two countries in Mumbai and Karachi respectively… before the end of the current year." The same robust, pragmatic, instrumental approach was reflected in the PM's address at the meeting of PM's Council on Trade and Industry, Dec 4, 2004 which announced clear steps for India's steady integration with the "evolving world economy."[65]

India's new posture reflects what Cohen has described as the "three major lobbies in the Indian strategic policy community". The first are the advocates of 'firm India' who argue that India should project itself as a firm, powerful state and be able to use force freely. This was the dominant strategic theme in Indian policy. The line of thinking, powerfully introduced into Indian politics by Indira Gandhi, continues to be actively represented by those who advocate the bomb as a symbol of national power.[66] They hold that "India has evolved a 'will to act' to preserve its vital national interests."[67] With regard to the crisis in Nepal caused by the King's dismissal of multi-party democracy in the backdrop of the Maoist onslaught on the state, India has shown both the capacity and will to act in concert with other major powers of the world, to restore democracy but simultaneously preserve the integrity of the state. The second major voice in India's strategic community is the peace-mongering 'conciliatory India' lobby. These leaders and specialists "question the strategies of defence-led economic development, a boastful military profile, and too quick intervention in the affairs of neighbours. They would prefer to deal with Pakistan and China by territorial compromise and negotiation, displaying military power only to supplement diplomacy."[68] The third trend advocates the projection of a 'Didactic India', of India as a 'civilizational' state who see India's culture as a resource, a part of her inherent greatness, a valuable diplomatic asset, and that others must become cognizant of the moral quality of Indian foreign and strategic policy. The efforts to tie in the Indian diaspora for the promotion of Indian culture abroad is part of this strategy.[69] As we have already seen in the analysis of the public opinion, the Indian electorate itself speaks in many voices. It is therefore quite likely that India will continue to look in all three directions at the same time, giving India's efforts at evolving a doctrine a character of contradictions and anomalies.

A coherent Indian security doctrine will need to achieve nothing less than two paradigm shifts simultaneously, the first, as argued in the previous section, to eschew the verbiage and institutional relics of the Cold War such as the 'non-aligned movement' and 'Afro-Asian solidarity' as goals by themselves, and the second, to take stock of the burdens of globalization which entail both the vision and will power to accept a necessary shrinking of sovereignty, and the vision to engage with situations that do not have any apparent links to national interest. In addition, India will need to provide for the imponderables of national, regional and international politics such as another vicious communal riot on the same scale as in Gujarat with the BJP in opposition, a revival of Pakistan-Bangladesh-Saudi Arabia ties on an anti-India Islamic front, or the impact of the next energy crisis on India's liquidity, or, for that matter, another natural catastrophe in the league of the Tsunami.

In sum, when compared to the final years of the NDA, under the new management, India exudes remarkable policy stability with regard to the international political economy, and a new confidence with regard to international diplomacy. Not hobbled by the taint of communal violence (anti-Sikh riots under Rajiv Gandhi, Ayodhya under Rao and Godhra under Vajpayee), Manmohan Singh's regime has

boldly charted out a new course, and found in the global campaign against terrorism a useful political base.

Virtually every major issue that we face as nation states has both a domestic as well as a trans-national dimension. It is becoming increasingly apparent as never before that unless we fashion a global response, based on a meaningful consensus, to these challenges, we would not succeed in creating a world that truly manifests the ideal of the United Nations. Terrorism is one such challenge for which many of us have paid an unacceptable price. We shall not forget that three years ago, it was a great city that witnessed the single most horrendous terrorist act in human history. The world saw another brutal act of terror in Russia which took the lives of hundreds of innocent civilians, including a large number of young children. Terrorism exploits the technologies spawned by globalization, recruits its foot soldiers on ideologies of bigotry and hatred, and directly targets democracies. And yet it is a sad reality that international networks of terror appear to co-operate more effectively among themselves than the democratic nations that they target. We speak about co-operation, but seem often hesitant to commit ourselves to a truly global offensive to root out terrorism, with the pooling of resources, exchange of information, sharing of intelligence, and the unambiguous unity of purpose that is required. This must change. We do have a global coalition against terrorism. We must now give it substance and credibility, avoiding selective approaches and political expediency.[70]

Seen in the context of its second coming, Panchasheela holds the potential to draw the three strands of India's doctrinal thinking together and produce an internally consistent and effective basis on which to engage the world.

6. Conclusion: plus ça change…?

With Manmohan Singh holding forth on the Bandung spirit very much in the Nehruvian mode, and the stream of international visitors calling by, those with long memories of the early years after independence might ask if Indian diplomacy is back to its well worn, noble-minded but effete grooves. The paper has argued against drawing such hasty generalizations from broad similarities. Beyond the constants of Indian politics such as familiar faces in high places, and familiar rhetoric, Indian diplomacy has acquired a new pragmatism and a tone of confidence that distinguish it from its earlier avatars. The 1998 tests which brought India opprobrium from all possible quarters, deftly handled in its conceptualization, implementation and subsequent damage-limitation diplomacy have produced an environment conducive to a new sense of realism in Indo-US strategic relations, which, in turn, has become a leading element in similar arrangements with the EU, Russia, China, and Pakistan.[71]

This pragmatic shift in Indian diplomacy, riding high on the performance of the economy, has been noticed by Bertsch et al.: the recent Indian foreign-policy shift that emphasizes explicit enunciation of its threat assessments and resultant national proclivities and priorities. This pragmatism in Indian foreign and defence policies is a natural outgrowth of the recent approach to integrate the domestic economy into the global economic matrix. The result has been that practical issues are vying with larger issues of morality for autonomous space on the national agenda. The new generation of Indians is more concerned about completing the second stage of nation-building, what Samir Amin referred to as the process of 'national consolidation'. This second stage requires allocation of

national resources and values toward an optimal utilization of national capabilities and potential. While moral considerations would continue to under-gird the conduct of its nuclear policy, practical considerations are also not to be lost sight of.

However, laudable as it is, pragmatism on its own does not constitute a doctrine. Keeping one's options always open, riding on a bandwagon when it suits one's convenience and getting off at the slightest sign of trouble (Republican circles in the United States see India's position on Iraq exactly in this light, as indeed they do of France and Germany) can invite the charge of cynical opportunism masquerading as high principle. These reservations continue to hobble transactions such as the purchase of dual use technology[72] or the oil pipeline issue with regard to Iran that could, otherwise, be smooth. In consequence, though there is some recognition of mutual compatibility, US-Indian relations continue to be an uncertain pas-de-deux.

Our conference on India's role in world politics is taking place in an international context when "rules of international conduct on issues of technology and multilateralism are being re-written"[73], roles have reversed as superpowers and supplicants of an earlier period reverse roles and a new coalition of major powers is at the forefront of efforts to reorganize the Security Council. Once again, like at the height of the Cold War, fortuitously, Indian policy has gravitated towards placing her interests in the international arena with the right combination of structural realism and national identity. Rather than being self-consciously unique and aloof, this policy is drawing on national identity (culture and ideology), and liberal values of peace and plurality. But, to the extent Indian diplomacy fails to articulate itself in terms of a self-contained and cohesive doctrine, it will be portrayed merely as noble-minded poker with a touch of the begging bowl about it and to that extent render it both illegitimate and therefore ineffective in the eyes of the key players.

This particular agony is not new for Indian diplomacy. "The search for this 'golden mean' between the vision of an eventual peaceful world and possession of the wherewithal to defend itself in the interim, has troubled [India's] conscience for decades."[74] Perhaps the time has now come for Indian diplomacy to play a trump card in their possession, the implications of which they have not yet thought through. India is alone among the main powers in the international arena today to have not been a party to the Second World War, and as such, to have not been traumatized by the devastating power of ideologies. That describes the other face of Indian pragmatism which gives Indian thinking a heuristic capacity to understand ideology – both their own and those of other societies – and the intellectual resources to negotiate across cultures. European pacifism of the 1930s stood for something similar, before the rise of the Third Reich gave ideology a bad name, and the victorious allies an enduring right to suppress everybody else's ideology except their own, which gradually acquired the aura of an inexorable transition to development, modernity and democracy. The forces arrayed for and against the America-led invasion of Iraq helped reveal the interests that underpin this unproblematic view of the world. In its second coming, Panchasheela as a doctrine should be able to build heuristically on the innate, universal desire for peace, understanding of difference and respect for the dignity of man. The Indian search for a doctrine can then join those of others who are also engaged in looking for a third way beyond the triumphalist self-profiling of the world's only superpower and the effete bickering of those opposed to it.

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Notes

[1] If a doctrine is understood in terms of a cohesive construct that reduces uncertainty by pulling together clear objectives, an institutional mechanism for implementation and the capacity to match action to policy, then India's 'doctrine of minimum nuclear deterrence' is an epitome of ambiguity. Key statements such as "India will not be the first to initiate a nuclear strike, but will respond with punitive retaliation should deterrence fail" are capable of diverse interpretation. See: Draft record of National Security Advisory Board on Indian Nuclear Doctrine, http://www.indianembassy.org/policy/CTBT/Nuclear_doctrine_aug_17 sighted on 1.6.2005

[2] "The UPA government is committed to maintaining a credible nuclear weapons programme while at the same time it will evolve demonstrable and verifiable confidence-building measures with its nuclear neighbours. It will take a leadership role in promoting universal, nuclear disarmament and working for a nuclear weapons-free world." From: UPA's Common Minimum Programme, seen on 5.2.2005 at http://www.panjab.org.uk/english/cmp.htm

[3] The statement by Prime Minister Vajpayee, by clearly stating that "the tests … provided a valuable database for the design of nuclear weapons of different yields for different applications and different delivery systems" went beyond the ad hoc extemporizing of Indira Gandhi in front of the world media about peaceful uses of nuclear power and was a step in the direction of greater clarity but still short of the standards set by the nuclear establishment by failing to nail it to some visible target. The NDA appeared to be speaking with two voices – with Defence Minister Fernandes holding forth about China being India's enemy number one whereas the rank and file greeted the tests as a fitting symbolic victory against Pakistan. In: Bertsch, Gary/Gahlaut, Seema/Srivastava, Anupam (eds.), Engaging India: US Strategic Relations with the World's Largest Democracy, London 1999, XIV.

[4] "There is little likelihood that India would be a security threat to the United States. But the lack of trust about India's intentions will continue to govern US policy unless some dramatic changes in Indian behaviour become apparent. For instance, what is the guarantee that India will not use its growing capabilities against US interests, much as it has done through most of the Cold War period? Given its hegemonic ambitions, will it attempt to match the Unites States? Or will it collaborate with China and Russia to challenge US hegemony in Asia?" In: Bertsch et al., Engaging India, p.268.

[5] Bertsch et al., Engaging India and Talbott, Strobe: Engaging India: Diplomacy, Democracy and the Bomb – A Memoir, Washington D.C. 2004 are two of the finest exemplars of this genre.

[6] The sanctions following the 1998 tests ranged between the punitive (a comprehensive ban on defence sales and denial of American, World Bank and IMF credit, calculated to cut into India's painstaking steps to enter the international market economy), and the vindictive (denying visas to Indian scientists, implemented with immediate effect by overzealous State Department officials). They were intended to reflect both the requirements of American law and the "intensity of the president's feelings"; see: Talbott, S.: Engaging India, p.53. The President also personally orchestrated a general condem-

nation of India by "other countries along with every relevant international body we could think of; the United Nations, NATO, the NATO-Russia Permanent Joint Council, the Euro-Atlantic Partnership Council, the Organization of American States, the Gulf Cooperation Council, the Organization of Islamic States – and crucially, the Group of Eight…[issuing] a statement raking India over the coals." (ibid. p.53)

7 "It would seem that for India and Singh, it was poker all along, and that Singh bluffed the man who held the stronger hand." Finan, Bill: Nuclear Diplomacy Up Close. Strobe Talbott on the Clinton Administration and India, in: India Review 4, 1/2005, p.96.

8 Neither the five recognized nuclear weapon states, nor the signatory states of the NPT and CTBT and the members of the IAEA formally recognize India's and Pakistan's nuclear status. However, at the informal level, the major actors, above all the US administration, follow a rather pragmatic policy by engaging India in tacit negotiations and increasingly intense cooperation on nuclear safety and restrictions on technology transfer.

9 Cohen, Stephen: India. Emerging Power. Oxford 2001, p.31: India "has been in the midst of a major arms buying spree. A recent purchase from Russia for more than $4 billion worth of equipment will augment India's tank force and air fleet considerably and permit the acquisition of several important ships, including a second aircraft carrier. This included a $3 billion agreement to produce aircraft under license and acquire modern tanks and an aircraft carrier." See: India, Russia Sign $3 Billion Arms Deal, Times of India, December 29, 2000. Also: India, Russia Ready Military Arms Dealer, CNN.com, October 4, 2000. India has just purchased more than a thousand man-portable radar systems from Israel and is negotiating a deal on Hawk jets with the UK.

10 As such, the paper seeks to balance the neorealist approach and the constructivist approach, which connects the world of bombs and guns with the web of meanings specific to the stakeholders. See: Wendt, Alexander: Social Theory of International Politics, Cambridge 1999. The key texts used for this purpose in this paper include Singh, J: Defending, Delhi 1999; Government of India, Ministry of External Affairs: Official Statements of the Government of India in Context of Terrorism and Related Issues. Delhi 2002 and the recently declassified: Government of India, Ministry of External Affairs: Reforming the National Security System. Recommendation of the Group of Ministers, , Delhi 2001.

11 See Mitra, Subrata Kumar: War and Peace in South Asia: a revisionist view of India-Pakistan relations, in: Contemporary South Asia 10, 3/2001; Racine, Jean-Luc: The uncertain triangle. India, China and Pakistan – The regional and international dimensions, 2001, at www.ceri-sciencespo.com/archive/jan01/racine.pdf

12 Notwithstanding Indian openness and garrulity, the preparations for the nuclear tests in Pokhran were kept secret up to the very last moment, a fact that is considered to be a major intelligence failure on the part of the American NSA.

13 Notice, for example, the tremendous costs in terms of lives and prestige paid for an Indian stand on Sri Lanka and the utter silence of the Indian regime on the most important settlement just concluded between the LTTE and the Sri Lankan government.

14 See Cohen, S.: India, pp.25-31.

15 Ibid.

16 Ibid., p.29.

17 These and other figures in the following paragraphs are drawn from the various national entries in: International Institute for Strategic Studies: The Military Balance. 1999-2000, Oxford 1999, pp. 20, 112, 161-63, 166-67, 186, 300-05. They are exclusive of the costs for the nuclear programme.

18 Cohen, S.: India.

19 Singh, J.: Defending.

20 Ibid., p.262.

21 Government of India, Recommendations of the Group of Ministers: Reforming the National Security System. Delhi 2001, p.60.

22 Cohen, S.: India, p.29.

23 Zulkarnen, Isaak: Main Battle Tank Developments In The Asia-Pacific, in: Asian Defence Journal, November 2001, pp.18-21.

24 See the scathing pre-Kargil critique by a BJP sympathizer, Mohan Guruswamy, "Modernise or Perish," Indian Express, January 26, 1998. After Kargil, he and others pointed out the considerable qualitative disadvantages held by India's larger forces when confronted with the Pakistani forces.

[25] International Institute for Strategic Studies: India's Military Spending. Prospect for Modernization, in: Strategic Comments, 6/2000.

[26] For an analysis, confirmed in part by recently retired U.S. officials, see Robert Windrem and Tammy Kupperman: Pakistan Nukes Outstrip India's, Officials Say, in: MSNBC News, at www.msnbc.com/news/417106.asp?cpl=1 [January 24, 2001]. "Pakistan, though nominally weak (compared to India) is actually stronger than it is commonly perceived."; in: Tellis, Ashley J.: India's Emerging Nuclear Posture, Oxford et al. 2001, p.730.

[27] Cohen, S.: India, p.30. See Perkovich, George: India's Nuclear Bomb. Oxford et al. 1999 for a detailed account of the development of India's nuclear programme. For a projection of future growth of India's nuclear weapons programme, see Tellis, A.: India's Emerging, p.720.

[28] In January 2004, India finalized a deal with Russia for the purchase of the Admiral Gorshkov. See: International Institute for Strategic Studies: The Military Balance. 2004-2005, p. 144.

[29] See Cohen, S.: India, pp.157-171.

[30] Singh, Jasjit: Defending India. A Perspective by Air Commodore Jasjit Singh, in: V.N. Narayanan,/Jyoti Sabharwal, India at 50 – Bliss of Hope & Burden of Reality. New Delhi 1997, chapter 10.

[31] Ibid., p.197.

[32] "It is more difficult to measure the relative quality of Indian forces, since much depends on leadership, both civilian and military. However, the Indian military, when adequately led and given a clear and reasonable objective, can obviously perform extremely well, albeit at a low to intermediate level of technological sophistication. The Indian armed forces certainly compare favourably with those of Pakistan and China, although they would have a hard time coping with naval or air units from a truly advanced military power."

[33] Cohen, S.: India, p.26.

[34] Babbage, Ross/Gordon, Sandy (eds.): India's Strategic Future. Regional State or Global Power? Delhi 1992, p.172.

[35] Cohen, S.: India, chapter 6.

[36] Abdul Kalam, then director of the Defense Research Development Organisation, now the President of India, quoted in: Boom for Boom, India Today, April 26, 1999 for a fuller study of regional proliferation, regional attitudes, and erstwhile suggestions for averting a nuclear arms race, see Cohen, Stephen P. (ed.): Nuclear Proliferation in South Asia. The Prospects for Arms Control, Boulder 1990.

[37] This finding is comparable in greater support for conciliation with Pakistan rather than war also reported in the findings of the National Election Survey of 1996. See: Mitra, Subrata Kumar/Singh, V.B.: Democracy and Social Change in India. A Cross-section of the National Electorate, Delhi 1999, p.149.

[38] See: Mansingh, Surjit: India's Search for Power. Indira Gandhi's Foreign Policy. 1966-1982, Delhi 1984, pp.13-25 for a brief review of the core principles of non-alignment and the modifications made to them by Indira Gandhi.

[39] Singh, J.: Defending, pp.142-143.

[40] Cohen, S.: India, p.47.

[41] See: Mansingh, S.: India's search.

[42] Singh, J.: Defending, p.186.

[43] As Skocpol and Charles Tilly, suggest "If protection rackets represent crime at its smoothest, then war making and state making - quintessential protection rackets with the added advantage of legitimacy - qualify as our largest example of organized crime." Tilly then goes on to define the functions of states in terms of the following: War making: Eliminating or neutralizing their own rivals outside the territories in which they have clear and continuous priority as wielders of force; State making: Eliminating or neutralizing their rivals inside those territories; Protection: Eliminating or neutralizing the enemies of their clients; Extraction: Acquiring the means of carrying out the first three activities - war making, state making, and protection." "War Making and State Making as Organized Crime" See: Evans, Peter B./Rueschemeyer, Dietrich/ Skocpol, Theda (eds.), Bringing the State Back in, Cambridge 1985.

[44] Singh, J.: Defending, p.12. Kautilya gave great importance to gathering intelligence. This establishment of spies to be created to serve the king should include the apostate monk, the seeming householder, the seeming trader, the seeming ascetic, as well as the secret agent [the brave, the poison-giver, and the benign nun]. They should spy on the councillors, the chaplain, the commander-in-chief, the crown-prince, the chief palace usher, the chief of the palace guards, the director, the administrator, the director of stores, the commandant, the city judge, the director of factories, the council of

ministers, the superintendents, the chief of the army staff, the commandant of the fort, the commandant of the frontier-fort, the forest chieftain too, and that also in his own territory.

45 Singh, J.: Defending.

46 Singh, Jasjit, (ed.): Asian Security in the 21st Century, Institute for Defence Studies and Analysis, Delhi 1999.

47 Frey, Karsten: Elite Perception and Biased Strategic Policy Making. The Case of India's Nuclear Weapons Programme. Unpublished PhD dissertation, University of Heidelberg, 2004.

48 Cohen, S.: India, p.55.

49 Cohen's comments on this Indian folie du grandeur are harsh but accurate. "The cold war .... allowed India to play (in its own eyes) an exaggerated role on the international stage for many years, where it could moralize about the inequities of bipolarity and the "cold war mentality" while still benefiting materially and politically from its ties to both the Soviet Union and the United States and its skill at playing one against the other." See Cohen, S.: India, p.55.

50 In fact, the Constitution of India mandates co-operation with international bodies, including the United Nations. See: Constitution of India, Article 51.

51 Cohen, S.: India, p.55.

52 Ibid., p.58.

53 Ibid., p.62.

54 For a critique of the Indian position opposing "mediation" on Kashmir, see: Chari, P.R.: Advantages of Third Party Mediation Are Cited, India Abroad, July 30, 1999.

55 Cohen, S.: India, p.230.

56 Ibid., p.56.

57 Interviewed by Mr. Peter Lehr, M.A. and Ms. Maike Tuchner on August 27, 2000 for the research project "Panchayati Raj in the Indian Ocean – Towards a Maritime Security Regime?", funded by the Fritz Thyssen-Foundation, Cologne.

58 Mishra, H.B.. Defence Programmes of India, New Delhi 2000, p.59.

59 Roy-Chaudhury, Rahul: India, in: Bateman, Sam/Bates, Stephen (Hrsg.): Regional Maritime Management and Security (Canberra Papers on Strategy and Defence No. 124). Canberra: Australian National University/ Strategic and Defence Studies Centre 1998, p. 19-27 (19).

60 Confidential interview with a high ranking Indian flag officer, August 2000, in Delhi.

61 Sakhuja, Vijay: Cold War in the Arabian Sea, in: Strategic Analysis XXV, 3/2001, pp.371-384. Talking about troublemakers: there is still much distrust between the Indian Navy and the Royal Australian Navy (RAN). Although Australian naval officers usually claim that they are only fulfilling their duties in regard of the Five Power Defence Arrangements (FPDA), Indian naval officers often complain about their ships being buzzed and Indian military aircraft being formatted by Australian Maritime Patrol Aircraft (MPA).

62 redux: led back, indicating return to health after disease. Webster's International Dictionary. From John Updike, Rabbit Redux, New York 1971.

63 Delivered on 23.4.2005, seen on 5/2/2005 at http://meaindia.nic.in/speech/2005/04/23ss01.htm

64 "I am aware that for our firms to be globally competitive they must have world-class capabilities at home and globally competitive scale and scope of operation. This requires world-class infrastructure and R&D facilities. We will facilitate this so that India becomes the home of multinational corporations of the future. http://meaindia.nic.in/speech/2005/04/18js01.htm, seen on 5.2.2005

65 Seen on 5.2.2005 at http://pmindia.nic.in/speech/content.asp?id=56

66 Cohen cites the former Indian diplomat U.S. Bajpai, who concluded: "When our image weakened as a result of the 1962 military setback it emboldened Ayub Khan to test whether one Pakistani was not equal to ten Indians. Our weak image was responsible for the Chinese decision to arm the [rebellious northeast tribal groups such as the] Nagas and Mizos and to extend support to a Maoist revolutionary group in West Bengal, the Naxalites. Finally, our weak image tempted Yahya Khan to force ten million refugees into our territory." See: Bajpai, U.S.: India's Security. The Politico-Strategic Environment, New Delhi 1983, pp.65-66.

67 Joshi, Manoi: Commitment in Sri Lanka, in: The Hindu (International Edition), May 19, 1990.

68 Cohen, S.: India, p.61.

[69] There is considerable evidence of a large-scale governmental effort to use the American-resident Indian community to advance Indian interests. The process was begun in 1970, when lobbying efforts of both Indians and sympathetic Americans were coordinated from the Embassy in Washington. More recently the Indian government has created a ministry for "persons of Indian origin" (PIOs) and "non-resident Indians" (NRIs).

[70] Prime Minister's address at the 59th Session of United Nations General Assembly, New York, 23.9.2004. Seen on 5.2.2005 at http://meaindia.nic.in/speech/2004/09/23ss01.htm

[71] Press Conference by Prime Minister Dr. Manmohan Singh at Jakarta, 23.4.2005, seen on 5.2.2005 at http://meaindia.nic.in/pressbriefing/2005/04/23mi01.htm

[72] Bertsch et al. explain Indian pragmatism on delivery systems, conventional weapons and dual use technology as follows. "On the issue of means of delivery of WMD, the Indian position is becoming clearer. If certain countries perceive WMD and their means of delivery as vital to meet threats to their national security, then similar options should be available to other states. To be sure, there is a great degree of synergy between civilian and offensive application of space technology. India, which has received civilian space collaboration from advanced countries of the world, has also to an indeterminate extent adapted this knowledge to further its offensive capabilities. But the crucial point is that such a synergy is not India-specific, nor is it feasible to control effectively this diffusion given the increasingly ubiquitous nature of dual-use technology. Effective control over offensive use of such capability can result only from a consensual approach that abjures its indiscriminate usage or threat there of." In: Bertsch et al.: Engaging India, p.264.

[73] Bertsch et al.: Engaging India.

[74] Harry Barnes in the foreword to Bertsch et.al.: Engaging India. This dilemma has had a precedent in the non-alignment movement's perplexities with regard to the Soviet invasion of Hungary, and goes back, in fact, to the Quit India Movement of 1942 when India's leaders demanded a commitment to independence as the price of co-operation with the war effort.

India in South Asia: Cooperation amidst Tensions

Partha S. Ghosh

1. Conflicting perceptions

There are two ways of viewing South Asia, one, through the prism of India, and the other, through the prisms of the rest. Of course, as it happens with all prisms where each ray is broken into seven colours (coincidentally, SAARC = South Asian Association for Regional Cooperation, till Afghanistan joins it, has seven members) so it happens to this overview. Essentially, the divide springs from two different perspectives of security – India traditionally viewing it in extra-regional terms where most of its regional neighbours serve more as detractors than partners, while the regional neighbours view theirs in intra-regional terms where India itself poses the threat making them look for extra-regional cover to compensate for their weakness.

The complexities of the situation emanate from diverse nation-building strategies that have their origin in differing circumstances of decolonization in the 1940s. The Cold War had widened these cleavages. By and large India was seen as belonging to the Soviet camp while the rest in the American. As a protectorate of India, Bhutan had little choice. With the end of the Cold War and the emergence of the United States as virtually the sole superpower in the world these equations have considerably changed. The process of globalization and India's fast track economic growth are also forcing amendments in national and regional attitudes.

2. South Asia: a mixed bag

South Asian states are a mixed bag. In terms of government forms they fall under four categories – India and Sri Lanka as democratic; Bangladesh and Pakistan as clouds and sunshine states, meaning, alternately democratic and military dictatorships; Bhutan as monarchical and so also Nepal in the real sense; and Maldives as a single-party authoritarianism. In terms of religious orientation, India is a secular Hindu majority state, Bangladesh, Pakistan and Maldives are Islam-oriented Muslim majority states, Sri Lanka and Bhutan are Buddhist majority states with emphasis on Buddhism, and Nepal is a Hindu constitutional kingdom. GDP, population and area-wise India accounts for two-thirds of the region, which is not an ideal situation for regional cooperation. No other regional grouping in the world has a comparable one-state-dominant profile.

3. India-Pakistan: the 'K' factor

The most difficult of all the relationships that India has to handle in the region is its relations with Pakistan. This relationship has remained the most intractable, at the core of which is the question of Kashmir. Of late, two developments – one, the growth of militancy in the valley with the support of Pakistan and 'international Islam', and two, the nuclearization of India and Pakistan – have exacerbated the conflict.

Terrorism in Kashmir, which started in the late 1980s, became internationalized by the middle of the 1990s as was evident from the sophistication of the operations, the unending source of their funding and the actual arrest of terrorists belonging to other nationalities. Even Chechens were killed in encounters. The 'Islamists' thus hijacked Kashmir's struggle for self-determination and turned it into a Jihad. Al-Qaeda and

Taliban with many faces like Lashkar-e-Tayba, Harkat-ul-Mujahideen, Jaish-e-Muhmmad and Sepah-e-Sahaba converted the valley into a war zone. In the aftermath of 9/11 they paralysed the valley by observing a strike in support of Osama bin Laden although the All Party Huriyat Conference (APHC), which supports Kashmir's merger with Pakistan, had passed a resolution in favour of Pervez Musharraf's stand against al-Qaeda.

In May 1998, India and Pakistan conducted nuclear tests, which in effect made them nuclear powers. It shook the world community according to which Kashmir being the flashpoint the danger was now of a nuclear showdown. The process of dialogue between India and Pakistan, however, continued. India prioritized its agenda based on the so-called '2+6' formula. The two issues were: (1) peace and security, including confidence building measures, and (2) Jammu and Kashmir. The other six issues were: (1) Siachin, (2) Wullar barrage project and Tulbul navigation project, (3) Sir Creek, (4) terrorism and drug trafficking, (5) economic and commercial cooperation, and (6) promotion of friendly exchanges in various fields. The Lahore Declaration of 21 February 1999 signed by Indian Prime Minister Atal Behari Vajpayee and his Pakistani counterpart Nawaz Sharif underwrote this mechanism. But even before the ink of the declaration could dry Pakistan unleashed its Kargil adventure in May 1999 resulting in an armed confrontation between the two countries.

It is difficult to explain why Pakistan went for this adventure when things were improving. Did Nawaz Sharif know about the Kargil plan when he met Vajpayee? Or is it that the Pakistan army kept him in the dark about the adventure to sabotage the peace process which was not going to help the army? Evidently, the Kargil adventure was a part of the power struggle between Sharif and the army. Later, in an interview to India Today of 26 July 2004, Nawaz Sharif confessed that it was engineered by General Musharraf to embarrass him and that he was kept completely in the dark. Kargil reversed the peace process. India realized that as long as the Pakistan army called the shots no negotiated settlement on Kashmir was to be expected.

India, however, had to reconcile itself to the fact that since the Pakistan army's political power was a reality, there was no escape from dealing with Musharraf. In early 2001, more than a year after Musharraf took over in October 1999, Vajpayee decided to invite him to India for a dialogue. In July 2001, a summit took place in Agra but it achieved little. The gap between the two countries was on predictable lines, with Musharraf harping on the centrality of Kashmir, which he said was not addressed in the Lahore Declaration, and India asking for a comprehensive dialogue. Following the failure of the Agra summit India's position hardened. For India the first item on its agenda would now be cross-border terrorism followed by discussion on Kashmir's future. While the two nations were caught in this quagmire, the momentous 9/11 rocked the world. It provided an opportunity to India to tell the international community: 'I said so.'

India's advantage was Pakistan's disadvantage. The latter was under tremendous pressure from the United States to mend its ways and come out with concrete policies to leash the jehadis on its soil. Jehadi activities, however, went unabated in Kashmir and on 13 December 2001 the most sensational attack on the parliament of India took place. India raised its noise level and as a result international pressure on Musharraf mounted. On 12 January 2002, General Musharraf delivered his historic address to the nation in which he promised to tackle the problem of Islamic fundamentalism with an iron hand and did indeed take some effective steps. But on the Indian charge of cross-border terrorism

there was no commitment, nor was there any let-up in the rhetoric about Kashmir. He even ridiculed the expression 'cross-border'. In an interview to The Hindu on 31 March 2002, he claimed to have made it clear to Vajpayee that 'there is nothing going on across the border and it is not a border, it is a line of control and there is no terrorism, there is a freedom struggle going on there.'

Out of exasperation and taking advantage of 9/11 and the consequent American mood, India decided to escalate tension by amassing its troops along the Indo-Pak border to draw global attention to the problem that terrorism in Kashmir posed and that it could not be tolerated any more. As expected, global concern went beyond all limits and there was a flurry of diplomatic activity between New Delhi and Washington on the one hand and between Islamabad and Washington on the other. Other Western countries too contributed to the process. The concern was not only about the death and destruction caused by the possible nuclear showdown, however limited, the real anxiety was that it could hit at the core of non-proliferation and at the unwritten commitment of all nuclear nations not to use the weapon.

By 2003, there was evidence that the United States was tilting somewhat in favour of the Indian position that cross-border terrorism was continuing unabated. The U.S. ambassador Robert D. Blackwill, who was considered to be a friend of India in the tradition of John Kenneth Galbraith, was categorical that 'terrorism emanating from Pakistan is not over. Global terrorism will not end until cross-border terrorism against India ends permanently.' He said that 'the extraordinary statesmanship shown by Prime Minister Vajpayee in extending his hand of friendship to Pakistan hopefully will create enough political space for the two countries to move forward towards normalization.' Whether or not there was coordination between Washington and New Delhi, almost during the same time Vajpayee, in April 2003, extended a 'hand of friendship' to Pakistan and stated his willingness to resume the dialogue. Behind-the-scene negotiations were undertaken culminating in the significant declaration by Pakistan in November 2003 of a ceasefire along the Line of Control (LOC). Against this background when the 12th SAARC Summit was held in Islamabad in January 4-6, 2004, the stage was set to resume a 'composite dialogue' at the official level, an idea that was there in circulation since 1997. The 'composite dialogue' was supposed to address, among other issues, 'the Kashmir dispute, to the satisfaction of both sides'. More importantly, Pakistan met the Indian precondition by promising in writing that it would not allow its territory to be used for terrorist acts. The contributing factors that were responsible for this change in mood were many and included international pressure as well as compulsions of domestic politics in both the countries. By the time the Indian and Pakistani foreign secretaries met in Islamabad on 27 and 28 December 2004 several important CBMs (Confidence Building Measures) were in place like the joint survey of the boundary pillars in the horizontal segment in the Sir Creek area, the second round of expert level talks on nuclear CBMs, the expert level meeting on conventional CBMs, the high level talks on narcotics control, the discussions to commence the Srinagar-Muzaffarabad bus service, and the meetings to start the Khokhrapar-Munnabao rail link. The joint statement issued by the foreign secretaries on 28 December 2004 at the end of their two days of parley reflected a positive mood and the promise to carry the process of confidence building forward in their next meeting scheduled for July-August 2005.

The massive earthquake that severely hit the Pakistan Occupied Kashmir (POK) in early October 2005 in which more than 50,000 lives were lost provided a huge op-

portunity to both countries to carry forward the peace process. India sent substantial relief assistance to the quake-hit across the LOC, specific sectors of which were opened for the purpose. In spite of all these positive indications, the Pakistan-sponsored terrorism continued to mar progress towards normalization. Barely a week after the earthquake, terrorists in Srinagar killed Ghulam Nabi Lone, a minister of the Jammu and Kashmir government, and narrowly failed to do so with the CPM leader Yusuf Ali Tarigami. Soon thereafter, on the eve of the Diwali festival, a popular marketplace in Delhi fell victim to a massive terrorist attack in which several lives were lost. India still decided to remain as cool and circumspect as possible so as not to derail the peace process. While addressing a press conference in Dhaka on 13 November 2005 after attending the 13th SAARC Summit Prime Minister Manmohan Singh replied with utmost care to a directly suggestive question that the Pakistani military rulers were behind the terrorist attacks in India and that they could not be trusted. His measured words were: 'I think I have said more than once that we can choose our friends but we cannot choose our neighbours. We have to do business with governments which are in power in our neighbourhood. Therefore, using harsh language in public is not the best way to promote dialogue and understanding. If we have any concerns, we do discuss with the governments concerned. Therefore, I do not believe that anything great is achieved by conducting this dialogue in full glare of public gaze.'

The high-profile visit of President George W. Bush to India and Pakistan in the first week of March 2006 was a clear indication that the peace process was not in jeopardy though the United States tended to treat the nuclear status of these two countries differently. While the United States recognized India as a nuclear power in lieu of which the latter de facto agreed to abide by the NPT, nothing of that sort happened in the case of Pakistan. Indeed Pakistan's position as a 'non-NATO ally' remained in place and in spite of Bush's advice to General Musharraf to restore democracy in his country by the end of 2007, the fact remained that in America's war against international terrorism Pakistan's role as a frontline state was not to be diluted. This was the same position that the 9/11 Report (2004) had recommended even after reaching the conclusion that Pakistan had been a conduit in the spread of Islamic terrorism globally. The Report had made the following recommendation in categorical terms: 'If Musharraf stands for enlightened moderation in a fight for his life and for the life of his country, the United States should be willing to make hard choices too, and make the difficult long-term commitment to the future of Pakistan. Sustaining the current scale of aid to Pakistan, the United States should support Pakistan's government in its struggle against extremists with a comprehensive effort that extends from military aid to support for better education, so long as Pakistan's leaders remain willing to make difficult choices of their own.' Importantly, in the Bush-Manmohan parleys that resulted in the India-US nuclear deal with far-reaching global strategic implications, any reference to the solution of the Kashmir problem was conspicuous by its absence.

4. India-Bangladesh: a troubled legacy

The India-Bangladesh relationship has a chequered history. The bonhomie that developed between the two countries after the Bangladesh war turned out to be a nine days' wonder. The assassination of Mujibur Rehman and his family members in August 1975 and the return of pro-Islamic forces to the fore of Bangladesh politics resulted in a strange relationship in which India's image got split. To those who stood for the ethos of the liberation struggle, India remained a friend but to those who had

distanced themselves from that ethos in the name of Islam, India earned the enemy image. India got trapped in the contentious nation-building discourse of Bengali versus Bangladeshi nationalisms. In the large part of Bangladesh's history since 1975 it is the Bangladeshi nationalism that has dominated the scene forcing India to walk the difficult tightrope. At present the pro-Islamic forces are once again ascendant as never before.

The Islamic ascendancy in Bangladesh affects India-Bangladesh relations in two ways. On the one hand, it makes Indian Hindus feel sympathetic to their Bangladeshi counterparts and if they fall in the category of Hindu fanatics then it can lead to communal conflicts in India. Mercifully, since the hotbed of Hindutva politics is located in the Hindi belt the impact of this connection is still limited. On the other hand, since Islamic ascendancy in Bangladesh is closely linked to 'international Islam' in which the involvement of ISI, Pakistan's intelligence agency, is ever suspected, in India the latter is concerned about its eastern and North Eastern regions where Muslims are in fairly large numbers.

In the wake of anti-Hindu atrocities in Bangladesh in the aftermath of the 2001 elections, even the people of an otherwise staunchly secular West Bengal protested. The growing number of madrassas in the districts bordering Bangladesh is ever controversial. Buddhadeb Bhattacharjee, the Marxist Chief Minister of West Bengal, alleges that these madrassas are the hotbed of ISI activity. In January 2002 when Kolkata's (Calcutta) American Center was attacked by Muslim terrorists, he underlined this connection. Although for political reasons (Left Front's dependence on Muslim electoral support) he subsequently watered down his allegation, the madrassa issue continued to worry his government. An intelligence report of the Government of India identified 208 madrassas and 458 mosques in ten districts on the Indo-Nepal and India-Bangladesh borders. The growth was highest in Malda district, where 172 mosques and 55 madrassas were identified, followed by Cooch Behar (55/12), North Dinajpur (33/34), South Dinajpur (45/19), Murshidabad (40/20), Jalpaiguri 35/23), Darjeeling (15/11), and South 24 Parganas (10/4). In nearly all the cases, the mosques and the madrassas had come up with funds from the Jeddah-based Islamic Development Bank. In May 2002, a political controversy was kicked off in West Bengal when three officials from the U.S. Consulate in Kolkata visited some of these madrassas to gather information about the way they were run.

There are several Islamic militant outfits that are operative in Bangladesh. The most important amongst them are the Harkat-ul-Jehad-e-Islami Bangladesh, which has connections with Harkat-ul-Jehad-e-Islami and Harkat-ul-Mujahedin of Pakistan, Islami Chhartro Shibir (the youth front of Jamaat-e-Islami), Samjukta (joint) Islamic Jehad Committee, Islamic Oikyo Jote, a conglomeration of eight Islamic organizations that emphasize a Taliban-type movement in the country, and Islamic Markaz Party, which aims at wiping out all enemies of Islam including India and the United States.

The Bangladesh government tries to sidetrack the issue of Islamic militancy by referring to India's objectionable conduct in its national politics. Its Home Ministry has said: 'Some anti-Bangladesh organizations based in different parts of India are actively working on spreading chaos and creating a crisis in Bangladesh to damage its image internationally. In such a situation, the country should make maximum efforts to improve law and order and curb the activities of the hard-line fundamentalist groups.' It further said: 'An intelligence agency informed this Ministry that the anti-terrorism drive in Afghanistan which strengthened the strategic presence of the United States of America in this region,

India's stand against the militants in Kashmir and the current situation in Central Asia are having a negative impact on Bangladesh.' Such allegations, however, have snowballed, and India in its turn has accused Bangladesh of allowing the ISI and the Taliban in the garb of Harkat-ul-Jihad-al-Islami to spread their nets in the country and instigating anti-Indian and pro-Islamic activities. Opposition leader Sheikh Hasina's visit to India in November 2002 affected India-Bangladesh relations, as Dhaka tended to suggest that she was in league with India in spreading confusion in Bangladesh. In December 2002 there was a series of bomb blasts in Mymensingh district, which Reuters reported as the handiwork of al-Qaeda.

The vulnerability of Bangladesh in dealing with international terrorism came to light in April 2004 when one of the largest ever seizures of illicit weaponry in South Asia was reported from the port of Chittagong following a tip-off reportedly from Indian intelligence sources. The shipment was estimated to be worth 4.5 to 7 million American dollars. It included around 2,000 automatic and semi-automatic weapons, among them 1,290 Type 56-1/Type 56-2 Kalashnikov-type assault rifles; 150 T-69 RPG (rocket propelled grenade) launchers; quantities of 40mm RPG ammunition; 25,000 hand grenades; and 1.8m rounds of small-arms ammunition. What was particularly disturbing for India was the lukewarm efforts on the part of the Bangladesh government to launch a proper investigation aimed at nabbing the culprits. All that Bangladesh did was to arrest a truck driver, a coolie and a boatman.

In India's North Eastern region the role played by ISI and Bangladesh's Directorate General of Field Intelligence (DGFI) in trying to foment Islamic militancy is a constant concern for Indian intelligence. The Nellie (Assam) massacre of Muslims in February 1983 and the demolition of Babri mosque in December 1992 did indeed contribute to creating a favourable ground. Since Assam (the largest state in the North East with a population of 26.6 million) has a large concentration of Muslim population (about 30 per cent compared to India's average of 14 per cent) and the region in general is a battleground of various insurgent groups—at least 130 in number—many of which have their hideouts and training camps in Bangladesh and Myanmar, the fear is not misplaced. The porous border between Bangladesh and India in the region makes things even more difficult for India's counter-insurgency agencies. Curiously, the most powerful insurgent group of the North East, the United Liberation Front of Assam (ULFA), is Hindu-dominated yet according to its charter, non-Assamese Indians cannot become its members while non-Indians can.

The fundamentalist Islamic outfits in the North Eastern region, however, are still small and how much they are indoctrinated by hardcore Pakistani agents is a moot point. Surrendered Muslim militants of Assam have reportedly confessed that they were disillusioned with Pakistani and Bangladeshi training because their agenda emphasized the killing of Hindus and Indian leaders whereas Assamese Muslim fundamentalists were more concerned about how to improve the condition of their community in the region. Besides, the Pathan and Punjabi trainers often ridiculed the Assamese Muslim trainees for their being of small build.

5. India-Sri Lanka: the ethnic muddle

India's policy towards Sri Lanka from the time of their independence to the present can be broadly divided into two phases. The first phase lasted virtually three decades, from the 1950s through to the 1970s, when India was primarily concerned with the problem of Indian Tamils. In the 1980s the ethnic conflict between the majority

Sinhalese community and the minority Sri Lanka Tamil community overshadowed the earlier concern. The flashpoint of this conflict was the violent anti-Tamil riot of 1983 and the entry of India into the politics of the island as never before. The Indo-Sri Lanka Accord of 1987, followed by the despatch of the Indian Peace Keeping Force (IPKF) to the strife-torn northern region of Sri Lanka, and the assassination of Rajiv Gandhi by the suicide squad of the Liberation Tigers of the Tamil Eelam (LTTE) in 1991 were the two significant milestones of this involvement.

In February 2002 the Government of Sri Lanka and the LTTE signed a Memorandum of Understanding under which they agreed to cease hostilities. Ever since, the ceasefire has been in force. But allegations and counter-allegations of violation of the agreement as well as the turf war within the LTTE have raised serious doubts about the prospect of peace. The peace talks, which were suspended in April 2003, have been resumed in February 2006, in Geneva, but they show little promise. There have been serious differences between the two sides over the question of the Interim Self-Governing Authority (ISGA), announced by the LTTE on 31 October 2003. Far from showing its inclination to be a democratic organization, LTTE has consolidated its military hold over the North-Eastern Province at the cost of all democratic norms. They have established a virtual Eelam with all administrative and judicial paraphernalia. So much so that LTTE has talked of referring the disputes between the ISGA and the government to the International Court of Justice and not to the Supreme Court of Sri Lanka.

If the talks ultimately fail, Eelam War IV would be a distinct possibility. All earlier Eelam Wars had followed failed peace talks. An offshoot of Eelam War IV would be a bitter fratricidal conflict between LTTE supremo Vellupillai Prabhakaran and his erstwhile eastern commander Colonel Karuna (real name: Vinayanamoorthi Muralitharan), who revolted against Prabhakarn in March 2004. Karuna told Prabhakaran: 'I do not want to commit the blunder of not pointing out to you the aspirations of our people in disregard of their feelings and those of our fighters here…. I want to do my duty by the people of Southern Thamil Eelam.' It was a significant statement for it used for the first time the phrase 'Southern Thamil Eelam' thereby driving a wedge into the central theme of Sri Lanka Tamil nationalism – demand for the 'historical' 'Tamil Homeland' consisting of Northern and Eastern provinces.

The complexity of the situation poses a serious challenge to India, which has to balance between its commitment to maintain the territorial integrity of Sri Lanka on the one hand and find an honourable settlement of the Tamil problem on the other. It is with this twin objective in mind that India is all for the peace dialogue between the Sri Lankan government and the LTTE although it knows that the latter does not represent the majority Tamil opinion of Sri Lanka. India cannot ignore the fact either that the LTTE effectively controls large parts of the North-Eastern Province where any opposition to the LTTE is met with death. But since Prabhakaran is the principal accused in the Rajiv Gandhi assassination case against whom a warrant of arrest has been issued and the Sri Lanka Government has been approached for his extradition, India naturally cannot directly involve itself in any mediation involving the LTTE. The Norwegian government facilitators have undertaken the exercise with the tacit or otherwise approval of India.

Compared to the previous period there is a marked change in Sri Lanka's approach towards India as well. There is no dominant faction in Sri Lankan politics any more that considers India as a bully and hostile to Sinhala interests in preference to those of the Sri Lanka Tamils. Even the

hardcore pro-Buddhist elements like the Janatha Vimukthi Peramuna (JVP) and the Jathika Hela Urumaya (JHU) know for certain that it is only because of India's avowed commitment to uphold Sri Lanka's territorial integrity that the country is still one. Economic cooperation between the two countries has grown rapidly, which also underlines this changed context. New projects have emerged out of SAARC deliberations and the signing of the bilateral free agreement in 1998. Indian companies are active in the reconstruction of North Eastern Province, ravaged by decades of war and the recent Tsunami. A Comprehensive Economic Partnership Agreement involving cooperation in the field of railways, civil aviation, information technology and energy is in the offing.

The real issue, however, is how long could India remain satisfied with its present passive role in the peace process. The government of Sri Lanka is pressing upon it to at least become a co-chair in the peace negotiation along with Norway, the United States, Japan and the European Union. So far, India has not taken any position on the matter but considering the systematic growth in the military capability of the LTTE, such a neutrality may not be maintained for long. The problem is that with the bitter experience of the IPKF still fresh in its memory India suffers from the syndrome of once bitten, twice shy.

LTTE has its own so-called navy (the Sea Tigers) and of late it has been trying to acquire its own so-called air force (Air Tigers), which at present is skeletal. If that happens then it would earn the LTTE the honour of being the only terrorist outfit in the world having its own army, navy and air force. These developments worry India's defence planners for they enhance the nuisance value of the Tigers. Besides making the Indian coastal areas more vulnerable to terrorist strikes there is also the potential danger of direct confrontation with the Indian security forces as Indian naval interests in the region are going to increase in the near future. One may mention in this context India's hugely ambitious Sethusamudram project, the so-called 'Suez Canal of India'. Conceived at an estimated cost of Rs. 24.3 billion the canal envisages the creation of a navigable channel from the Gulf of Mannar to the Bay of Bengal through Palk Strait so that ships moving between the east and west coasts of India do not have to go around Sri Lanka. This will save up to 424 nautical miles and 30 hours of sailing time between the east and west coasts of India. Naturally, the Indian navy's involvement in the region would have to be more to ensure security to this 300-meter-wide canal. Equally naturally, that would come in the way of the smuggling and drug trafficking interests of LTTE in the area, resulting in direct confrontation between the two sides.

Had the LTTE concerned India's security in the conventional sense alone, the matter would probably have been simpler. The fact that it has a constituency in Tamil Nadu forces the Indian government to be extremely circumspect while dealing with the organization. There are political parties in Tamil Nadu that openly support the LTTE. Some of these parties are important constituents of the present ruling coalition, United Progressive Alliance (UPA), led by Dr. Manmohan Singh. This restricts the manoeuvrability of the Indian government. It is under political pressure that Manmohan Singh has committed that India would not go for a defence treaty with Sri Lanka. Mercifully, however, unlike the earlier period, there is no more any conflict of interest between India and the West. The United States, which has branded LTTE as a terrorist organization, is equally apprehensive of LTTE's designs in the region. Its ambassador to Sri Lanka, Jeffrey Lunstead, cautioned the LTTE in no unmistakable terms, on 11 January 2006, that if 'the LTTE chooses to abandon peace … we

want it to be clear, they will face a stronger, more capable and more determined Sri Lankan military.'

6. India-Nepal: democracy versus monarchy

India-Nepal relations are characterized by two closely interrelated phenomena: the military-strategic and the domestic-political. The strategic location of Nepal between two big powers, China and India, not only provides the latter with an opportunity to influence the politics of Nepal to suit their respective interests, it gives the same opportunity to the Nepali ruling circles to play one against the other to their best political advantage. Since for socio-economic and geo-political reasons India is more relevant to Nepal than China, India becomes the bogey of external interference, not China.

In Nepal's struggle for democracy vis-à-vis the monarchical (earlier the prime ministerial dynasty of the Ranas) forces, India sides with the former. Since the monarchical forces have controlled the political situation in their favour for large parts of Nepal's history, relations between India and Nepal have remained problematic. Four ground realities, however, have made Nepal not play with India's sensitivities beyond a limit. These realities are: one, the existence of a treaty between the two countries (1950) that underwrites the open border between them; two, the landlocked geographical situation of Nepal and the resultant dependence of the latter on India for trade and transit facility; three, the dominance of the Indian economy over that of Nepal; and four, the existence in Nepal's Terai region of millions of ethnic Indians largely from Bihar, Uttar Pradesh and Uttaranchal who constitute about 30 to 40 per cent of Nepal's population. These are the handicaps Nepal has to live with yet is un-reconciled to accept as given and therein lies the core of the tension between the two countries. To neutralize the India factor the ruling monarchical clique has time and again in the past tried to hobnob with the Chinese and float the idea of 'Nepal as a zone of peace' but the hard geopolitical realities of the region have yielded little results. Of late, since China and India are no longer seen as contenders for political space and influence in Nepal in equal terms, Nepal is forced to deal virtually with India alone. It is against this background that the current situation in Nepal and its implications for India-Nepal relations are to be understood.

Just to recapitulate the past, India supported the democratic forces in the late 1940s to oust the Rana regime and install in its place a constitutional monarchy headed by King Tribhuvan. Trouble started when King Mahendra succeeded his father Tribhuvan in 1955. Unlike his father, Mahendra wanted to assert his monarchical authority. The matter came to a head in 1959 when the Nepali Congress won a massive majority in the country's parliamentary elections. In a dramatic move in 1960 King Mahendra dismissed the Nepali Congress government, arrested Prime Minister B.P. Koirala together with other ministers and banned all political parties. Soon he introduced a new constitution (1962) that provided for a party-less panchayat system, which was a euphemism for democracy. Indian Prime Minster Nehru reacted sharply to the developments and unequivocally stood behind the democratic forces. The divergence between India and the King of Nepal came to the surface during the Bangladesh war when King Mahendra indirectly opposed India by declaring the problem as Pakistan's internal affair. But Nepal could not go beyond that and on 15 January 1972, a fortnight before the death of Mahendra, Nepal recognized independent Bangladesh in disregard of China's conspicuously negative approach.

King Birendra as the new king was in no mood either to restore a constitutional

monarchy and it was during his time that the idea of 'Nepal as a zone of peace' was floated with all fanfare aimed at neutralizing India's influence on Nepal politics. The strategy was to treat India and China at par, which irked New Delhi but the latter did not have to overreact as the ground realities were in its favour. India held firm to its theory that while Nepal's security was irrelevant for China's security, India's defence could not be restricted to Nepal's southern frontiers in the plains. Later, India tended to see this zone of peace proposal and the subsequent Pakistani proposal to declare South Asia as a nuclear free zone in the same light – ganging up against India to China's advantage.

The late 1980s witnessed a massive domestic uprising for the restoration of a constitutional monarchy. India's economic blockade of Nepal in 1989 was probably also aimed at embarrassing the Palace as the prices of all commodities shot up contributing to his unpopularity. The movement culminated in the promulgation of a new constitution in 1990, which declared Nepal as a Hindu constitutional monarchy giving full scope to political parties to operate freely. In the next nine years three parliamentary elections were held, in 1991, 1994 and 1999. But governmental stability remained a far cry. From 1991 to 2000 nine governments came to power underlining the immaturity of the political class. Gross regional disparity and massive corruption in public life brought disgrace to the parties. Taking advantage of the situation the Communist Party of Nepal (Maoist) – CPN (M) – rebels operating in the countryside stepped up their activities making the state machinery virtually helpless. On 13 February 1996 the CPN (M) formally declared its People's War.

In 2001, three important events took place which had far-reaching implications for India-Nepal relations. On 4 June 2001 King Birendra and his entire family were gunned down by the Crown Prince (who committed suicide after the assault) leading to the unexpected coronation of Birendra's brother Gyanendra. In the next month, in July, nine South Asian Maoist parties met in West Bengal and formed a Coordination Committee of Maoist Parties and Organizations of South Asia (CCOMPOSA). The lone representation from Nepal was that of CPN (M). From India the parties were: the Andhra Pradesh-based 'People's War Group (PWG), the Bihar-based Maoist Communist Centre (MCC), the Revolutionary Communist Centre of India (Maoist), and the Revolutionary Communist Centre of India (Marxist-Leninist). The remaining four consisted of three from Bangladesh and one from Sri Lanka. The third seminal event was 9/11. Given the background of Gyanendra who had taken a keen interest in the country's military affairs during Birendra's regime, particularly in respect of postings of army and security officers, it was clear that he would take recourse to a military solution to the Maoist insurgency in which he would find the political parties nothing but a nuisance.

An uneasy relationship between the Palace and the political parties continued for a few years with the King first declaring an emergency in November 2001, then suspending the parliament in October 2002, frequently changing his prime ministers and then finally, on 1 February 2005, dissolving the parliament and assuming all powers. He frontally attacked democratic and civil liberties and decided to fight the Maoists head on with the help of an enlarged Royal Nepal Army, which owed its traditional loyalty to the Palace. But it was not an easy task to deal with the Maoists who controlled virtually 90 per cent of Nepal, and almost entire rural Nepal, and whose tactics was hit and run. The 72 districts of Nepal needed a force much larger than just 100,000, most of which was engaged in the security of the Kathmandu valley. As this helplessness dawned on him he looked for an honourable way out, which found expression in his decision to

hold the Kathmandu municipal elections in February 2006. But the overall boycott of the election by all democratic forces made it a mockery, which India and the West, importantly the United States, declared as inconsequential and lacking in political legitimacy.

India has a massive predicament in the current situation in Nepal. There are three forces at work in Nepal – first, the King who has the support of the army; second, the democratic forces, which have only worked out a semblance of unity (the seven party alliance) of late; and the third, the Maoists, who control the entire countryside of Nepal. India favours neither the king nor the Maoists but it is not sure about the efficacy of the democratic forces to rule effectively and contain the Maoists. Its best bet, therefore, is the constitutional monarchy in which both the king together with the Royal Nepal Army and the democratic forces should share power. In the meantime there has been a ceasefire, and the King, the army, democratic parties and the Maoists have reached agreement on installing an interim government. Although this is in itself a positive and hopeful development, it remains an open question for India (and not only India) as to how far the Maoists can be disciplined. This will depend not only on their own intentions but also on how they will be treated in the immediate future by the monarchy, the army and the political parties. These are all factors over which India does not have enough direct influence.

India cannot ignore the fact that the Maoists are critical of India and want the abrogation of the Indo-Nepal treaty of 1950. Besides, the Maoists of Nepal have close links with their Indian counterparts and other extremists belonging to the Leftist ideology. Left insurgency is a huge menace in India where 175 districts are affected by this insurgency. Since the United States is concerned about global terrorism it sees the Maoist upsurge in Nepal and India from the terrorist perspective. They branded the Nepali Maoists as terrorists. Thus both India and America share a common concern in Nepal.

7. India-Bhutan: exemplary partnership

Bhutan is a protectorate of India and as such its foreign policy is primarily guided by India. In the relationship between the two countries both economic and security collaborations figure prominently. India financed almost entirely Bhutan's first two Five Year Plans (1961-71). Although Bhutan began to receive development assistance from UN agencies and third countries from the 1970s, India has remained its main aid partner as can be seen from its present commitment of Rs. 7 billion for the Ninth Five Year Plan (2002-07). In the seventies India set up the Penden Cement Project and the Chukha Hydroelectric Project. The Penden Plant, which commenced production in 1981, did not only meet Bhutan's domestic needs but also exported about 60,000 metric tonnes of cement annually to the neighbouring Indian states of Assam, Sikkim and West Bengal. Similarly, the Chukha Hydroelectric Project, commissioned in 1986, has been exporting electricity to India and this is a major source of revenue for Bhutan. In 2000-2001, it accounted for 44.6 per cent of the total revenue.

India and Bhutan have taken many other steps as well to expand their cooperation such as the Tala Hydroelectric and Wangchu Reservoir Scheme, popularly known as Chukha II and Chukha III. The Sankosh Multipurpose Project irrigates about half a million hectares of land in West Bengal. India also contributed to the construction of Kurichu power project, Bunakha reservoir project and the Dungsum Cement Plant. In the Eighth Five Year Plan (1998-2002) of Bhutan, India's financial contribution was of Rs. 9 billion with

an additional Rs. 4 billion as development subsidy.

India has been helping Bhutan in promoting its foreign trade as well. Being a landlocked country Bhutan suffers from a serious handicap in this regard. To facilitate Bhutanese trade, India has not only provided free trade between the two countries but also transit facilities in India for the conduct of its trade with third countries. Bhutan exports to India not only primary commodities such as coal, dolomite and gypsum but also industrial and manufactured products like calcium carbide, cement, hydroelectric power, plywood, particle board and processed fruits and juices. Indo-Bhutanese trade is closely linked with the relations of both countries with Bangladesh. In the 1980's India and Bangladesh signed an MOU (Memorandum of Understanding) to facilitate the transfer of goods between Bhutan and Bangladesh through India, by rail and road. This was followed by a Bangladesh-Bhutan trade protocol and an agreement on economic and technical cooperation. The 30-year treaty between India and Bangladesh signed in December 1996 has been contributing to the further expansion of trade between Bangladesh and Bhutan through Indian territory. The overall idea falls within the scheme of subregional cooperation consisting of Bangladesh, Bhutan, India and Nepal. The idea was mooted by Bangladesh at the SAARC Foreign Ministers' Conference held in December 1996 in New Delhi, which received support from the Maldives and Sri Lanka also.

Traditionally, Bhutan is sceptical about cultural influences from outside. It is on account of this that although it has allowed tourists to visit the country, it has not yet gone the whole hog to encourage them indiscriminately as many such small, poor but otherwise beautiful countries have done. Of late there is, however, a tendency to open up a bit more, which would naturally encourage tourism. Bhutan participated in a big way in the Expo 2000 held in Hanover, Germany, where its pavilion was placed among the top five exhibit sites. Bhutan joined the Federation of the International Football Association (FIFA) and participated in the Sydney Olympics. In May 2002, in a Thimpu seminar jointly sponsored by the SAARC Chamber of Commerce and Industry (SCCI), the Association of Bhutanese Tour Operators (ABTO), the Bhutan Chamber of Commerce and Industry (BCCI) and the Ministry of Trade and Industry of the Government of Bhutan, the Prime Minister of Bhutan, Lyonpo Khandu Wangchuk, said: 'We are guilty of overlooking the immense potential of intra-regional tourism. SAARC should take a very realistic approach in identifying impediments to intra-regional travel as well as travels from outside to our region and propose ways and means of overcoming them.'

Against this background, one may visualize a larger role for the Bhutanese airlines, Druk Air, in contributing to the subregional tourism and overall economic cooperation. An idea is being floated these days that Guwahati airport can emerge as an international airport having direct flights to Bangkok–Paro–Guwahati–Bangkok. If the idea materializes it would not only change the character of Guwahati from one of India's backwaters to an international tourist and passenger junction but also boost trade and tourism. Bhutan also would take advantage of this opening up. If simultaneously the road links, many of which are on the drawing board now, are also made operative a real growth quadrangle would emerge.

Together with economic partnership, security cooperation is an essential component of the India-Bhutan relationship. There are primarily two aspects of this security relationship. One pertains to the use of Bhutanese soil by the insurgency groups operating in India's North East, and the other to Bhutan's location between two Asian gi-

ants, China and India. Insofar as the first is concerned, the problem assumed serious proportions after 1996. In that year, after the Bangladesh government flushed out from its soil the United Liberation Front of Assam (ULFA), the National Democratic Front of Bodoland (NDFB) and the Bodoland Liberation Tiger Force (BLTF), these groups moved to Bhutan from where they continued to conduct their activities. They built their headquarters in Gubanagand near the Assam border and established as many as 33 camps with 15 to 500 militants in each within a 600 km arc from near Phuntsholing in the west to the Arunachal Pradesh border beyond Samdruk Jongkhar in the east. They moved freely within Bhutan and purchased their daily needs from the villagers at much higher prices, thereby creating a vested interest in the countryside in favour of their continued presence. The threat thus posed to the security of both India and Bhutan became obvious. But the problem was how to deal with the situation. The Bhutanese army was not big enough to face the challenge militarily, yet Bhutan could not allow the Indian army either to have a free hand there for both nationalistic reasons as well as provoking the insurgents further. Given Bhutan's limitations as a small country and its own vulnerabilities in terms of a potential Nepalese insurgency emanating from the displaced southern Bhutan Nepalese, it was careful not to go the whole hog in doing whatever India wanted. Ultimately, in December 2003, with India's cooperation Bhutan flushed out the militants under the operation codenamed Operation All Clear.

In respect of China both Bhutan and India have coordinated their policies aimed at keeping China at bay yet trying to develop friendly relations bilaterally. In mid-1999 an official Chinese delegation which visited Bhutan resolved some of the outstanding border issues between the two countries. China also indicated, for the first time, its interest in providing economic assistance to Bhutan. In November 2000 the 14th Round of Sino-Bhutanese border talks were held in Beijing at the ministerial level. The talks were continued during the visit of Bhutan's Foreign Secretary, Dasho Ugyen Tshering, to China in July 2001 following which the 15th Round of annual border talks was held in Thimpu in November 2001. The three sectors which were discussed were Doglam, Sinchulumba, and Dramana. Although no diplomatic move was afoot to establish formal diplomatic relations between the two countries, relations went apace smoothly.

Since Sino-Indian relations are on an even keel these days, notwithstanding some traditional suspicions about each other's intentions, there is less likelihood of the China factor coming in the way of India-Bhutan friendship. In any case, unlike Nepal, it is the fear of China that has drawn Bhutan closer to India. Although the respective dreams of China and India about their perceived spheres of interest continue to overlap, it can be assumed that the economic compulsions of both nations in this globalized world would not allow those dreams to lead them into a military confrontation. As such, the India-Bhutan relationship would have less tensions on that count. There is, however, one potential irritant which may emerge in future. The way Bhutan is materially developing, there would be unauthorized migration of poor job hunters from neighbouring Assam that may cause anxieties to Bhutan's cultural insularity-conscious elites and it may cause the repeat of the Lhotshampa (ethnic Bhutanese Nepalis) eviction with its attendant problems for the India-Bhutan relationship.

8. On the fringe: India-Maldives

India's relations with totalitarian Maldives is of peripheral importance but the fact that Maldives can be trusted for a vote in the United Nations or in the SAARC makes it valuable for India. Relations between the two countries are trouble free and during

the 1980s when there was an attempted coup to dislodge President Maumoon Abdul Gayoom from power, prompt Indian intervention foiled the bid. India has contributed substantially to the Maldives' development particularly in the fields of health and human resource development, the two notable projects being the Indira Gandhi Memorial Hospital and the Maldives Institute of Technical Education. The construction of a Hospitality and Tourism Faculty in the capital city of Male is in the pipeline. Maldives on its part has extended support to India's candidature as a Permanent Member of the UN Security Council and has co-sponsored the G-4 resolution aimed at reforming the United Nations and its organs.

It is to be seen what happens to the relationship if someone replaces President Gayoom. Of late there are straws in the wind pointing to serious opposition to Gayoom's continuation in power. It is possible that such a change would not impact India-Maldives relations but if some staunchly pro-Islamic party comes to power India may have to encounter some unwarranted strains. There is a democratic surge in the country in response to which President Gayoom, who would complete 30 years in office in 2008 (six five-year tenures), has agreed to allow political parties to register themselves. In 2005 four political parties were registered, namely, the Maldivian Democratic Party (MDP), the Dhivehi Payyithunge Party (DRP, or Maldivian People's Party, led by Gayoom), an Islamist party called Adalat (meaning, court of justice) and the Islamist Democratic Party (IDP). Although it is not yet clear whether these parties would be allowed to put up their candidates in the next parliamentary elections or not, as they were not allowed to do so in the three by-elections that were held in December 2005, the process of democratization once started cannot be stalled for a long time. India wants to be politically correct in this context as could be seen in one of its official statements issued in August 2005: 'As a democracy ourselves, we welcome the progress Maldives has made on the road to democracy. A stable, prosperous and democratic Maldives is in the interest of the people of the Maldives, and of India.'

9. Regional cooperation: SAARC (South Asian Association for Regional Cooperation)

India has been an active member of the SAARC from the establishment of the latter in 1985. So far, thirteen SAARC Summits have taken place – Dhaka (1985), Bangalore (1986), Kathmandu (1987), Islamabad (1988), Male (1990), Colombo (1991), Dhaka (1993), New Delhi (1995), Male (1997), Colombo (1998), Kathmandu (2002), Islamabad (2004) and Dhaka (2005). In the economic sphere notable success has been achieved under the auspices of SAARC, although no concept of cooperative security has developed because of certain inherent security contradictions amongst the members (to which reference has been made at the beginning of this paper) and although there is little scope for addressing the real problems of the region because of the inherent handicap of not allowing the members to discuss and debate bilateral and contentious issues. More importantly, on the sidelines of the SAARC Summits, important bilateral talks have sometimes been held, particularly between India and Pakistan.

Amongst the important economic achievements of SAARC one can mention the signing of the SAARC Preferential Trading Arrangement (SAPTA) at the Seventh SAARC Summit. It was meant to provide the member countries with the basic legal framework for step-by-step trade liberalization amongst them through tariff, para-tariff, non-tariff and direct trade deals. SAPTA was formally launched at the following summit at New Delhi. As a follow-up on SAPTA, at the tenth SAARC Sum-

mit the members decided to set up a Committee of Experts to draft a treaty on South Asian Free Trade Area (SAFTA). The treaty was expected to lay down legally binding schedules for freeing trade among SAARC countries and provide a predictable and transparent time schedule for achieving a free trade area in the region.

At the recently held 13th SAARC Summit the members noted with satisfaction the formal entry into force of SAFTA with effect from 1 January 2006. They reiterated the need to strengthen transportation and communication links across the region for accelerated and balanced economic growth. They also stressed the expansion of the scope of SAFTA to include trade in services, enhanced investment and harmonized standards. During the Summit the following agreements were signed:

- Agreement on Mutual Administrative Assistance in Customs Matters.
- Agreement on the Establishment of SAARC Arbitration Council.
- Limited Agreement on Avoidance of Double Taxation and Mutual Administrative Assistance in Tax Matters.

The members also encouraged further cooperation in the fields of Information and Communication Technologies (ICT), energy security, environment protection and health care, particularly in respect of the drug and HIV menace.

10. Regional neighbours

No discussion on South Asia is complete without reference to three regional neighbours – Afghanistan, China and Myanmar. For paucity of space no detailed discussion on them is possible, still some broad points could be mentioned in brief. Besides the SAARC framework of regional cooperation, there are BCIM (Bangladesh-China-India-Myanmar) or the Kunming initiative and BIMST-EC (Bangladesh, India, Myanmar, Sri Lanka, Thailand – Economic Cooperation) frameworks. Whatever happens to these frameworks in the long run at least it is clear from these exercises that in India's Look East policy, its North East is conceived as the vital link. To see them from strategic perspectives, although China's economic connection with Myanmar far exceeds that of India the latter can make use of Myanmar's anxiety about China to its advantage. A friendly, open and developing Myanmar is important for India and for that engaging the country on a regular basis is of critical importance. With its current problems with the United States and the European Union, Myanmar may find it necessary to improve its ties with India. On India's part it has to be pragmatic without questioning much Myanmar's regime character. An improved relationship with Myanmar, besides contributing to trade relations, would help Indian security forces to deal with some of the North Eastern insurgent groups, more particularly ULFA, which has used its jungles for training and shelter. After their eviction from Bhutan many ULFA cadres have fled into Bangladesh and Myanmar.

It is important to engage Afghanistan also because of its Taliban heritage and the latter's Kashmir connection. In the 13th SAARC Summit Afghanistan's application for membership was considered favourably by the members and, subject to formalities, it is soon going to join the SAARC. Afghanistan's entry is particularly important because earlier it was a contentious issue between India and Pakistan as they held different perspectives on the country.

With respect to China it is systematically mending its fences with India and the latter is reciprocating in equal measure. With globalization high on their respective agendas, neither China nor India would risk any confrontation that could endanger their rapid growth. This pragmatism is being shown in settling the boundary dispute step by step. Bilateral trade is systemati-

cally picking up and there are more and more people to people contacts, particularly in the cultural field.

11. Conclusion

There is no imminent danger to peace in South Asia but certain domestic turmoil emanating from religious fanaticism and ethnic assertions may cause strains to inter-state relations. India's security can be best served if its internal problems are contained, thereby giving no excuse or opportunity to its neighbours to take advantage of them. At present, whatever the ruling elites in India's neighbourhood may tell their domestic constituencies, at the mass level everywhere in the region India's reputation as a thriving secular democracy is systematically gaining ground. Bollywood movies, Hindi songs and soap operas, and through them the Hindi language, are not only contributing remarkably to India's own integration process but they are also selling the positive image of India in its neighbourhood, and beyond. The role of India's civil society in safeguarding and buttressing the nation's democratic institutions is being emulated everywhere in the region, often to the embarrassment of the regional ruling classes. In South Asia the concept of people's security is slowly and steadily occupying the space traditionally held by that of national security.

The Peacock and the Dragon: a Hesitant Embrace*

Anupam Srivastava

Introduction

Over the past five decades, India's relationship with the People's Republic of China has traversed the entire spectrum: initial camaraderie jolted by outright hostility, followed by a protracted period of mutual antagonism, gradually ushering a phase of "uncomfortable co-existence." In the past decade, both sides sought to identify and build upon the domains of minimum convergence, although their hesitant courtship was rudely disrupted by the fall-outs of the Indian nuclear tests of 1998.

The ensuing period has witnessed a new phase of incremental rapprochement[1], notably underlined during Chinese Premier Wen Jiabao's April 2005 visit to India when the two sides signed a historic agreement identifying the core principles and parameters within which their security disputes would be resolved.[2] The agreement, elaborated within its 11 articles, is based upon "Panchsheela", or Five Principles of Peaceful Coexistence. It states their strong preference for a political solution to the boundary dispute, "convinced that an early settlement will advance their basic interests ... and should therefore be pursued as a strategic objective." Moreover, pending its "ultimate settlement," each side should strictly respect and observe the Line of Actual Control and cooperate to maintain peace and tranquillity in the border areas.

To better appreciate the significance of this and other recent developments, it is instructive to review the changed and changing position of China in India's strategic calculus, and vice versa. Recent scholarship has increasingly focused on China and India as the world's two fastest growing economies, their rapidly expanding bilateral trade, and the vast potential for closer cooperation. There is, however, little attention devoted to what prevented cooperation in the past, how economic engagement factors influence their respective "grand strategy," and how it influences the scope, pace and context of bilateral economic interaction.

This chapter addresses some of this deficit. Section One examines the changing position of each in the other's security calculus. Section Two analyses domestic imperatives driving mutual economic cooperation. Section Three discusses the specifics of current and proposed engagement, including areas of relative strengths and weaknesses. Section Four assesses elements of current cooperation and competition, and whether security considerations might inhibit or terminate future economic cooperation.

1. The long shadow of security discord

Following its independence in 1947, and the onset of the Cold War that pitted the world in East v. West camps, India tried to avoid joining either camp for that would have narrowed its options for external assistance to meet its pressing developmental imperatives. As such, along with China, Egypt, Indonesia and Yugoslavia, it led the non-aligned movement (NAM) to promote South-South cooperation and improve North-South dialogue and policy coordination.

However, India's solidarity with China was soon tested by a brief but intense border war in 1962 along the British-designated

McMahon Line that was not well delineated on the ground. The war resulted in a decisive military and psychological victory for China. The new ceasefire line is designated as the Line of Actual Control (LAC), with about 90,000 square km of disputed territory between the two sides.

The war was soon followed by China's first nuclear weapon test in October 1964, India's second war with Pakistan (1965), Pakistan leasing to China (in 1966) parts of the strategically-located Mount Karakoram (K-2) Pass in Kashmir that it acquired during the first Indo-Pak war of 1947-8, and the start of a strong politico-military partnership between China and Pakistan. For the next two decades, Sino-Indian relations went into a deep freeze, interrupted by an occasional skirmish or frosty diplomatic exchanges. However, the end of the Cold War provided both India and China the space, and the need, to begin recalibrating their strategic policies toward Asia and toward each other.

1.1 Post-Cold War rapprochement

India and China signed a landmark Peace and Tranquillity Agreement (PTA) on September 9, 1993, which created a Joint Working Group tasked to resolve the boundary dispute. This was followed by the creation of the India-China Diplomatic and Military Expert Group on November 29, 1996, tasked to clarify respective positions regarding LAC and implementation of confidence building measures, including regular communications between their Directorate Generals of Military Operations and relevant field offices.

Thirteen bilateral meetings within the above auspices culminated in India recognizing Chinese sovereign control over Tibet, and China accepting Sikkim as an inalienable part of India. Both sides have exchanged maps of the least contentious middle sector of their border, and reviewed each other's claims regarding the eastern and western sectors. In 2003, each side appointed a Special Representative to expedite delineation of LAC, after which joint cartographic and survey teams would begin to pinpoint the boundary on the ground. From India's perspective, the security dispute with China has moved away from its earlier hostility to one of greater pragmatism and mutual accommodation. However, at the September 2005 meeting of the Special Representatives, China appears to have reasserted its claims over Arunachal Pradesh, causing New Delhi to reevaluate its future negotiating posture and outlook.[3]

From China's standpoint, India remained an important but relatively minor component of its global strategic outlook until the post-Cold War period. Beijing perceived India as a second-rate player, lacking determination and cohesive purpose to project power beyond South Asia.[4] Thus, China conducted its first nuclear test in October 1964, well within the January 1, 1967 deadline set by the Nuclear Nonproliferation Treaty (NPT), with the result that China is recognized, along with the United States, Britain, France, and Russia, as the Permanent Five (P-5) nuclear weapon states (NWS), who coincidentally are also the permanent five members of the UN Security Council.

By contrast, India missed the NPT deadline by delaying its first nuclear weapons test until May 1974, followed by a self-imposed moratorium until May 1998.[5] In the interim, so much had changed in the arms control landscape that ironically India, which had first proposed the Comprehensive Test Ban Treaty (CTBT) as far back as 1954, was forced to vote against its adoption at the Conference on Disarmament in Geneva in July 1996 and again at the UN General Assembly in September 1996.[6] The passage of CTBT precipitated India's decision to conduct 5 subterranean nuclear explosions on May 11 and 13, 1998, citing the threat from China's nuclear

arsenal, and its assistance to Pakistan's nuclear and missile programmes, as the primary rationale for India's decision to overtly weaponize its potential.[7]

While the Indian tests elicited a sharp negative reaction from Beijing, its leadership also began to note New Delhi's growing resolve to improve its power position within the international system. It should be stressed that concurrent changes in US policy toward India also factored heavily in Beijing's reassessment of its policies toward India.

1.2 Changing US role

After imposing non-proliferation related sanctions on India following the 1998 tests, the Talbott-Singh intensive dialogue ultimately led to the lifting of almost all sanctions. The subsequent pursuit of a strong multi-faceted US-India partnership has the potential to alter the strategic landscape of Asia, and has become an important factor in US-China and India-China relations.[8]

For instance, on June 29, 2005 India and the United States signed a 10-year defence agreement that paves the way for Washington to supply state-of-the-art major weapons systems, and engage in co-production and collaboration with New Delhi. Later, the Joint Statement of July 18, 2005 by President Bush and Prime Minister Singh commits each side to a series of reciprocal steps that will eventually permit US civilian nuclear assistance to India. In return, India will separate its civilian nuclear facilities from the weapons-dedicated ones and place the former under safeguards of the International Atomic Energy Agency (IAEA), strengthen its export controls, and align its nuclear and missile control lists with those of the Nuclear Suppliers' Group and the Missile Technology Control Regime.

While India will not sign the NPT as a non-nuclear weapon state, this new agreement provides a modus vivendi for US (and international) nuclear cooperation with India, and high-technology cooperation in both civilian and military sectors. The IAEA, UK, France, Russia and Canada have supported the US-India agreement, and efforts are underway for the NSG to make "a substantive exception" based on India's strong record of controlling WMD-relevant exports so that NSG members can provide it civilian nuclear assistance.[9]

Beyond this, United States and India share a growing concern over the extent to which the rise of China will indeed be "peaceful".[10] As such, an unspoken objective of their bilateral cooperation is to help India develop the capability to assist the United States in circumscribing possible Chinese policy activism in the future that might undermine Asian security and prosperity.[11] The strategic undertones of the growing US-India ties have factored heavily in Beijing's calculations as it formulates its economic and security policies toward India.

2. Domestic imperatives for economic engagement

Beyond the influence of US policy, several major factors have prompted India and China to engage in economic cooperation, modify their mutual relationship, and adjust their national aspirations within Asia and beyond.

For China, three essential factors underlie its motivation to pursue economic cooperation with India. First, the Chinese Communist Party (CCP) has identified sustained economic growth as a national security priority, for that alone would provide it the resources to pursue all other developmental and security imperatives, and

maintain the legitimacy of its single-party rule.[12] The worsening income-gap between the urban and rural populations, and regional income disparities that fuelled 74,000 protests in 2004, have factored into the priorities laid out by the Chinese Communist Party at its October 2005 annual planning session for the period 2006-2010.[13] In this context, while China has substantially expanded trade ties with East and Southeast Asia over the past decade, it wants to tap the massive Indian market to sustain its upward growth trajectory.

Second, China seeks to leverage improved ties with India to penetrate the other economies of South Asia.[14] Aside from Pakistan with which it has strong economic and security ties, China's past attempts to improve economic relations with Nepal, Bangladesh and Sri Lanka have met with limited success.[15] Beijing recognizes that improved ties with New Delhi would facilitate its goal of expanding economic relations with the remaining countries of South Asia – namely Maldives and Bhutan – apart from the larger and more strategically-located Nepal, Bangladesh and Sri Lanka. Perhaps in recognition of these realities, in early 2005 China expressed its interest in getting an "observer status" within the South Asian Association for Regional Cooperation (SAARC). While this request has not been formally tabled on the SAARC agenda, it is apparent that in Beijing's reckoning this modified approach is less likely to arouse suspicions regarding its intentions, and the lure of sharing in its economic boom might outweigh concerns about China's low-cost products upstaging indigenous manufacturers within these developing South Asian economies.

A third factor propelling China's search for closer economic ties with India stems from Beijing's concerns over the rapidly improving US-India relations, and the growing rift in Sino-US ties. Thus, on the one side, as the May 2005 White House report states, the Bush administration has publicly welcomed India's rise as an emerging global power, and wants to assist India in reaching its potential. And on the other, the Pentagon's July 2005 report to the US Congress warns of the risks that China's rapid military modernization and policies pose for the United States in Asia.[16] The security concerns add to the growing range of US economic disputes with China relating to its large trade surplus, the valuation of its currency (renminbi),[17] underpricing of its commodities (notably, textiles), and the aggressive overseas purchases of oil fields and exploration rights by China's state-owned oil and natural gas companies.[18]

While the import of the changing US approach toward India and China will be assessed in the concluding section of this article, suffice it to say that China views expanded economic ties with India as a "hedge" against a future US-Indian coalition to contain China's rise in Asian and international affairs.

For India as well, three sets of factors anchor its decision to enhance economic cooperation with China. First, it seeks to penetrate and profit from the immense market that China represents, with an average per capita income of over $1200 and a rapidly growing middle class with a higher disposition to consume since there are severe curbs on investing abroad while investments in domestic state-owned banks yield low returns. Given India's continued success with its own version of the "export-led growth" approach, tapping China as a destination for India's exports has become a natural outgrowth of the new strategy.

The second Indian imperative is to leverage improved economic ties with China to deepen engagement with the Asia-Pacific. India's "Look East"[19] policy has yielded some positive dividends: membership of the ASEAN Regional Forum (ARF), and

of the influential "ASEAN+3+1" mechanism (along with China, Japan and South Korea), FTA with Thailand in May 2005 and a Comprehensive Economic Cooperation Agreement with Singapore in June 2005. In February 2004, it concluded an agreement to establish BIMST-EC, a regional economic cooperation agreement with Bhutan, Myanmar, Sri Lanka and Thailand (and Bangladesh if it chooses to join). However, New Delhi recognizes that the Southeast Asian capitals will look for "signals" from Beijing in recalibrating their economic and security ties with India.

A third Indian imperative stems from its rapidly growing energy shortfall and the need to reduce friction with China over newer sources of supply. Despite increased efforts to tap domestic reserves, India still imports about 75% of its oil, most of it from the volatile Middle East. The recent hike in crude prices to over $60 a barrel has meant that oil imports constitute the largest item on India's import bill. This untenable situation has underlined the need for India to diversify its sources of supply. India's public-owned Oil and Natural Gas Commission (ONGC), is prospecting for oil in Sakhalin and Tatarstan in Russia, and bidding for natural gas reserves in Central Asia, Caucasus, Iran, Bangladesh, Myanmar and even Sudan. In each case, China's growing influence and resources suggest that India's ability to access these energy sources will in part depend on improving ties with China. This was underlined in August 2005 when the ONGC-Mittal combine was out-bid and out-maneuvered by China's National Petroleum Corporation in clinching a deal with PetroKazakhstan, as confirmed later by India's Petroleum Minister.[20]

A broader Indian imperative is to enhance its relative power position in Asia. India is eager to break out of the South Asia "box" and emerge as an Asian power. Its omnidirectional politico-economic diplomacy has begun to yield positive results, but improved ties with China would perforce remain a significant part of its strategic calculus.

2.1 Growing bilateral economic ties

Sino-Indian economic engagement has a short history but sharply rising trajectory. Although the two signed an accord in 1984 granting most favoured nation (MFN) status to each other, bilateral trade was only about $332m in 1992. It has grown steadily since then, except during 1998-99 following the Indian nuclear tests, reaching $5b in 2002, and $13.6b in 2004, with a compounded annual growth rate (CAGR) of over 30% since 1999. China now ranks as India's third largest trading partner, although India remains a distant 12th in China's foreign trade statistics. During Premier Wen's April 2005 visit, the two sides set the modest target of $20b by 2008, and $30b by 2010.

The foreign trade volume of $13.6b in 2004, with India's exports valued at $7.67b and imports at $5.93b, is notable for two reasons. First, China has typically permitted Asia's smaller economies to enjoy a trade surplus with it, whereas China's own largest trade surplus is with the United States. This approach, not unlike the US practice while aiding Germany and later Japan recover from their destruction during World War II, helps China reinforce the image of its "peaceful rise" (heping jueche) and enhance interdependence with these Asian economies. This is borne out in the case of the Japanese and South Korean economic revival, with China displacing the United States as their largest trading partner. This is significant given that foreign trade comprises around 40% of their GDPs, and trade with China – especially for Japan - has curbed adverse policies despite their respective bitter memories of World War II.

The second and somewhat related aspect of India's minor trade surplus is the "irrational exuberance" that it generated about Indian industries' capacity to compete with Chinese counterparts. A simple review of Indian exports to China, however, reveals that iron ore, slags, ash, and steel account for about 60%, followed by plastics, organic chemicals and cotton yarn. Clearly, India needs to add more value-added manufacturing goods and diversify its export basket to sustain and increase its exports over the longer term. On the other hand, India's imports from China are dominated by electrical machinery and equipment, organic chemicals, machine tools and mineral fuels. The import basket thus reveals the clear cost advantage enjoyed by China in these higher value-added items over India.

Table: Comparative Statistics of China and India

Index of Measurement	Period	India	China
Exports as % of GDP	2000-2005	14.3	28.6
Imports as % of GDP	2000-2005	15.1	26.0
GDP growth rate	2000-2005	8.1	9.3
Savings as % of GDP	2000-2005	22.08	42.55
Consumption as % of GDP	2000-2005	77.92	57.45
Household Consumption as % of GDP	2000-2005	72.94	44.37
National Gross Savings Rate as % of GDP	1997-2004	22.6	43.4
Investment as % of GDP	1997-2004	23.0	40.0
FDI as % of GDP	1997-2004	0.7	4.2
FDI (absolute figures)[1]	2005	5.6b	63.2b
CAGR[2] of Labor productivity	1990-2003	3.3	7.3
ICOR[3]	2000-2005	2.9	4.2
US Exports	2005	7.4b	34.6b
US Imports	2005	20.2b	202.7b
US Trade Balance (exports – imports)	2005	- 12.8	- 168.1b

Notes: 1= According to the International Finance Corporation, an arm of the World Bank, China's official FDI (Foreign Direct Investment) figures are about two times higher than their actual value, given the practice of "round-tripping" i.e. money that went out from the mainland returns disguised as foreign capital via Hong Kong. India's FDI calculations, on the other hand, are too low, because it excludes reinvested earnings, subordinated debt, and overseas commercial borrowings – all included in other countries' FDI statistics. Even so, China's FDI is at least 3 times higher than India's, even if not 10 times greater as the official figures indicate.
2 = compounded annual growth rate
3 = incremental capital output ratio

Sources: World Bank Development Indicators Online; Economy Watch; Center for Monitoring the Indian Economy; Economic Survey of India, and CII-McKinsey Analysis 2005.

The efforts by the two governments to deepen and widen economic cooperation became focused during 2000-01 as India negotiated with China and then supported its entry into the World Trade Organization. From about the same time, Beijing has displayed growing interest in harnessing Indian IT strengths for its broader benefit. Thus, in mid-2000, the mayor of Xin Jiang province invited Indian IT professionals to help develop this backward region.[21] Similarly, greater IT cooperation with China's armed forces (PLA) was first discussed during the April 2001 visit by a senior Indian delegation led by Lt. General Kalkut, head of the Indian Eastern Com-

mand.[22] Further, the Indian Navy, in its annual initiative called "Operation Milan" – under which its ships make port calls in most countries through Southeast Asia and Japan – made its first-ever port call in Shanghai in 2004, and the two countries plan to conduct a joint naval exercise in the near term.

Bilateral governmental efforts have generated a strong positive response from the business community as well, and greater synergy is beginning to emerge. The Confederation of Indian Industry (CII), India's apex consortium of primarily high value-added manufacturing companies, has partnered with Indian diplomatic missions in Beijing and Shanghai to organize three successful "Made in India" road shows during 2003-2005. At the latest show in Shanghai, India's Finance Minister stressed the strategic parameters of India's economic diplomacy in East Asia, stating that "India's approach towards Asian integration and its relations with [China] are increasingly an important element of our foreign policy."[23] In addition, in recent years numerous business delegations, seminars and workshops at leading academic and policy institutions on each side have generated optimism about expanding commercial ties.

2.2 Growing Indian business presence and opportunities in China

In tandem with growing governmental efforts, a diverse range of prominent Indian companies are expanding their operations in China by setting up branch offices, joint ventures or training facilities. In the pharmaceutical and IT area, these include Ranbaxy, Aptech, Aurobindo Pharmaceuticals, Tata Consultancy Services, and Dr. Reddy's Laboratories. Indian business majors that have established Wholly Foreign-Owned Enterprises (WFOEs) include Infosys, NIIT, Orissa Industries Ltd., and Essel Packaging.[24] Indian businesses have also established facilities in China to produce for third country exports and to supply to the domestic market. Both sides recognize the massive untapped potential for broader cooperation, but these aggregate figures do not reveal some of the inherent problems and challenges. While more Indian businesses are expected to exploit the price advantages by locating their production in China, the "mixed" experience of foreign MNCs entering into JVs and WFOEs in China suggest that unless Beijing strengthens the state of technology security and provides WTO-compliant product and process patent protection, full-spectrum technology-embedded transfers to China will remain inhibited.

The differing capacities of Chinese and Indian private sectors might also create a mis-match in partnerships and in exploiting the opportunities for cooperation. China's state-owned enterprises have abundant capital and are more efficient than their Indian counterparts. However, much of the bilateral collaboration is led by the private sectors whose capacities vary. India's private sector, for instance, is much stronger and more developed than China's, especially regarding access to capital and freedom to acquire assets and companies at home and abroad.[25] China has directed FDI and domestic capital toward its inefficient SOEs, such that most of its private firms remain strapped for cash,[26] and cannot scale up production or consolidate operations. As a result, the share of China's private sector in national exports is less than 20%.

Further, India's stock market and its banking and financial services sector are well developed by international standards. With over 20 million shareholders, India has the third largest investor base in the world after the United States and Japan. India's stock market capitalization of $41 trillion as of March 2005 was the highest amongst the emerging markets, compared to $450 billion in China. Clearly, India is in a posi-

tion to assist in the development of China's nascent stock market and its relatively weak and non-transparent banking sector.

2.3 Growing Chinese business presence and opportunities in India

India's economic reforms, started in July 1991, have over time simplified administrative procedures for economic transactions at home and abroad, reduced structural barriers to the entry and operation of domestic and external actors and investors, and enhanced the overall export-orientation of the economy.[27] Robust productivity gains have in turn enabled GOI to reduce peak import tariff duties from 300% in 1991 to 15% in 2005 (compared to 10.5% in China), and slated to reach 5% (i.e. ASEAN-levels) by 2008. On the other hand, high fiscal deficit, remaining rigidities in the labor market and chronically weak infrastructure thwart foreign participation and productivity gains.[28]

Opportunities in infrastructure development, coupled with India's 250m-strong middle class and the rising disposable income of the rural rich, are making India an increasingly attractive market for China, among others. Partly in recognition of these opportunities, China has steadily expanded its merchandise trade with India, and a range of Chinese companies have also begun to increase their presence in India. These firms specialize in the manufacture and marketing of a range of engineering, metallurgical and petroleum products.[29] The focus of most of the other Chinese companies is on infrastructure and telecommunications projects.[30]

A notable exception to the above trend is the presence of companies that produce dual-use goods and technologies, i.e. those with both civilian and military applications, which are also large vendors for the Chinese armed forces. These include China Precision Machinery Import and Export Corporation (CPMIEC), Sinochem and Huawei Technologies. CPMIEC is selling technology for mini blast furnaces in India, but is also the producer of critical components for China's nuclear weapons and missile complex. Sinochem is one of the only two entities authorized by the Chinese government to engage in export and import of Schedule I chemicals and precursors. It is currently supplying Schedule III dual-use chemicals under export license to the Indian commercial sector. Huawei Technologies Inc., a major producer of defence-related IT products for the Chinese armed forces, has recently set up IT and BPO operations in Bangalore through its Indian subsidiary, Huawei Telecommunications (India) Company Pvt Ltd.[31]

3. Assessment and conclusion

A spate of recent scholarship has focused on China and India as the world's two most populated countries with the two fastest growing economies, comparing their growth across myriad indices of development. An indirect derivative of such cascading international attention has been to make both countries acutely sensitive to each other's developmental trajectories. It has also reinforced governmental decision to identify the evolving template of mutual cooperation and competition, and recalibrate each other's position in their respective grand strategy.

3.1 Elements of bilateral cooperation and competition

In addition to efforts to substantially improve bilateral foreign trade and value composition, in April 2005 the two governments established a study group to examine the feasibility of a free trade area (FTA). Entering into an FTA could result in considerable trade diversion and welfare loss for India.[32] Nevertheless, the mere fact that within six years of normalizing eco-

nomic relations, the two sides are exploring an FTA demonstrates the growing importance that each side has begun to attach to the other in their economic planning for the future.

Another area of possible cooperation relates to energy sourcing. Given that India's ONGC and China's National Petroleum Corp. are aggressively competing for oil and gas fields in Central Asia, Africa and Latin America, the two governments have recently proposed signing an MoU to avoid competitive bidding up of the procurement prices and are exploring creating an Asian Energy Grid so that China and India, and some other Asian countries, could access assured supply of oil and natural gas. India has agreed to lay a 741 km pipeline and expand the extraction capacity of a China-owned oil refinery in Khartoum,[33] and to extend the proposed Iran-Pakistan-India gas pipeline to southwestern China. While these proposals will require considerable capital and technology investments, and the laying of overland pipelines has significant security implications, it indicates the scale of planning and coordination underway in India and China to meet their serious energy needs.

Moreover, as developing economies, they will continue policy coordination within WTO to secure their interests in the multilateral trading system. This is evident in the ongoing Doha round of negotiations relating to tariffs, agricultural subsidies, market access, and environmental safeguards. Finally, both are identifying complementarities in their product and services profiles to improve trade flows and minimize trade diversion and consequent welfare losses.

On the other hand, Sino-Indian export competition is expected to intensify in textiles, including yarn and finished products. With the phasing out of the GATT-era multi-fibre agreement and import quotas, both sides are aggressively competing for a greater global market share. With both the United States and the EU planning to impose restrictions on China, Indian textile exports to both markets have surged.[34]

A second area of competition relates to the efforts by both countries to move up the value-chain in the manufacturing sector. With the skilful, and wilful, directing of FDI and national savings into select public enterprises, China has established itself as the world's leading source for low-cost, low-specialization, manufactured goods. However, its policies to use JVs and other measures to attract high technology have met with limited success. By contrast, India's private sector in high technology faces few regulatory constraints, and is scaling up operations and establishing foreign collaboration to secure greater market share at home and abroad.[35] Further, with less than a fifth of the FDI that China has annually attracted, capacity utilization of scarce capital resources in India has steadily improved.[36] It is likely then, that China and India will compete aggressively in the global hi-tech sector, with the advantage on India's side in the near term.

3.2 Elements of grand strategy

India remained a peripheral consideration in China's economic and security calculations until the end of the Cold War. Given sustained Indo-Pakistani animosity, China's robust politico-military relationship with Pakistan was sufficient to keep India "tied down" and prevent it from emerging as a competitor on the Asian stage. During the 1990s, however, with India's economic reforms and growing pragmatism in its security policies, China visibly adjusted its overall approach, improving ties with the Indian Ocean littoral countries to neutralize the superiority of the Indian Navy.[37] It invested heavily in building all-weather transportation links with Myanmar, expanded runways at military airports closer to the Indian bor-

der, and established a signals listening post in Myanmar's Coco Island barely 25 miles from India's territory. Similarly, China conducted a naval exercise with Bangladesh in 2003 and is expanding nuclear and economic cooperation with a country that remains deeply divided on the issue of improving relations with India.

Regarding Pakistan, China appears to be pursuing a two-pronged strategy. On the one hand, it is collaborating to build a joint strike fighter aircraft, additional civilian nuclear facilities under IAEA safeguards, and assisting with a range of advanced conventional weapons platforms. Further, it is helping build a deep-sea port in Gwadar, in Pakistan's northwestern province, and a transportation corridor via Mount K-2 all the way to central China. With the permission of Pakistan, China can station its submarine and naval warships in Gwadar, from where it can project power into the Straits of Hormuz and the Persian Gulf. Moreover, given the limited "blue water" capability of the PLA-Navy (PLAN), Gwadar will obviate the constraints of contending with the Indian naval presence in the Indian Ocean for PLAN to influence outcomes, including keeping the sea lanes of communication (SLOC) open for economic and security reasons.

On the other hand, China's recent public comments reflect its growing concern over the rise of Islamic militant groups in Central Asia, many of whom have bases in Pakistan and Afghanistan. China is taking active steps to prevent militancy from Central and Southeast Asia radicalizing its own Muslim populations in Xinjiang, Shandong, Hebei and Yunnan provinces. It is notable that immediately following the 9/11 attacks on US soil, China closed its land border via the K-2 Highway with Pakistan, and re-opened it two days later only to allow travel to Pakistan from China, but not the other way around. This suggests that despite all other forms of support to Islamabad, Beijing is loath to pursue policies that might endanger the internal stability of China. This shared sense of "vulnerability" has been discussed in China's recent senior meetings with India, and counter-terrorism represents an important avenue for bilateral cooperation. But while China will continue expanding economic ties with India, the most critical variable for the future will be the evolution of India's relations with the United States,[38] which can directly influence China's goal of becoming the decisive factor in Asian economic and security affairs.[39] This is not to suggest that a worsening of Sino-US relations is assured, at least in the near term (i.e. 5-10 years).[40]

One measure that provides an insight into Beijing's calculations is "Comprehensive National Power" (CNP), developed by Chinese government agencies and defined as a sum of military, economic, scientific, technological and political power.[41] The United States has the highest current CNP score and will continue to do so into the foreseeable future, but China sees its current rank of 5, behind US, Japan, Germany and Russia, improving to 2 by 2025. India is ranked 13th and not expected to move higher than 9th. [42]

Beijing's strong aversion to interference in its "sphere of influence" was underlined in 2003 when the Indian Navy escorted high-value US cargo ships across the Straits of Malacca, a strategic waterway shared by Singapore, Malaysia and Indonesia. In the same year, US Defense Secretary Rumsfeld visited Delhi, Seoul and Tokyo, but not Beijing, to discuss cooperation regarding the US plans to build a National Missile Defense (NMD) and possibly deploy a theatre version in Tokyo and Seoul. Indo-US cooperation on NMD is well under way, including the possibility of integrating US Patriot Advanced Capability (PAC-3) systems into the open-architecture Indian missile defence shield.[43] This is an area of serious disagreement between China and India, and is expected to worsen

with growing US-India defence collaboration.

In sum, given that direct military conflict ranks very low in the current strategic priorities of both India and China, bilateral economic ties are expected to grow and diversify in the near term, along with slow progress in resolving the border dispute. Over the longer term, however, it is not certain whether economic ties will provide the necessary and sufficient conditions to avert a crisis in the security arena, or whether such a confrontational build-up will severely constrain the pace and scope of bilateral economic cooperation. Nevertheless, the likeliest scenario over the long term is that India and China will avert a direct conflict, and a more fluid "sphere of mutual influence" will emerge whose boundaries and dimensions would be a function of the evolving economic and military capabilities, and postures, of both these Asian powers.

Notes

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5 There is evidence to suggest that India's nuclear programme was sufficiently advanced for it to have tested a weapon before the NPT deadline. Indeed, in September 1961, the US State Department had discussed assisting India test before China, to advance the then-US policy of containment of communism. See "Top secret memo from George C. McGhee to the Secretary of State, Dean Rusk, September 13, 1961," U.S. government declassified papers.

6 The reason was a last-minute amendment to the proposal, reportedly on the insistence of China and Australia, to insert an "Entry Into Force" clause requiring all 44 countries with active nuclear programmes to sign before the treaty could go into effect. For India, signing the treaty would have meant relying on its lone test of a first-generation nuclear (fission) device in 1974 for its arsenal.

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[21] China calls for India's participation in development campaign, in: Times of India, October 2, 2000. See also: India, China sign IT accord, in: The Times of India News Service, July 17, 2000.

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[25] It was only in 1999 that China's private firms were provided the same constitutional protection granted to foreign businesses and the domestic public sector since the 1980s. See Yasheng, Huang/Khanna, Tarun: Can India Overtake China?, in: Foreign Policy, 137/2003.

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India – View from the East

Urs Schoettli

1. India in the global context

At the beginning of the 21st century we are witnessing four major shifts in the global political architecture:

— the last remnants of the collapsed Cold War order are being removed;
— the continental shift in the global economy from the industrialized West to continental Asia is being accelerated;
— the shift from the North Atlantic to the Pacific as the economic and political powerhouse of the world is being completed;
— the process that puts a definitive end to the era of a world shaped by superpowers, is in full swing.

Unlike the Warswaw Pact and COMECON, the United Nations, NATO and the European Union did not collapse with the end of the Cold War. Nevertheless, all these bodies were strongly affected by the end of a bi-polar world order which had come about with the demise of the Soviet Union. In its structure or in its mission and policies, none of the three bodies is today the same it had been at the end of the eighties. The UN is in need of profound reform if it wants to survive as a global body that is more than just an impotent talk shop. However, the experiences of the last years give reason to be pessimistic. One of the main reform demands which touches India directly, is the reform of the Security Council. Without any doubt, today's composition of this body does not reflect a realistic picture of the actual balances of power in the world. It is clear that the aspiration of India to become a permanent member of this exclusive club will have to wait some time more. The fact that the Indian request came together with a number of others did not help matters. Particularly the Japanese demand (Japan by the way is the biggest contributor to the UN budget) did not go down well in Beijing. Although the Chinese made it known to the world that they were in favour of a permanent Indian presence in the UN Security Council, in the end their strained relations with Japan weighed more.

Secondly, the world economy is returning with giant steps to where it had been at the end of the 18th century. There can be no doubt that Asia (in particular India, China and Japan) will be the powerhouse of the global economy. The last two hundred years which had brought the intrusion of Western colonial empires into Asia, had been an aberration caused by the self-inflicted decline of major Asian civilizations. While the last two hundred years had brought the enrichment of the West at the expense of Asia, the crucial challenge of the 21st century will be how the redistribution of economic power in the world will be dealt with. If past mistakes of protectionism and chauvinistic populism are not repeated, it might be possible to avoid the disruptions that in the past did not only cause socio-economic upheaval but also major wars and conflicts. One of the imminent litmus tests will be how the world manages the secular shifts in the need for and use of energy, raw materials and capital. In these fields there is enough potential for major conflicts of interest.

Around 1800 India and China had a share of some 50% of the global GDP. They have begun to claim back a bigger share of the world economy, but it will still take a long time until they reach their past dominance again. There are obvious synergies between the economies of the world's two

most populous nations. However, trade between the two emerging giants is still very marginal. The potential is enormous but there are a number of obstacles both of political and geostrategic nature. India is still suspicious of China's policy towards Pakistan, although in recent times Beijing has given strong indications that it is about to base its South Asian policies on the evident fact that India is the pre-eminent power. This implies that Pakistan is of secondary interest and that China has a strong interest in a peaceful resolution of the continuing Indo-Pakistani dispute. Although the bilateral Indo-Chinese border dispute has taken a back seat Beijing is still worried about India being a safe haven for Tibetan irredentists.

Thirdly, since ages the world has been subjected to the circles of emerging and declining empires and superpowers. While we will continue to have massive inequalities in the military and political influence as well as economic power between nations, the age of great powers managing world affairs either in concert or in conflict is gone for good. Fears about how China and the world will deal with the important shift in regional power that is currently happening in the Far East, are justified. However, it is inconceivable that the new Middle Kingdom will ever become a superpower. The fact that after the foreseeable demise of the American hegemony, the world will lack major powers that can act on a global scale, will have serious implications both on a global and on a regional level. The need for regional and inter-regional security structures will, therefore, grow considerably. There seems to be a chance that the emerging big power relations between India and China might enter calmer waters. Beijing had been very upset when during the BJP government some cabinet ministers had made it clear that India's nuclear deterrence was not only directed at Pakistan, but that one of its major aims was to counterbalance the nuclear armaments of China. In recent times it seems that also in this field Chinese attitudes have become more realistic. There are even signs that China is not entirely inimical to the emerging new atomic relationship between the USA and India.

2. Security challenges in East Asia

There are four major security challenges in East Asia, which must be of interest to India, as their management has serious implications for the whole security environment in Asia.

— The Korean Peninsula, as it bears a nuclear dimension similar to South Asia
— since the explosion of the Indian and Pakistani atomic bombs;
— Sino-Japanese relations, as their deterioration can impinge on India's
— interest in strong economic ties with both countries;
— The Taiwan question, as a descent into military conflict would not only affect the
— immediate neighbourhood but would also involve the United States, with which
— India is just starting to have more normal and potentially very rewarding relations;
— The South China Sea, as India as a traditional seagoing nation has a vital
— interest in open sea lanes and is herself, in the Indian Ocean region, a custodian of freely accessible international trade routes.

The Korean Peninsula is one of the most complex and dangerous crisis spots on the globe. The facts are common knowledge and shall not be repeated here. The situation is particularly difficult as the key question about Beijing's real influence on Pyongyang can only be answered in a highly speculative way. Further, the issue of a united Korea is greatly confused by ambivalent Japanese interests. A united

Korea would be of a demographic and, in the longer perspective, of an economic dimension that must be worrying for Tokyo, all the more so as Japan's population is aging rapidly. A united Korea would, in its relation to Japan, no longer be the clearly secondary power that South Korea is today on its own.

The Taiwan question continues to mark one of the major crisis spots in the world. From the Chinese point of view, the situation is very clear: Taiwanese independence is completely unacceptable to the mainland government, while the options for a political accommodation with what is from Beijing's point of view a "secessionist province", are very flexible. While no Chinese government could survive the acceptance of an independent Taiwan, the Chinese leadership is fully aware that the formulas that have been employed to facilitate the return of Hong Kong and Macao, cannot be employed in the case of Taiwan. Eventually, some compromise will be found, since the political and economic stakes are simply too high. Chinese pragmatism should facilitate a solution, all the more so as the tragic history of the civil war recedes further into the past.

Nowhere is the ascent of China as a regional hegemon more evident than in the South China Sea. There are a number of disputed islands and reefs. The disputes, which involve China and practically all the traditional members of ASEAN, have both an economic and a geopolitical background. In the long run, the Chinese claim to treat the South China Sea as a "mare nostrum", a Chinese sea, carries huge risks. China's South East Asian neighbours are strongly concerned about the growing military capacities of China, particularly its systematic acquisition of naval power on the high seas. No South East Asian country is a military match for the newly emerged Chinese power. The evolution of the South China Sea into a Chinese sea must be of concern to all participants in international free trade and is a particular challenge to major Asian trading nations such as India and Japan.

Without any doubt, China has been the Asian success story of the last two decades. The socio-economic development that has been initiated through the reforms that had been prepared by Zhao Ziyang and implemented by Deng Xiaoping in the late seventies and eighties of the 20th century is of truly historical proportions. Twenty-five years after it emerged from a status of absolute poverty and from the Maoist diktat of stone age socialism, China today has a middle class population of some 260 million people. Today, the health of the Chinese economy is of global concern and Chinese manufacturing has become a challenge to the most advanced industrialized countries.

It is self-evident that this massive expansion of economic power and influence has already caused a significant increase of the political clout China can exercise in East Asia and in the world at large. Everything points to the fact that we have not yet witnessed the end of this process. Past experience gives reason to worry about the geopolitical and security implications of this development. Since the 18th century, the emergence of every major new power has led to war. Very early in the 21st century, the world faces the challenge whether it will be able to deal with the rise of China in a constructive way or whether this rise will lead to massive disruptions.

But in the field of longer term predictions the case of India rests on much more solid ground than the case of China. India's political system makes for a rather limited choice of options, based principally on the constellations of the political parties and alliances. In China's case, no options can or should be excluded, even such extreme cases as social upheaval or a return to Maoist or even more traditional values of seclusion and state interference.

It is correct to be sceptical about the long term prospect for the hegemonial policies of the United States, because the world's only superpower rests, economically speaking, on borrowed time. It is equally correct to see China as a giant who stands on feet of clay. The most dangerous challenge, with which the Chinese leadership is confronted, is the overdue and drastic modernization of the political system. In political terms nothing significant has changed since the days of Mao. China is still a one-party state, ruled by a Communist Party that stands above the law, disregards the most elementary rules of transparency of its governance and is subject to no outside control.

To publicly debate the power monopoly of the party is still taboo, although the Chief of the Supreme Court recently stated that the party, too, should be subject to the legal system.

Concerning Japan, it is necessary to reassess the strengths and weaknesses of the Japanese economy and society. The most outstanding features of Japanese society is its cohesiveness and its extraordinary capacity for innovation. Of all major Asian civilizations the Japanese has the greatest capacity for adaptation.

In the first Gulf War, Japan had limited its help to the US to financial assistance. In fact Tokyo then paid a large part of the bill of the American campaign. It got little recognition for that. Therefore, ten years later, when the American campaign in Afghanistan and the second Gulf War offered new opportunities for Tokyo to manifest its solidarity with the American ally, the government went much further in its support than had been the case at any time since the Korean War. Tokyo's current policy towards America is motivated by three goals: firstly, to secure Japan's energy supply (in terms of oil and natural gas Japan is entirely dependent on imports); secondly, to balance China's growing influence in the region and on the world stage; thirdly and most importantly, to stem the tide towards a damaging isolationism which could become particularly acute if three trends come together: a disturbing near abroad, a stable domestic economy and a not too steep demographic decline.

3. East Asia's perception of India

How is India perceived in the Far East, namely by the countries of South East Asia, members of ASEAN, by Japan and by China? On the one side India can benefit from the rivalries and suspicions that are accelerated by the dynamics of change in East Asia. On the other hand, these very same challenges can cause the East Asian powers to neglect or even ignore the opportunities that could lie in enhanced political, security and economic relations with India. There is no doubt that the "law of geographical distance" lowers the geopolitical and economic importance of India for most of the East Asian nations. In fact it is this "law of geographical distance" which has prevented Asia from having the kind of internecine wars that have shaped Europe's fate in the 19th and 20th century. It was indicative that the European style of national warfare and of modern imperialism was copied only by Japan, the country that in the 19th century had adopted Western civilization on its own terms.

In the cultural field, East Asia has greatly profited from Indian influences. However, these tend to be downplayed or even ignored by the local elites, be it for reasons of national pride, be it for lack of historical knowledge. The most important cultural influence from India, Buddhism, has long ago been indigenized both in China and Japan. In China Buddhism accommodated ancestor worship, in Japan it took on the Japanese traditions of cultural and social aesthetics. The Japanese might be more willing to acknowledge the Indian roots of one of their two national religions than is

the case in China. At the same time Japan downplays the religious and cultural influences from its immediate neighbours China and Korea.

The Hindu kingdoms in South East Asia, namely in Vietnam and Indonesia, that had declined even before the arrival of the European colonial powers, have left few traces in current societies, the notable exception being the island of Bali. There are without doubt Indian traces in sections of the populations of Indonesia and Indochina, however, larger Indian migrations in recent times were limited to Malaysia and Singapore. Finally, the major Buddhist nation in South East Asia, Thailand, seems to have completely forgotten the Indian roots of its religion.

East Asia's perception of India is hampered by a remarkably low academic interest in South Asia. In Japan and China, because of the decisive influence of the United States on academia in general and on the study of international relations in particular, the perception of India is to a great extent a reflection of what is perceived in the United States. The same is true in the field of the media. The interest in India is minimal, since India does not belong to the Asia-Pacific region which is being seen as the dynamo of the world economy. Indeed financial, trade and economic relations between East Asia and India are negligible, when compared to the commercial exchange that takes place within the Asian Pacific region and between East Asia and the European Union. Finally, there is still the legacy of the fact that during the Cold War the Indian subcontinent did not figure strongly in the security perceptions of East Asia.

4. South East Asia

It is evident that South East Asian nations are in need of a counterweight against the overwhelming power of China. This is all the more so, as China's remarkable and unprecedented economic renaissance tends to accentuate the already existing imbalances and suspicions. Before its enlargement in Indochina, ASEAN had been very restrictive in its policies of expanding the original membership. In fact, under President Jayawardene Sri Lanka had made attempts at joining ASEAN, but had been rebuffed. The main concern amongst the members of ASEAN was that they did not want to become embroiled in the regional conflicts and tensions in South Asia. In this sense Sri Lanka was clearly "out of area" and it would have set a dangerous precedent for possible other engagements in South Asia. With ASEAN's enlargement in Indochina and particularly since the end of the Cold War and the concomitant demise of the Non-Aligned Movement, ASEAN has become more flexible in its external policies. ASEAN has also profited from a change of mind in Chinese foreign policy which in recent years has discarded its earlier reluctance to join multilateral initiatives. In fact, recently there has been a pronounced increase in China's multilateral initiatives.

All these developments make it both possible and necessary for India to become a factor in South East Asian multilateralism. In fact there is a very important security concern that brings India and China into a rather direct conflict of interests, i.e. Burma – Myanmar. China does not view India as a threat to its landbased security. However, it sees itself in the long term in a serious rivalry with India on the high seas. Obviously, key Chinese interests in the safety of international waterways have their origin in South East Asia, namely in the Straits of Malacca and in the archipelago of Indonesia. But further on, there is the Indian Ocean through which important trading routes and a significant portion of China's oil imports pass. Since many years Beijing like Delhi has been actively engaged in a strong rivalry for political influence in Myanmar and in Myanmar's

military regime. It seems that with the granting of landing rights for Chinese naval ships in Rangoon, China has made greater headway than India. However, the tussle has not been settled for good, all the more so as the Burmese regime is highly instable.

Unlike in the case of SAARC, the membership of ASEAN is more balanced in terms of the comparative size and weight of the countries belonging to it. There is no country which has the same domineering position like India in South Asia. Looking at the balance between its major members ASEAN is similar to the EU, although of course it lags far behind in the process of integration. The internal balance of ASEAN is also connected to the presence of a significant overseas Chinese community in a number of key ASEAN member states, namely in Malaysia, Thailand, the Philippines and Indonesia. The degree with which these overseas Chinese communities have been integrated into their host community, varies greatly from country to country. There may be animosities and, in some cases, even occasional violent conflicts, nevertheless these Chinese overseas communities create links to the mainland which because of the numerical and economic weakness of the Indian overseas communities do not exist between ASEAN and India.

In their global trade and energy supply links most ASEAN members do not depend to the same degree on the freedom of shipping in the Indian Ocean as for example Japan does. Nevertheless there is considerable interest in extending the commercial links with an India that is seen by a growing part of the South East Asian elites as an emerging Asian powerhouse. An important side effect of an increase in trade and economic cooperation between India and ASEAN would be a reduction in the overbearing influence of the Chinese economy in South East Asia. China's renaissance has, through the flow of investments as well as through the flow of goods and the interrelation in services and communication, created a very solid basis for the de facto economic integration of the South China Sea area. It would indeed be very difficult, even impossible, for India to break through these mutual dependencies. Everything points to an even greater acceleration of this process in the near future. This will certainly benefit the Chinese, but in an indirect way it can also work in India's favour. Once more the principal reason would be the desire of South East Asian countries for a less pronounced dependence on China and a better usage of the Indian option.

5. Japan

The support for the American campaign in Afghanistan and the emergence of the global terrorist threat by Islamic fundamentalists, many of whom are based in Pakistan, has certainly increased Japan's interest in South Asia. For a long time the attention Japan gave to South Asia has been focussed disproportionately on Pakistan. This had to do with a number of factors. During the Cold War the Japanese saw India as subservient to the Soviet Union, while, with help of the American world view, Pakistan was seen as a friendly nation. While the "licence raj" was booming, Pakistan offered better prospects for Japanese economic cooperation. Finally, the preference of Pakistan by the Japanese was a reflex action against a major Asian culture, which one perceived not only as strange but also as dangerous. It is in this context important to recall that Japan traditionally does not see itself as an Asian country, but rather as a special case – a view that had been strengthened by the Meiji Restoration.

Let us look at how India is perceived by Japan through four major parameters: politics, the economy and technology, the global context and geopolitics.

The Japanese elites have a rather limited knowledge of the Indian political system. The mainstream thinks of India as a highly inefficient country, racked by corruption, disease, backwardness and extreme poverty. Against this background, the majority believes that democracy is a luxury which has not brought any benefits to India. In fact the Japanese political elite considers India's political landscape all the more confusing, as Japan itself, while not having a one-party regime, has been very much controlled by one party, the Liberal Democratic Party, which has been in power since 1955 for all but three years.

Japan considers India a country that has missed the entry into modern times and is desperately trying to catch up. One recognizes that India may have succeeded in the field of information technology and software, but in the hardware of industrial development India is seen as a basket case. In fact some attempts to change this perception which emerged in the nineties have been rolled back, since China has become even more attractive to the Japanese economy. There is clearly the understanding that between China and Japan there exists and flourishes one of the most successful and significant economic symbioses the world has seen in modern times. As Japan and China share not only a religious but also a cultural background, for example in the realm of the law, the fact that India unlike China is a country under the rule of law does not hold the same attraction for the Japanese as it might for the Westerners.

In the global context Japan has little use for India. The issue of a seat in the UN security council as a permanent member was not seen as enough of a reason for more intense Indo-Japanese cooperation. Tokyo knew from the start that on this issue the co-aspirants Brasil, India and Germany were of little importance and that the key lies with the United States and with China. It is highly likely that amongst the Japanese leadership nobody was surprised about the Chinese opposition against Japan becoming a permanent member of the UN Security Council. Furthermore, looking at the voting record of India, Japan which on most issues fulfills its role as a loyal ally of the United States, could not but see India as inimical to its own interests. Until the end of the Cold War, India's foreign policy had been seen by Japan as ineffectual at best and inimical at worst. Although 15 years have passed, this perception has not yet been totally removed.

Finally, in geopolitical terms India is, apart from the waterways that lead through the Indian Ocean, of marginal importance to Japan. Tokyo does not believe that India is a creditable counterweight to China. It rather sees Russia taking on this role. In this context one has to take into consideration that Japan's foreign policy is strongly linked to the security of its energy supply. Japan has no domestic gas or oil production and covers a large part of its energy needs through imports from the Middle East. It aspires to reduce this dependency by tapping into rich resources in Russia's Far East. As mentioned earlier, the role of India's naval forces in protectiong waterways through the Indian Ocean could be a major source for closer security and policy cooperation between India and Japan. However, this field is still unexplored, most probably because of negligence on both sides.

6. China

China sees itself as the dominant Asian power. In the tradition of the Middle Kingdom it sees the outside world in concentric circles around itself as the centre of the world. The rapid economic modernization and particularly China's entry into the world economy have had a profound impact on Chinese foreign and security policy. In a way one can say that Beijing today follows the foreign policy principles of the great Metternich. China, which

under Mao was once a country that claimed to be in the forefront of the world revolution, is today a power that advocates and defends the status quo. Changes, particularly drastic upheavals can only have a negative impact on China's external position and internal stability. Therefore, Beijing will do everything to oppose whatever it sees as a threat to its the existing world order (including the enlargement of the UN Security Council). If one looks beyond the war in Iraq one can even recognize a close communality of American and Chinese security interests. In any case, it is a little understood fact that traditionally China feels much closer to the values of the United States than to those of Europe.

China sees, not unlike the US, India as a second-rate power, a regional power. The recent overtures by the Chinese leadership towards India have nothing to do with diplomacy between equals. In Chinese eyes India has been and will continue to be a backward country, dragged down by superstition and evil social practices such as castes and idolatry. The reason why China has recently shown more interest in India has to do with the situation on its own land borders and in South Asia. Beijing is worried that through a number of new cooperation agreements that have taken shape since 9/11, the US is trying to encircle China. US troops operate now in a number of Central Asian countries, in Afghanistan and in Pakistan. Any closer cooperation between Delhi und Washington must be seen with concern.

In its role as the Asian hegemon China wishes to avoid that regional powers in its neighbourhood create tensions amongst themselves. In this way the China that had been quite content about India and Pakistan creating troubles for each other and even going at each other from time to time in real wars, has been replaced by a China that does not want instability in South Asia. For this there are two reasons: firstly, China is alarmed by the prospect that an Indo-Pakistan war might go nuclear and that the fall-out of a nuclear exchange may affect parts of its own territory. Secondly, China fears that a new war, even if held at conventional levels, would further enhance American influence on the subcontinent. The latter concern has to be seen in the light of the long-term Chinese expectations about the decline of the US as a global power. Beijing wants to make sure that when this is going to happen it is firmly positioned as Asia's pre-eminent power that is the sole arbiter about disputes in its neighbourhood.

Bilateral border disputes with India have been put on a back burner. China has shown interest in enhancing bilateral trade with India. That political disputes and economic cooperation need not be mutually exclusive has been shown by the recent anti-Japanese protests in China. While political relations between the two neighbours are in the deep freeze, the economic relations are on the go. Political relations with India are certainly not in the deep freeze. But it would be foolish to believe that the euphoria of Hindi-China Bhai Bhai – which by the way was never shared by the Chinese and which they saw rather as a preposterous claim by the inferior Indians – can be repeated. In economic terms Beijing sees India as a rival, from a geopolitical perspective it sees India as a second-rate power and politically it has never been able to fathom what makes Indian democracy tick and what keeps such diverse a country together.

My conclusion is that a relationship where each side looks carefully at its own interests and tries to come to a mutually profitable outcome is the best one can and should hope for Indo-Chinese relations. Everything else is wishful thinking and has nothing to do with either the political reality in Beijing or with the age-old traditions that shape the Chinese strategic and geopolitical thinking.

India-Australia and the Indian Ocean

Kenneth McPherson *

Introduction

In the year 1996 the Indian Ocean Rim Association for Regional Cooperation (IOR-ARC) was in the final stages of being formed (as it was in Mauritius in 1997) and the stage seemed set for the development of a vigorous and positive regional dialogue. India and Australia were the prime movers behind this process but barely eight years on, IOR-ARC is languishing and the concept of regional cooperation seems dead. It has no public profile, has apparently dropped down the list of imperatives for the states of the Indian Ocean region and the euphoria that greeted its foundation has vanished. The following paper attempts to capture the views that India and Australia held of the Indian Ocean region in 1996 in contrast to their views and objectives in 2005.

1. A view of Indian Ocean regional cooperation: 1996

In the early 1990s, the USSR collapsed and in the process took with it the superstructure of Great Power rivalry that had been played out around the world. The Soviet navy, and to a large extent the US navy, disappeared from the Indian Ocean, leaving the French as the only extra-regional power to maintain a shadow presence at La Réunion. The end of the Cold War re-shaped the play of international politics. No longer were global politics played around a bi-polar Great Power structure, but had apparently become multi-polar as states sought security in new alliances. In the wake of the collapse of the USSR multilateralism had become a more valued vehicle for international dialogue. The United Nations is an obvious case in point, but at the regional level the Association of Southeast Asian States (ASEAN), the Asia-Pacific Economic Cooperation (APEC), the North American Free Trade Association (NAFTA) and the European Union (EU) had become stronger and were viewed as potentially more effective organizations through which states could mediate their aspirations and problems.

In the Indian Ocean region there were several multilateral sub-regional organizations that came into existence during the Cold War. Apart from ASEAN, which encompasses Southeast Asia, there was the South Asian Association for Regional Cooperation (SAARC), the Gulf Cooperation Council (GCC), Southern African Development Commission (SADC), Common Market for Southern and Eastern Africa (COMESA) and the Indian Ocean Commission (IOC). Leaving aside ASEAN and the IOC, none of these sub-regional organizations had been marked by notable success before the end of the Cold War. The reasons for this are outside the scope of this article, but suffice it to say that in part at least sub-regional rivalries and distrust, and the play of Great Power politics, were major inhibiting factors.

The demise of the Cold War removed some of the divisions that had undermined many of these regional organizations. In addition, the end of apartheid in South Africa, and processes of economic liberalization in South Asia and Australia in particular, removed more impediments to expanding multilateral dialogues around the Indian Ocean region based on economic cooperation. South Africa, for example, became a major partner in SADC and COMESA, whilst Australia and India sought closer relationships with ASEAN[1]. But, the economic challenges facing the region were

viewed by India and Australia in particular as too great to be addressed within sub-regional organizations, particularly when they were in some instances still bogged down by old rivalries and hostilities. The mantra of the post Cold War era was globalism, as defined by organizations such as the World Trade Organization (WTO) and agreements such as the General Agreement on Tariffs and Trade (GATT). But it was a globalism underpinned by strong regional organizations of states. The one major region lacking any dialogue for cooperation was the Indian Ocean region.

The need to re-shape international relations following the collapse of the USSR was particularly pressing in the Indian Ocean region. Many of the states in the region had attempted to steer a middle path between the Great Powers during the Cold War, even if the economies of the majority of less developed countries tended to be based on interpretations of socialism. By the early 1990s, these economies were in crisis. The same was true in post-apartheid South Africa which was seeking total reconstruction of the discriminatory capitalist economy of the apartheid era. In Australia too, by the last decade of the century there was a concerted and steady move in the direction of economic deregulation and the pursuit of a new regionally based place in the world: a move mirrored to an extent by a fundamental change in economic course in India which began a process of opening up its economy to global competition. Like Australia, India was also seeking to define its place in both the regional and global order in the wake of the collapse of the USSR.

All of these events and trends were the midwives for regional cooperation. During the period 1993 to 1994, the governments of three of the largest economies in the region – India, Australia and South Africa – were each in their own way moving towards the conclusion that the time was ripe for some type of regional dialogue.[2]

For South Africa, the imperatives were a desperate need to open up to a previously closed world if investment and trade were to be encouraged. For India, the imperatives were historical, and also based on the need to restructure the Indian economy in line with emerging global trends. For Australia, the imperatives were the need to find new markets, new trading partners, and intrinsically to locate the nation in the Asia-Pacific world as its links with Europe underwent profound changes.

However, whilst the common imperative was economic, there were different national perceptions of the type of regional economic cooperation needed. In general, there was agreement that there was a need to increase intra-regional trade and investment flows as a means of boosting economic growth, but there were different ideas about how this should be accomplished and how vigorously economic cooperation should be pursued.

The problem is that in economic terms the Indian Ocean region of the last decade of the twentieth century was something of a jigsaw puzzle. A handful of the states – Singapore, Malaysia, Australia, Indonesia, Thailand, India and South Africa – possessed increasingly sophisticated economies in global terms. Yet other states – primarily the oil producers – had enormous wealth, but limited economic infrastructure in terms of industrial activity. The majority of states in the region were, however, still locked in an increasingly urgent struggle to maintain a critical level of economic growth. Within this latter category there are great differences: states such as Kenya, Sri Lanka, Oman and Pakistan had made considerable economic progress and must be considered important economies within the region, whereas the economies of other Indian Ocean states in this category in Asia and Africa remained bedevilled by crushing debt, the legacies of colonial misrule and civil war.

But differences exist too amongst the first

category of states. Whilst Australia and the ASEAN states had undergone considerable economic restructuring to open their economies to global competition, the economies of South Africa and India stood on the verge of economic liberalization. For different reasons both states had erected formidable tariff barriers and developed other economic techniques to bolster domestic economic activity in an atmosphere of protectionism. The problem they now both faced was how to dismantle protectionism and to mitigate the ill effects of such a process upon employment and domestic economic activity.

Given these economic differences, there were basically two schools of thought concerning the nature and pace of regional economic cooperation. On the one hand, there were states such as Australia and its ASEAN neighbours which had undergone extensive economic de-regulation and were advocates of the WTO process of relatively rapid tariff reduction and open regionalism. Proponents of this view are in essence opposed to discriminatory preferential trade agreements and the formation of a regional trade bloc, preferring instead open regionalism of a less exclusive form based on the APEC model. In contrast, there were other states whose economies were only just beginning to open up to international competition and remain protected by formidable tariff barriers. For these economies the challenge was to liberalize in a manner, and at a pace, which would not lead to rapid surges in unemployment and the wholesale destruction of non-competitive industries.

Given these differences in approach to regional cooperation, it was nevertheless based on a general acceptance that existing patterns of trade and investment flows within the region revealed a low level of participation on the part of member states of the region. At a rough approximation only 20% of the trade of these states is intra-regional, with probably a similar figure for investment: the states of the region attracted most of their foreign investment, and the bulk of their imports (leaving aside the oil trade), from extra-regional sources. There was also a considerable flow of investment from more economically developed states in the region to East Asia, Europe and the Americas. The challenge was to develop an economic climate and to explore economic complementarities which would increase the proportional value of intra-regional trade and investment. There were obvious difficulties. Many of the regional economies remain heavily reliant upon the export of raw materials and a very limited range of partially processed goods and manufactures for the industrialized North, and were often in competition with one another. On the other hand, there was a pressing need to seek ways to bolster the limited manufacturing base of many developing countries in the region by opening potential markets within the region which to date had been dominated by extra-regional suppliers. In addition, the more developed economies in the region were potential sources of investment funds for their less developed neighbours, as well as being sources of sophisticated technology, goods and services at the time supplied by Northern economies.

During 1994, there were preliminary discussions between India and South Africa concerning the need for regional cooperation. Initially, Australia was not included in their equation, but some commentators were formulating the idea of a more inclusive cooperation process linking South Africa, India, Australia and other Indian Ocean states.[3] At the same time in Australia, there was increasing domestic discussion at the level of the federal government and the state government of Western Australia concerning the need to develop new approaches to the Indian Ocean.

Since the formation of the Commonwealth of Australia in 1901, Australian foreign and trade policy has been dominated by the Pacific and East Asia. Following World War II, Southeast Asia had been added to this equation, but not until the 1980s was the

Indian Ocean considered a national issue.

This neglect was in part due to the fact that since 1901 Australia's Indian Ocean frontier had been guarded first by the British and then by the USA. Also, domestically Western Australia was very much the "Cinderella" state. It was sparsely populated, and was of relatively marginal importance to the national economy. All of this had changed by the 1980s. In security terms, Australia – under the federal Minister for Defence, Kim Beazley, who was from Western Australia[4] – moved to upgrade its almost non-existent defence establishment on the west coast, and formulated a "two oceans" naval defence policy whereby 50% of the Australian navy was to be located on the west coast by the first decade of the 21st century. In economic terms, a sustained mineral boom boosted the west coast economy to the extent that Western Australia (with less than 10% of Australia's population) currently generates approximately 25% of national export earnings. Both these developments were indicators of the growing awareness within Australia that it was a country with two oceanic frontiers, neither of which could be neglected.

At the state level, successive governments in Western Australia were concerned to project the state as Australia's gateway to Southeast Asia, and in time as the gateway to the Indian Ocean.[5] The state authorities embarked on an ambitious programme of trade and investment promotion – first in East Asia then in Southeast Asia and in 1995 in South Asia – which helped broaden perceptions at the state and national level of the challenges and opportunities presented by engagement with the Indian Ocean region.

The interests of centre and state came together as economic deregulation forced Australia to look to new markets in Asia. But there was more to the process than a mechanistic knee-jerk reaction to changing economic circumstances. Since the late 1960s, there had been a bipartisan political movement which led to the abolition of the so-called "White Australia" immigration policy which had effectively kept Australia 98% European in ethnic composition. From the 1970s, an increasing number of new settlers in Australia came from Asia, most particularly from East and Southeast Asia and the Indian sub-continent. Australian society began to change rapidly as a result of this new migration. New attitudes towards neighbouring states were formed, old ties with Europe were reassessed, and in the process many Australians began to look to their immediate geographic neighbours in Southeast Asia and further to the west.

India's interest in the Indian Ocean was both similar in part and different in part to that of Australia. Historically India had ancient economic and cultural ties with many parts of the Indian Ocean region and there were large communities of Indian settlers in southern and eastern Africa, Mauritius, Malaysia and Singapore. Overall however by the twentieth century, India – like Australia – had largely turned its back on the Indian Ocean. India's security concerns were essentially land-based, its navy was small in comparison to its army and air force, and the bulk of its trade was extra-regional (with the exception of energy supplies from the Middle East). After 1947 India's geopolitical interests were different from those of Australia. Whilst Australia was firmly committed to its alliances with Britain and the USA, India strove to follow the path of non-alignment treating both sides in the Cold War with an even hand where possible.

Economic and political linkages between India and Australia were weak and in the decades after 1947, despite constant reference to a shared love of cricket and similar political and judicial institutions, the India-Australia relationship was one of benign neglect.

In the late 1980s and early 1990s, however, the relationship grew more complex. Initially the imperative for this was negative: a

mutual and growing suspicion on both sides prompted by their parallel strengthening of their Indian Ocean naval forces. Fortuitously this suspicion soon faded. In part this was due to a rapid increase in trade between the two countries that was encouraged by the Indian process of economic liberalization, in part it was due to the search for new relationships that occurred in the wake of the collapse of the USSR.

It was this change in the tone and substance of the India-Australia relationship that facilitated the establishment of IOR-ARC in 1997. Much of the groundwork was done in the early 1990s by South Africa and Mauritius, but it was the growing convergence of interests between India and Australia that gave substance to the move to form the organization.

2. India-Australia and the Indian Ocean in 2005

In the years immediately following the establishment of IOR-ARC there was a flurry of meetings in Mozambique and Oman, but by 2005 the organization was virtually moribund.

For some, given the eloquent speeches made between 1994 and 1997, what existed by 2000 bore little resemblance to what had been anticipated in the first rush of enthusiasm for regional cooperation. The real problem facing Indian Ocean regional cooperation has always been the absence of any clear vision of what such cooperation could and should entail, how it would be managed, and the relatively weak commitment to the concept of regional cooperation by the member states of IOR-ARC.

Visions aplenty there were but what were these visions? They ranged from the vision of Australia's Foreign Minister in 1984, Gareth Evans, of an inclusive regional organization on the lines of APEC that would explore and promote a range of issues with particular emphasis on economic cooperation and "confidence building", to the more sober visions of Indian and South African spokesmen whose focus was almost entirely upon economic cooperation amongst a select group of Indian Ocean states. From the beginning there was remarkably little debate about mechanisms of government for any proposed organization and the consensus was for a de facto adoption of the tripartite governance model of APEC.

There were from the beginning of negotiations in 1994 obvious differences relating to membership and the objectives of any proposed Indian Ocean regional organization. These were the core issues that consumed time and energy in the debates from 1994 until IOR-ARC was formed in 1997. Here it needs to be noted that neither the issue of governance nor the relevance of the APEC model were debated in any depth.

By 1997, broad agreement had been reached on the scope of the organization’s activities, a system of governance had been decided upon and IOR-ARC was launched.

But what was this creature that had been launched? Its objectives and raison d'être were vague, and its system of governance was not clearly spelled out.

Let me take the problem of governance. A weak secretariat was established whose role was far from clear and whose relationship with the three governing groups was not defined. Furthermore, there was no agreement on how the tripartite governing system was to work. There was no mechanism in place for the establishment and maintenance of either the academic or business groups, and the only self-perpetuating part of the tripartite governing system was the official bloc.

For the first year or so the momentum of IOR-ARC was sustained by the initial flush of enthusiasm, but by 1998 the wheels began

to fall off the cart. The problems for IOR-ARC were twofold – internal and external.

Internally, the immediate problems concerned the functions of the different groups: business, academic and official. There was no clear direction concerning either the functions of the individual groups, or their relationship with one another. To an extent the role of the official group was self-evident as this was the direct conduit to the governments of the respective member states. But the role of the other groups in terms of function and how they were to be constituted was far from clear and in the absence of any common procedure they soon became moribund.

Of the two, the business group was undoubtedly the most active, with strong support from the Indian and Omani business communities in particular. But the proactive role of Indian business organizations such as FICCI (Federation of Indian Chambers of Commerce and Industry) and the CII (Confederation of Indian Industry) and their counterpart in Oman was the exception rather than the rule and business participation from Australia, Singapore and South Africa remained disappointing with the government in these countries eventually providing the main input. Academic representation was even more abysmal. A core of countries provided some representation, but most member states simply did not bother, or were represented in this group by government officials. The end result was that within a couple of years of the establishment of IOR-ARC, governance of the organization had in effect become the prerogative of the official group with the academic and business groups exercising minimal influence.

Certainly some member states of IOR-ARC (most notably India, Australia, Oman, Sri Lanka and Mauritius) attempted to honour the terms of the Charter with respect to the tripartite nature of the organization, but the majority of member states appear to have been content to leave their representation solely in the hands of officials.

In part this appears to have been caused by the failure of many member states to understand the tripartite system of governance, but it was also caused by the initial uncritical acceptance of the APEC model. What was not taken into account was that the APEC structure was evolutionary in origin. Long before the establishment of APEC, business and academic groups in the Asia-Pacific region had begun to form regional groupings to discuss common interests. These groups in turn influenced government policy and were the foundations upon which officials launched APEC. The situation in the Indian Ocean region was quite different. There was no background of regional business cooperation, and there was only marginally more academic cooperation. Neither group had produced a single regional pressure or interest group. When officials in the region became enamoured of the idea of regional cooperation they created an institution from above – an institution that lacked any roots in the region. This meant that from its inception IOR-ARC had a very limited constituency and there was a pressing need to foster an academic and business interest.

In the period from 1994 to 1997 and for a few years after, some IOR-ARC member states did attempt to foster a proactive business and academic input, but most member states honoured the concept more in the breach than in the observance. By 2000, the academic and business components of the tripartite system were all but moribund apart from some officially sponsored and irregular input. Whilst official representation had a continuity and substance, the same could not be said of the academic and business groups that were crudely cobbled together to meet the immediate requirements of particular IOR-ARC meetings.

If the international scene had remained static or at least had not thrown up any unexpected events then IOR-ARC may have had time to

face and deal with its internal problems, but unfortunately this was not to be the case.

In the world outside IOR-ARC several events and developments undermined interest in the organization, but before these issues are addressed some attention needs to be paid to the question of bilateral links between countries of the region as it could be argued that strong bilateral links provided the potential foundations on which a successful IOR-ARC could be established. In comparison with the Pacific region, for example, where a web of strong bilateral relationships existed between the players who eventually formed APEC, bilateralism within the Indian Ocean region was restricted mainly to sub-regions where both multilateral and bilateral arrangements of various kinds existed, as already mentioned above: Southeast Asia – the Association of Southeast Asian Nations (ASEAN); South Asia – the South Asian Association for Regional Cooperation (SAARC); the Middle East – the Gulf Cooperation Council (GCC), and southern Africa – the Southern African Development Community (SADC).

With the exception of ASEAN few of these organizations had made much progress towards their stated goals and there was only marginal contact between the discrete groups – there was no way that they could provide the bedrock on which to build IOR-ARC. If strong bilateral relations were something of a chimera within these sub-regional organizations, they were even less substantial outside it and many of the 14 countries that signed the 1997 charter had had little or no intimate contact with one another in the international arena before IOR-ARC was mooted. In practical terms this meant that many of them came to the negotiating table either in blissful ignorance of one another or held views encumbered by the baggage of the Cold War.

But apart from the weakness of bilateral links across the region, interest in IOR-ARC was undermined by several adverse global events.

The first of these was the East Asian economic crisis of 1997 which distracted IOR-ARC's Southeast Asian members to the extent that it even threatened ASEAN and impacted negatively on APEC.

This event in itself may not have impacted all that severely upon IOR-ARC if it had not occurred at a time when there was a growing trend within the international order away from multilateralism towards bilateralism.

At this point might I suggest that the late 1990s will be marked by commentators in the future as a period when the growing hegemony of the USA ushered in some fundamental changes in international relations. The most notable of these being a discounting of multilateralism and multilateral organizations in favour of bilateralism. Such a development received further encouragement as the world economy hovered on the brink of recession and individual states moved to secure their economies. In Southeast Asia individual states in part turned from ASEAN in search of bilateral free trade agreements elsewhere, and across the Indian Ocean region there was a general rush to establish free trade agreements with major extra-regional economies.

None of this augured well for IOR-ARC and by the end of the 1990s there was a clear decline in interest in IOR-ARC on the part of its three major protagonists: Australia, India and South Africa.

Whilst both India and Australia have maintained an interest in, and support for IOR-ARC, this interest and support has undeniably declined. Both countries initially committed resources to support the tripartite structure and actively campaigned to breathe life into the concept of regional cooperation, but the extent of that support waned rapidly after 1997. Perhaps the single most important reason for this has been the changing global economic and security environment

with the emergence of a single hegemonic superpower and the decline in influence of multilateral organizations.

Both Australia and India appear to have moved away from their mid 1990s commitment to multilateralism and have developed a keener interest in reinforcing their bilateral relationship with the USA: a process reinforced by the events of September 11, 2001, and the subsequent invasion of Afghanistan and Iraq. As they have moved to develop this bilateral relationship, there has been a concomitant decline in their interest in IOR-ARC. The same has been true for all the member states of IOR-ARC and although the number of member states has grown since 1997, there has been ironically a rapid decline in real commitment to making IOR-ARC work.

In some ways the case of South Africa may illustrate the real problems facing the majority of Indian Ocean states with respect to supporting IOR-ARC. Unlike the Asia-Pacific region, the Indian Ocean region does not include a large number of major world economies. The degree of resource commitment to any regional organization is constrained by the relative poverty of the Indian Ocean region and the pressing urgency of its economic and development problems.

Initially South Africa was a keen supporter of the concept of regional cooperation and indeed pushed the concept ahead of Australia and India. In part, the South African initiative was driven by a general desire "to come in from the cold" after the collapse of the apartheid regime, in part it was driven by a hard-headed assessment that South Africa needed to explore new markets and sources of capital investment, particularly in South-east Asia and Australia. At the earliest meetings held to explore the formation of a regional organization there was strong government and business support from South Africa but in subsequent years that interest steadily waned.

In part this was due to a hard-headed reassessment by government and business groups in South Africa concerning limited human resources and national priorities. The result was that the Indian Ocean region slipped down the list of national priorities way below negotiations with the EU and the USA, and certainly well below the perceived urgency of establishing a new relationship with its African neighbours through the agency of a sub-regional organization: SADC. By 1997, support may have lingered for the creation of IOR-ARC but it was far from being the main game in town and had been overtaken by more pressing issues and more promising bilateral relationships.

It has to be admitted that another factor that led to the virtual demise of IOR-ARC was the nature of the India-Australia relationship. Perhaps naively, both sides underestimated the impact of years of different political alignment on the mindsets of politicians and bureaucrats. India has undergone massive economic and political changes since the early 1990s but this has not involved a wholesale abandonment of its right to protect its national interests, witness the nuclear tests of 1998 and the strong and antipathetic reaction of the USA and Australia. Australia's negative reaction and the strengthening of its relationship with the US in this period led to a cooling of the India-Australia relationship – ironically at a time when trade between the two countries was growing at an annual rate of about 20%. What this furore did illustrate was a continuing mismatch between Australia and India with respect to the global geopolitical scene.

Whilst both India and Australia now have close relationships with the US, the quality of these relationships is very different. Australia is a formal ally of the US, India is not. I would argue that for some Australians this vital difference has not been noted. India may have a strong economic relationship with the US and is an increasingly important member of the world trading community but it has vital national interests which do not

necessarily coincide with those of Australia or the US. There are in reality few major differences that set Australia and India apart, nevertheless there has been a tendency in Australia to view India and its actions through the Washington prism. However, during the last few years there has been a gradual change in Australia's foreign policy that hints at a new global view that could benefit the India-Australia relationship.

This change is centred upon a revival of Australia's interest in Asia, and to an extent in the Indian Ocean region. Since 1997 Australia in effect downgraded its interest in both areas with the exception of countries of immediate strategic or economic importance: most of which belonged to the ASEAN group of nations. Recently there has been a more adventurous spirit abroad in the Australian government. In part this has been driven by the continuing strong growth in economic links with India and by India's emergence on the world stage as a major economic and political power to perhaps balance China. Australia's self-interests – economic, strategic and political – now to a greater extent than ever match those of India. There remain differences of course but economic ties, a growing view in Australia that a unipolar world may be a temporary aberration, and a realization that the Indian Ocean region is a vital economic and political arena shared with India has refocused Australian attention on both India and the Indian Ocean region with an intensity that was lacking in the 1990s.

India's rapprochement with the US – sealed by the 2005 "defense agreement" between the two countries – has added greater impetus to the expansion of relations between India and Australia. It would be disingenuous to deny that Australian foreign policy is influenced by that of its closest ally, the US, and to an extent the decision of the US to promote India as the major state in South Asia has helped consolidate arguments within Australia that more attention should now be paid to our relationship with India. Indeed, in opposition to the US, Australia has declared its support for India's attempt to secure a permanent seat on the UN Security Council. In Australian eyes, India is now clearly an economic and political force to be reckoned with both internationally and regionally as the future economic powerhouse of the Indian Ocean region. China still looms larger in terms of Australian trade, but the rapid growth of the Indian economy and concerns about the political objectives of Beijing are combining to make India an increasingly attractive partner in Asia and the Indian Ocean region.

Notes

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2 Mahapatra, Chintamani: Cooperative Efforts in the Indian Ocean Region, in: Australian Defence Studies Centre, Canberra 1996.

3 Kenneth McPhersons article in the Pioneer (New Delhi), 6 March 1994.

4 Before entering politics Beazley had written one of the best works on the geopolitics of the region: see: Beazley, Kim C./Clark, Ian: The Politics of Intrusion. The Super Powers and the Indian Ocean, Sydney 1979.

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India and the European Union – Building a Strategic Partnership*

Rajendra K. Jain

The European Union has been and remains India's largest trading partner and a leading source of credit, technology, investment, industrial collaborations. Since the 1990s, India has prioritized improving relations with the West and intensified its simultaneous engagement with all the major powers premised on the pursuit of pragmatism by jettisoning moralpolitik in favour of realpolitik. The end of the Cold War facilitated an improvement in Indo-EU relations because the Europeans no longer looked at India through the lens of Cold War equations. Trade and investment continued to be the driving force behind the development of EU-India relations.

1. The Europe Union and South Asia

There were two dominant themes in Indian foreign policy since its nuclear tests in May 1998: refashioning of the international nuclear control regime in a manner more favourable to India and using the new global norms being created by the war against terrorism in the aftermath of the events of 11 September 2001 to force an end to the Pakistani sponsorship and sustenance of crossborder terrorism. In both cases, Indian policymakers realized that the key to success was to bring Washington around to the Indian point of view. The rest of the world was "more or less unimportant".[1]

India's nuclear tests and its support for the Bush Administration's policy of missile defence were part of Indian efforts to end what it viewed as a discriminatory nuclear control regime reflected in the Non-Proliferation Treaty and technology regimes like the Wassenaar Convention, which had failed to curb proliferation. Indian efforts were concentrated on the United States in order to persuade it to accept its overt nuclearization and remove sanctions both before and after the tests.

Most Europeans neither adequately appreciated nor shared India's security concerns about its deteriorating external security environment. European policy responses to India's 1998 nuclear tests coalesced with those of the United States, except that France did not impose sanctions after the tests. Despite India's impeccable track record as a non-proliferator, stringent export control regulations, and responsible handling of its nuclear and missile capabilities, Indian policymakers realized that EU member states were not likely to shed the theology of their opposition to nuclear and missile weaponization and easily relax the stringent norms for the transfer of dual-use technologies.

Both the European Union and its member states recognized that the Kargil intrusions (1999) were caused by cross-border infiltration and in violation of the Line of Control (LoC). There was broad appreciation of India's restraint in not crossing the LoC and dislike for Pakistani adventurism in Kargil. However, neither the United States nor Europe was yet ready to confront Pakistan on its sponsorship of crossborder terrorism. During the first India-EU two summits, Brussels resisted attempts by India to bring terrorism onto the agenda making the specious excuse that it was an issue best left to direct talks between India and EU member states. However, after

9/11 the EU itself accepted that terrorism had to be among the topics of discussion and it has since then figured in each summit.

As India stepped up its diplomatic efforts and mobilized troops after the attack on the Indian Parliament on 13 December 2001, the European Union became concerned about the consequences of escalating tensions leading to a military conflict. Whereas the United Kingdom sought to discourage Indian coercive diplomacy, Continental Europe felt that Indian policy was a continuation of the destabilizing policy of the United States into other regions of the world.[2] Unlike the European Union, the United States took the lead in compelling Pakistan to ban terrorist groups operating from Pakistani territory. India realized that engaging Washington would be more crucial and effective than lobbying the EU's diverse members, most of which had little stake in the region. It was almost exclusively because of American diplomatic initiatives that General Pervez Musharraf was compelled to assure the international community that he would "permanently" end cross-border terrorism. On the contrary, EU statements laid emphasis on "restraint", "rapid de-escalation" and a "political solution to the contentious issues".[3] EU official declarations were usually "extremely callibrated, as per diplomatic craft" and seemed to be defined by the search for "a delicate balance between the two competing neighbours".[4]

After the events of 11 September 2001, the European Union decided to "step up" the political dialogue and offered a preferential trade package and enhanced development aid to Pakistan after it dissociated itself from the Taliban and joined the international coalition in the war on terrorism. Many Indian stakeholders wondered how EU espousal of human rights and promotion of democracy reconciled with political expediency to hug military rulers, responsible for ousting democratically-elected rulers. But Brussels did not wish to push Islamabad into a corner and jeopardize the substantial strategic and operational contributions the latter could make in the fight against terrorism and the ISAF in Afghanistan. The Union has not been willing to accede to Indian requests to either exert greater pressure and/or take punitive steps against Pakistan in order to compel it to translate General Musharraf's policy statements to stop cross-border terrorism into operational realities. Brussels also did not share Indian characterizations of Pakistan as either a failed state or the epicentre of terrorism.

The European Union's position on Kashmir has generally been more impartial rather than pro-Pakistan. In the mid- and late 1990s, India felt that concerning European insistence in bringing up human rights, Brussels ignored the context in which these human rights violations were occurring. What infuriated India the most was the seeming EU insistence on making the case of human rights in isolation without recognizing that restoring human rights could only follow the defeat of militancy and that this, in turn, was impossible without restraint by Pakistan.[5]

Pakistan has lobbied extensively in the European Union, especially through the handful of Members of the European Parliament from the United Kingdom, which have a substantial electorate of Pakistani immigrants (especially those from Azad Kashmir), to involve the Union since it feels that it can play a useful role in mediating and facilitating a resolution of the conflict. Time and again Brussels had offered to "facilitate and assist talks, if all participants so wish". However, it has been unable to do anything since "no specific request" to that effect had been made.[6] In view of strong Indian sensitivities, Brussels has no wish to play mediator.

2. Joining the elite club

Recognition of India's growing stature and influence regionally and globally, growing economic interest in a rapidly and consistently growing economy of a billion-plus people, acquisition of nuclear weapons, steadily improving relations with the United States, and the acceptance of India as a potential global player in international politics – all contributed to India's admission into the elite club of nations (others being the United States, Canada, Japan, Russia, and China) with which the EU has an annual summit.

The Joint Declaration of the first India-EU summit (Lisbon, 28 June 2000) resolved that the EU and India shall build "a new strategic partnership" in the 21st century, founded on shared values and aspirations, characterized by enhanced and multifaceted cooperation. The 22-point Agenda for Action, appended to the Declaration, committed both sides to enhance political dialogue by "holding further regular Summits" apart from annual meetings of foreign ministers, and half-yearly meetings of senior officials and experts to "address foreign policy and security issues of common concern". The Agenda listed areas in which the two sides resolved to enhance cooperation in a comprehensive relationship straddling political, economic, development cooperation, trade as well as scientific and technical cooperation. The institutionalization of summit level interaction and the realization of the need for India and EU to build a "coalition of interests" to meet the challenges of the 21st century was hailed as a significant development.[7] The inaugural summit was preceded by a business summit organized by the Confederation of Indian Industry, which brought together 30 Indian CEOs face-to-face with 150 European entrepreneurs and other senior executives – a format which has been followed in subsequent summits.

The second summit (New Delhi, 23 November 2001) was held amidst Indian displeasure at mishandling of preparations of the summit by the Belgian Presidency and downgrading of the summit by the absence of three key functionaries[8] and the cancellation of bilateral meetings in order to visit Pakistan. There were some difficulties in formulating the final joint statement on terrorism. Apart from a Joint Declaration, a Declaration against International Terrorism, a 23-point Agenda for Action were issued at the end of the summit. Apart from Joint Vision Statement on Development of the Information Society and Information and Communication Technology, a Scientific and Technology Cooperation Agreement was signed. The summit decided to double bilateral trade to Euro 50 billion in five years from the existing level of Euro 25 billion without outlining any concrete steps other than expressing a general commitment to smoothen the road for private businesses to reach the goals.

The third summit (Copenhagen, 10 October 2002) under the Danish Presidency demonstrated how one country's rotating six-monthly presidency could inject acrimony into a relationship. The Danes exhibited lack of diplomatic tact in the manner they raised the Gujarat issue, which was fresh at that time. The two sides failed to agree on a joint formulation regarding the crisis in South Asia. The Europeans stressed the importance of an immediate resumption of dialogue between India and Pakistan and focused on measures to de-escalate tensions like withdrawal of forces deployed on the borders. The Indians insisted on a mention of the need of Pakistan to end support for crossborder terrorism. Foreign Minster Yashwant Sinha concluded that EU efforts to urge Pakistan to end cross-border terrorism had no visible impact even though, as Prime Minister Vajpayee said, "we have been told repeatedly that pressure is being put on Pakistan to stop cross-border terrorism that will

clear the way for dialogue". New Delhi was enraged at the efforts of the EU leadership to pressurize India on talking to Pakistan and exercising restraint through aggressive public diplomacy by the strident tone of Danish Prime Minister Anders Rasmussen. The larger EU member states pleaded ignorance while the Danes denied this. EU officials subsequently acknowledged the "less than adequate" handling of the situation.[9] The joint press statement nevertheless went on to express "satisfaction with the positive results of the Summit and its contribution to consolidate our firm and comprehensive relationship". Both sides affirmed their "shared values" of democracy and pluralism and reiterated their "determination to continue to combat terrorism". They agreed to "reflect" on the need for consultations between Europol and Indian agencies.

At the fourth EU-India summit (New Delhi, November 2003), the European Union was represented in full strength (apart from Commission President Romano Prodi, High Representative for Common Foreign and Security Policy (CFSP) Javier Solana and External Relations Commissioner Chris Patten also participated). That the summit went ahead despite the last minute cancellation by Italian Prime Minister Silvio Berlusconi owing to gastroenteritis demonstrated the maturity of both sides. Unlike Denmark's "proactive" stand on Kashmir at Copenhagen, the Commission's tone was not one of hectoring, but suggesting as Prodi did that India's "lingering tension" with Pakistan remained one of the biggest obstacles to the role that India could play in strengthening regional cooperation and peace in Asia. The summit led to the signing of two agreements on a trade and investment development programme and customs cooperation. India and the EU referred to each other as "global actors" in the multipolar world committed to strengthening the role of the United Nations in the maintenance of international peace and security. India, Solana said, shared with the EU the "same ideas" on multilateralism and a common vision of how to run the world.

3. Building a strategic partnership

The Lisbon Joint Declaration's (June 2000) resolve to build "a new strategic partnership" in the 21st century was reiterated in the EU's first-ever Security Strategy Paper (12 December 2003), which urged that the EU "should look to develop strategic partnership" with Japan, China, Canada and India as well as with all those who share our goals and values and are prepared to act in their support".[10]

After working for over a year, the European Commission prepared a very comprehensive document, which updated the July 1996 Communication on the "EU-India Enhanced Partnership". The June 2004 Communication "An EU-India Strategic Partnership" proposed to develop a strategic partnership with India in four key areas: (a) cooperation, especially in multilateral fora, on conflict prevention, the fight against terrorism, and non-proliferation of Weapons of Mass Destruction; (b) strengthened economic partnership through strategic policy and sectoral dialogues; (c) development cooperation; and (d) fostering intellectual and cultural exchanges.[11] A key objective of the Communication was to streamline the complex structure of meetings taking place at different levels in order to enhance the effectiveness and optimize results from summits (many of which were not prepared well).

The 46-page Commission Services "Working Document" annexed to the Communication proposed over a hundred actionable points. After a sector-by-sector examination, it suggested how current activities could be streamlined into a tighter institutional architecture. In instances where dialogues were episodic or ongoing, it urged that they be held on a

regular basis. A key objective was to focus on in-depth exchanges on substance in each meeting, and adapt each level of interaction to its specific objectives. The EU sought to further intensify its political dialogue with India and widen its engagement in a broad range of sector-specific dialogues and develop new instruments to institutionalize the cooperation.

A particularly jarring section on human rights in the Commission's Working Document suggested that the EU should instruct EU Heads of Mission to produce regular factual human rights reports with recommendations for the preparation of the EU-India human rights dialogue. India had indicated clearly that an intrusive approach regarding human rights was not welcome and that it was "solely within the national domain" and that "issues of interest to both sides" be taken up "informally".

In a detailed 31-page response to the Commission's Communication – the first ever Indian strategy paper on relations with the European Union – India envisaged "a relationship of sovereign equality based on comparative advantage and a mutuality of interests and benefits" – a relationship which would be "immune from the vicissitudes of either side's relationship with a third party".[12] India suggested regular prior consultations on the eve of major multilateral conferences, institutionalized dialogue between India and EU for cooperation on UN and UN-related matters, regular exchange of ideas, perceptions and information on developments in South Asia, the Middle East, Afghanistan and Iraq. It concurred that the two sides ought to avert the huge potential threats posed by weapons of mass destruction and their nexus with terrorism.[13] Delhi urged the upgradation and expansion of the mandate of the India-EU Joint Working Group on Anti-Terrorism (which had its first meeting before the events of 9/11) to a Joint Working Group on Security Cooperation with five subgroups on narco-terrorism, money laundering, document security, cyber terrorism, and institutionalized cooperation through Europol. India also urged the early establishment of a "regular" channel between Europol and India's Multi-Agency Task Force. India shared the desire to intensify dialogue on energy and environment in the hope that it would lead to transfer of cleaner technologies. Apart from proposing a number of sectoral initiatives, Delhi suggested the creation of a joint working group to discuss the opportunities and difficulties arising from EU enlargement and a structured dialogue on business process outsourcing (BPO).

The strategic partnership was endorsed at the fifth India-EU summit (The Hague, November 2004) – described by almost every observer as the best summit so far. Prime Minister Manmohan Singh described India and the European Union as "natural partners". The EU especially after its enlargement to 25 member states, he said, was emerging as "a politically influential, economically powerful and demographically diverse regional entity" in the world. The strategic partnership symbolized "a qualitative transformation in our interactions based on trust and mutual confidence".[14]

The sixth summit (7 September 2005) adopted a new Political Declaration and an Action Plan divided into four sections (political, trade and investment, economic policy, and cultural and academic) on issues of mutual concern. The Action Plan seeks to promote effective multilateralism, cooperate in UN peacekeeping and in post-conflict political and economic rehabilitation and reconstruction. Apart from a number of sectoral initiatives, a security dialogue at the level of senior officials and a High Level Trade Group are being launched to study and explore ways and means to deepen and widen the bilateral trade and investment relationship.

4. Cooperation in high-tech: Galileo, ITER

Intensive negotiations have been held since January 2004 regarding Indian participation in the European Union's US$4.2 billion Galileo project – a 30-satellite EU navigation system which is expected to be operational by 2008 and is considered superior to both the American Global Positioning System and the Russian Glonass satellite systems. India had insisted on assurances of uninterrupted satellite signals as a condition for cooperating in the project as it was deemed strategically vital. India, Prime Minister Vajpayee asserted, would participate in the project as an "equal partner" and not as a "mere customer".[15] Hard bargainings have been held since January 2004 because of initial European reservations about involving Indian scientists and technocrats in actual operations, differences over end use of dual-use technologies, and the insistence of several nuclear evangelist EU member states that India sign a separate export control agreement with the EU, something which India refused outright. Some EU member states continue to have reservations about providing access to the encryption codes for the military-grade high-end Public Regulated Service signal architecture – an issue which has also yet to be resolved with China. Since several issues remain unresolved, only a "framework agreement" was signed in September 2005.

In recent years, India-EU relations have witnessed a significant increase in scientific and technological cooperation. We are likely to witness even more substantial growth in greater cooperation between India and the EU in cutting-edge technologies. EU support for India's participation in the International Thermonuclear Experimental Reactor (ITER) project on fusion energy has considerable potential in meeting India's energy needs.

5. Conclusion

5.1 Definition of strategic partnership

There does not seem to be much clarity about what the term "strategic partnership" exactly means. Javier Solana, High Representative for the CFSP, acknowledged that there is "no definition of what a strategic partnership entails". The relationship of the EU with each of the countries listed in the EU Security Strategy (December 2003) are "key international players with whom it makes sense for the EU to co-operate ever more closely in addressing the challenges and objectives identified in the security strategy, many of which are shared concerns and objectives". Partnership with each of them, he declared, "will develop in different ways".[16] A strategic partnership is not an alliance, but more an attempt to institutionalize a process or a series of "strategic" dialogues considered important by both sides on bilateral, regional, and global issues. Intensive discussions, which normally precede summits, lead to the preparation of concrete deliverables for the summit.

To the Europeans, a strategic partnership seems to imply a global political relationship, whereas the Chinese are probably understanding the concept also in military and security terms. For the Indians, a strategic partnership signifies the mutual recognition of both the advantages and need for closer interaction and cooperation between India and the European Union on a collective basis as the Union widens and deepens its scope of competences. However, this will in no way dilute the need and importance that India continues to lay on key individual member states. It sets in motion a process which will evolve into an institutionalized, regular, and systematized dialogue on a broader spectrum of issues.

5.2 The United States factor

For many years, EU officials have complained that while the EU takes India seriously and recognizes it as a major actor in world politics, they wondered whether India took the EU seriously enough and recognized it as a major partner as well. All of them are unanimous in their belief that India considers the United States to be far more important than the Union. For instance, former Commission President Prodi remarked that India was "too focused" on the US in its foreign policy as well as its economic policy. This focus, he asserted, "came at the expense of the EU".[17] Indians "always seem to favour the U.S." This, he mistakenly believed, was "partly because of Hollywood movies".[18]

The obsession in Indian foreign policy with the Americans is because the United States is perceived as the hyperpower in a unipolar world since 1991 in which no conceivable combination can possibly challenge the United States. As the principal foreign policy interlocutor, the US has the biggest impact on our national security environment. In the 1990s, it has been willing to undertake political risks in dealing with India whereas Europe has not been willing to do so, and because there is a societal bias between India and the United States because the latter is more open to migration.[19] The bias is evident in the importance given to Washington in the Indian media and in both intellectual and cultural ties with the United States. As a rising power, India is more sympathetic to the American effort to rework the rules of the global game (the most recent example being the July 2005 India-US agreement on civilian nuclear technology) from which it could benefit. Europe, on the other hand, is "a staunch defender of the present order".[20] The Americans can at times make a difference by restraining Pakistan, but the EU has very limited leverage in the region.

The EU is widely acknowledged in India as an economic superpower and a formidable negotiator in multilateral trade negotiations. The huge deficit in Eurospeak between a Common Foreign and Security Policy and a single foreign policy will continue. India's democratic policy or the China card do not necessarily earn us very high points in Europe, and the absence of an NRI (Non-Resident Indians) lobby makes it even more difficult to get attention.

India shared European aspirations for forging a multipolar world as it would tend to give it more freedom of manoevre, but it did not view the European Union as a credible pole given the structural difficulties of making multipolarity work effectively apart from the inherent constraints of an evolving CFSP (Common Foreign and Security Policy) in a more diverse and heterogeneous Union. India remains skeptical about the EU's political and foreign policy capabilities.

Unlike relations with the United States, Europe is like "the dawdy old lady", known for over four centuries, that there is "no excitement, no passion" between India and Europe.[21] India, the Europeans often complain, "likes" Europe, but "loves" the United States, even though it is "tough love". The problem is that Europe wants "to be loved", and is disillusioned when it finds that India is not willing to reciprocate. It is not really a question of either the United States or the EU, but within the web of relationships, some will naturally be closer than others.

5.3 The China factor

Many stakeholders in India feel that there is a degree of political discrimination in the European Union's treatment of a democratic India and in favour of China, with

which the Union has few common political values. The strategic partnership, they feel, is unlikely to be at the same level as China even though India does not have the problems encountered in the relationship with China (e.g. human rights, the arms embargo, lack of status as a market economy, Chinese military's growing capabilities vis-à-vis Taiwan and the balance of power in the western Pacific, the huge trade deficit, etc.). The EU, on the other hand, has argued that India shed once and for all the narrow "prism of Pakistan" and develop a wider "world-view like that of China" in order to create a more meaningful partnership of ethnically diverse democracies. Unlike the Chinese, most people in Brussels felt that Indian policy-makers appeared to need convincing that the EU is "a player that matters".[22] They feel that, unlike China, India is neither proactive nor entrepreneurial enough to avail itself of existing opportunities. The Europeans also do not share American perceptions of India as a potential counterweight to China in Asia. The economies of the EU and China are largely complementary since Europe has a strong industrial base, capital and technology while China offers a huge market and low-cost labour. China would continue to remain far more important in the EU's Asia strategy because of its political clout, its economic potential, the substantially higher economic stakes and trade which in many ways defines the degree of political interest that the EU and its member states take in other countries.

5.4 Differing security concerns in the EU and India

Prospects of extensive or meaningful cooperation in the realm of security do not seem to be particularly bright because though both India and Europe have shared values, they face different security contexts and do not have shared threats. Whereas India confronts traditional security issues that impinge on its territorial integrity, border control, insurgencies and separatist tendencies, the EU, more of a security community, mainly confronts non-traditional security threats such as organized crime, terrorism, etc. In fact, the more distant a country or region, the more the European Union lays stress on values and less on geopolitics. Even though the European mindset has changed, India is at a preliminary stage of discussions on terrorism. Given the mismatch of context, concerns and goals, it is difficult to see more substantial cooperation. Initial steps are more likely to be in "soft" areas of cooperation such as money laundering, technical cooperation, exchange of information, cooperation amongst security agencies and police personnel, and sharing of intelligence cooperation.

5.5 Differing perceptions of the EU and India

Though India and Europe have known each other for over 400 years, there continues to be a wide gap between peoples partly as a result of mutual indifference and an information deficit despite growing civil society dialogue, which for the most part is government-driven. It is, however, uncertain how long these linkages will exist and can be sustained. The Indian elite's perceptions of the European Union continue to be essentially conditioned by the Anglo-Saxon media. This precludes a more nuanced understanding of both the processes and dynamics of European integration as well as the intricacies and roles of EU institutions.

Even though European political and business elites tend to display a political and economic preoccupation with the East Asian "tigers", economic reforms have made India economically more interesting, with its large population and with one of fastest growing economies. For the most part, Indian business continues to perceive the EU not as one entity but as a conglo-

merate of states, as a result of which the business focus continues to be at the member state level.

India confronts an image problem in Europe. The dominant image of India still is one of a distant, backward, conflict-ridden, and poverty-stricken country though there are periodic reports of the economic and scientific achievements. The popular attitude is one of indifference towards India. The strongest clichés, it seems, have the longest life. The European Union too suffers from weak visibility and low profile in India. Reporting in the Indian news media, for the most part, continues to be based on agency reports.

5.6 Current differences

Despite the shared values and common ground on many issues, there are serious, clear and basic differences in both perceptions and interests in many fields between India and the European Union. The EU has taken a stand contradictory to that of India on many issues in the WTO. Where Brussels has failed to get multilateral acceptance to the inclusion of norms (e.g. child labour), it has integrated them in its new GSP as incentives for greater access to European markets. At times, both seem to be more concerned about selling to each other than developing a partnership, with the result that trade disputes tend to cloud other positive dimensions of the relationship. New Delhi continues to be more sensitive about sovereignty issues.

5.7 Future prospects

India and the European Union are at the beginning of a process of building a strategic partnership, which will necessarily be built piece by piece, year by year. The relationship is not based on any specific short-term or immediate exigency, but on long-term interests of India and the European Union. India realizes the advantages of forging closer institutionalized links with Brussels. For the most part, the driving force behind EU-India relations will continue to be trade and commerce. We are likely to witness slow progress in cooperation on political and strategic issues. There is a demonstration of political will on both sides to take the relationship forward. Shared values undoubtedly facilitate the widening and deepening of a relationship; however, shared interests will ultimately determine the scope and content of the India-EU strategic partnership.

Notes:

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India and the Nonproliferation Regime

Seema Gahlaut

Introduction

During the July 2005 visit of Indian Prime Minister Manmohan Singh to the United States, President Bush recognized India as "a responsible state with advanced nuclear technology" and promised to discuss with the Congress and U.S. allies ways to allow India access to civilian nuclear fuel and technology for its energy sector.[1] In exchange for the pledge, Singh committed India to separate its weapons facilities from its civilian nuclear facilities, to put most of its civilian facilities under IAEA safeguards, to sign the IAEA Additional Protocol which will apply intrusive safeguards to its civilian facilities, harmonize its export control policies with those of the Nuclear Suppliers Group (NSG) and the Missile Technology Control Regime (MTCR), maintain the voluntary moratorium on nuclear testing, and participate in good faith in negotiations regarding the Fissile Material Cut-off Treaty (FMCT).

Critics of the agreement have advanced a number of reasons why this is a wrong turn in US policy. The primary criticism hinges on the fact that the deal undermines the spirit of the NPT, makes an exception for India, and therefore sets a bad precedent.[2] Supporters argue that the deal will garner significant gains for the nonproliferation regime, which NPT-centric approach has not been able to achieve since 1971.[3] The crux of both arguments rests on assessments of India's past and projected future behaviour regarding the nonproliferation regime.

Beyond this particular bilateral initiative, the issue remains relevant for global security. India's emergence as a major player in Asia is likely to have an impact on the economic, security, and technology architecture of the region and on the nonproliferation regime. India's nuclear and missile capabilities and its capacity to produce and export WMD-relevant materials and technologies have implications for both vertical (build-up) and horizontal (exports and transfers) proliferation respectively. The nuclear and missile build-up is also likely to affect the regional security scenario in South Asia and Asia.

This paper, therefore, will examine India's projected capabilities and behaviour regarding the following issues:

— International regimes aimed at controlling vertical proliferation. This will include a discussion of Indian policies and practices with regard to the major international nonproliferation treaties, such as the Nuclear Nonproliferation Treaty (NPT), the Fissile Material Control Treaty (FMCT), the Comprehensive Test Ban Treaty (CTBT), the Chemical Weapons Convention (CWC), the Biological and Toxin Weapons Convention (BTWC), the International Atomic Energy Agency (IAEA) and its Additional Protocol.
— International regimes and initiatives aimed at controlling horizontal proliferation. This will focus on issues of India's national export controls regarding sensitive technologies, its policies and practices with reference to the major multilateral export control regimes.[4] It will also include a discussion of India's response to the UN Security Council Resolution 1540, the Proliferation

— Security Initiative (PSI), and the bilateral US initiative called the Container Security Initiative.

Table 1: India's Membership in Nonproliferation Treaties and Regimes

Agreement	**Year**	**India's Membership** (year of joining)
International Atomic Energy Agency – IAEA Additional Protocol	**1957**	**Yes** (1957) - No
Partial Test Ban Treaty	**1963**	**Yes** (1963)
Comprehensive Test Ban Treaty	**1993**	**No**
Nuclear Nonproliferation Treaty	**1968**	**No**
Antarctic Treaty	**1961**	**Yes (**19 August 1983)
Nuclear Suppliers Group	**1975**	No
Geneva Protocol	**1928**	**Yes** (April 9, 1930)
Biological Weapons Convention	**1972**	**Yes** (15 July 1974)
Chemical Weapons Convention	**1993**	**Yes (**29 April 1997**)**
Australia Group	**1985**	No
UN Register on Conventional Arms	**1991**	**Yes** (1992)
Landmine Ban Convention	**1997**	**No**
Wassenaar Arrangement	**1995**	No
Outer Space Treaty	**1967**	**Yes** (18 January 1982)
Missile Technology Control Regime	**1987**	No
Hague Code of Conduct	**2002**	No

1. Main theses explored in the chapter

— Indian response to the nonproliferation regime is more nuanced than a mere NPT/non-NPT characterization would elicit.
— India has almost always maintained a cooperative stance toward the nonproliferation regime, even when it has been a non-member of major initiatives.
— Indian non-cooperation with the nonproliferation regime continues to remain focused on the discriminatory, and increasingly contradictory, provisions and implementation of the NPT and the CTBT – on almost all other components of the regime, Indian behaviour has been very supportive, if not exemplary.

2. Vertical nonproliferation regimes

India is one of the four countries to have never signed the NPT.[5] It tested nuclear weapons twice (in May 1974 and May 1998), but makes a distinction between vertical and horizontal proliferation. Simply put, it regards itself as a domestic but not an international proliferator.

India has opposed the NPT and CTBT for their discriminatory structures which (a) favour the nuclear haves over the have-nots, and (b) focus on disarming/de-

proliferating the have-nots at the cost of reducing nuclear weapons capabilities and stockpiles of the nuclear haves. According to a letter to the IAEA, India believes that "partial measures for non-proliferation will not work. The road map is clear – we have dealt with other categories of weapons of mass destruction i.e. chemical weapons and biological weapons by negotiating multilateral treaties that are comprehensive, universal and non-discriminatory. We need to adopt a similar approach to deal with nuclear weapons."[6]

2.1 NPT

According to India, this treaty attempts to maintain the post-WWII power structure unto perpetuity by privileging the P-5 and continues to focus on strengthening evermore intrusive measures against the non-P-5 [Article IV violations] without any attempt to rein in the P-5 arsenals or even to move toward eventual disarmament [Article VI is being violated or ignored].[7] The most recent NPT PrepCom meeting vindicated India's stand that NPT is unlikely to become a vehicle for global disarmament.

India is not a party to the NPT, but its conduct "has always been consistent with the key provisions of the Treaty as they apply to nuclear weapon states. Article I of the NPT obliges a nuclear weapon state not to transfer nuclear weapons to any other country or to assist any other country to acquire them. India's record in this regard is impeccable and a matter of public knowledge. This is in contrast to the poor record of some of the nuclear weapon states who have been active collaborators in, or silent spectators to, continuing clandestine and illegal proliferation, including export of nuclear weapon components and technology. Article III requires a party to the Treaty to provide nuclear materials and related equipment to any other country only under safeguards. India's policies of international cooperation in the nuclear field have always conformed to this principle. Article VI commits the parties to the Treaty to pursue negotiations to bring about eventual global nuclear disarmament. India is not only committed to commencing negotiations for a Nuclear Weapons Convention, it is also the only nuclear weapon state ready to do so."[8]

2.2 CTBT

India opposes CTBT because it allows subcritical and sub-kiloton tests in the name of stockpile stewardship. "India's refusal to sign the Comprehensive Test Ban Treaty (CTBT) was, in part, a reaction to (fusion) research by the nuclear weapons states. In turn, its subsequent decision to conduct underground nuclear tests was partly related to its conclusion that the CTBT had changed from a non-discriminatory instrument designed to promote both non-proliferation and disarmament into a tool for non-proliferation alone."[9] India believes that the objective of CTBT was not merely to end test explosions but to end the qualitative development and refinement of nuclear weapons whether through explosive or other means. Yet, CTBT leaves the door open for building leaner and meaner warheads – to compensate for quantitative cuts in P-5 arsenal.[10] As such, it too seeks to curb the weapons capabilities of the non-P-5 alone. Moreover, India objects to the Entry-into-Force clause of this treaty, which, in effect, seeks to force sovereign states to sign a treaty that they do reject.[11] However, India has maintained a voluntary ban on nuclear testing since its 1998 Shakti series of tests. This has held despite strong advocacy from some nuclear scientists and strategic experts to conduct more tests to validate design parameters of the warheads that India plans to deploy as per its declared nuclear doctrine.[12]

2.3 FMCT

India supports the "cut-off" version of the proposed Fissile Material Control Treaty, which will require it to verifiably end further production of fissile materials. But it does not support the version that seeks to eliminate existing stockpiles.[13]

FMCT concerns stockpiles of Plutonium and Uranium 235. According to a recent study,[14] the largest stockpile of separated Plutonium – 183 tonnes – will be owned by Russia, followed by the UK (99), US (92), France (86). India has approximately 1.9 tonnes. The largest stockpiles of highly enriched uranium (HEU) – 1088 tonnes – are in Russia, followed by the United States (705), France (35.4), UK (23), and China (22). India has approximately 0.51 tonnes.

2.4 IAEA safeguards and the Additional Protocol

As an active member of the IAEA Board of Governors since the 1950s, India's contribution to the technical cooperation programme is the largest from among the developing world. It maintains safeguards on its imported nuclear power plants (US-Canada-built Tarapur and Madras NPPs, and the new Russian-built NPPs at Koodankulam). India's bilateral agreement with the United States regarding safeguards on Tarapur [INFCIRC/154, Part 1] expired on 24 October 1993. However, India decided to voluntarily continue the safeguards bilaterally with the IAEA. Moreover, under the original agreement, the United States was to take back the spent fuel from Tarapur – but, due to environmental concerns at home, it has been unable to do so until now. This spent fuel remains in Tarapur, under the voluntary safeguards India has adopted after the original agreement expired. Clearly, India has continued to abide by the spirit of the NPT even after the supplier state reneged on the contract.

In 2000, India signed a Memorandum of Understanding (MoU) with the IAEA for cooperation in connection with the Agency's regional and interregional training events, individual and group fellowships training programmes carried out as part of the Technical Cooperation activities of the IAEA. The MoU was an important milestone in India's relationship with the IAEA and formalized India's longstanding offer to make the Bhabha Atomic Research Centre (BARC) a "centre of excellence/Regional Resource Unit (RRU)" under the Agency's Technical Cooperation for Developing Countries (TCDC) programme.[15]

India does not have its indigenously-built nuclear power plants under international safeguards and is unlikely to accept full-scope safeguards in the near future. Therefore, India has not signed the AP – it is, in effect, negotiating for exemptions similar to those enjoyed by the P-5, viz. some designated (weapons) facilities to be beyond the purview of IAEA inspections and inspectors. The US-India nuclear deal of July 2005 accepts that India will separate its civilian and weapons facilities and put its civilian facilities under IAEA safeguards – where the intrusive measures as per the Additional Protocol will apply.

2.5 BTWC

India ratified the Biological and Toxin Weapons Convention in 1974. It participated in all four Review Conferences of the BTWC and in the meetings of the Group of Governmental Experts. India was an active participant in the Ad Hoc Group working to strengthen the convention by a protocol, until U.S. rejection effectively abrogated the Group's efforts.

2.6 CWC

India is an original signatory to the Chemical Weapons Convention, having signed it on 14 January 1993, and was among the first 65 countries to have ratified the Treaty. The universal and non-discriminatory character of the CWC are primarily responsible for India's enthusiastic effort, as the first Chairperson of the Executive Council of the Organization for Chemical Weapons(OPCW), to guide the deliberations of the organization during its crucial first year.

Since April 1997, six States Parties have declared chemical weapons stockpiles, totalling more than 71,000 metric tons. India is one of these "possessor" states. "While India, the United States of America, and a third State Party met their obligation in relation to the first destruction target (20 percent of its Category 1 arsenal by the end of 2001), only India and the United States of America met their obligation in relation to the second destruction timeline."[16] India met the deadline set by the Convention for the destruction of 45% of its Category 1 chemical weapons six months ahead of schedule, and destroyed all of its Category 2 chemical weapons stockpiles.[17]

Thus, in 2005, from among the six possessor states, India is alone in meeting its deadlines for verified CW destruction and for inspections of its facilities by the OPCW. It has also incorporated all three CWC Schedules of chemicals into its national export control list.

3. Horizontal nonproliferation regimes

3.1 National export controls

Indian policy and system for controlling exports of WMD-relevant items has been voluntary and in operation since 1946. The rationale for export controls during the early phases of this policy stemmed from consolidating national/federal control over nuclear and other strategic minerals and R&D assets. Over time, however, this was replaced by the focus on projecting India as a responsible member of the international community and a reliable and safe destination for technology-embedded partnerships. The export control system is extensive, fairly routinized, and has become increasingly comprehensive and specific in terms of the items controlled, the licensing procedures, penalties, and end-use/user requirements.[18]

India's excellent record in controlling its sensitive exports despite remaining outside the NPT/CTBT and outside the informal export control regimes (see below) is, therefore, best explained by the non-episodic application of the policy and high level of political commitment to the principles of horizontal nonproliferation rather than a response to external pressure. The consistency with which this commitment has held over the years – even during times of extreme economic and political difficulties – also underscores across-the-board political agreement on the issue.[19]

3.2 Multilateral export control regimes

India has been a critic of the four informal regimes that have sought to work outside the framework of the international nonproliferation treaty regime. It has, in the past, deemed that the Nuclear Suppliers Group (NSG), the Australia Group (AG), the Missile Technology Control Regime (MTCR), and the Wassenaar Arrangement (WA) are, in essence, technology-denial regimes that operate as closed, self-selected cartels. India, in turn, has been a target for technology-denials by members of these regimes. However, in the past few years, India appears to have changed its stance toward these regimes to a certain extent.[20]

As a non-member of the NPT and the export control regimes, India is not bound by international norms and obligations against nuclear, missile, and high-technology dual-use exports, and as such, has the capacity to undermine these regimes.[21] In recent years, India has scaled up its civilian as well as weapons-dedicated nuclear programmes, and is simultaneously seeking international cooperation to build additional nuclear reactors for power generation,[22] and equipment to enhance the safety of these installations. Given India's considerable nuclear expertise, the international export control community sees India's potential both as a source of secondary proliferation, and as a part of the nonproliferation solution. The difficulty of reconciling India's nuclear weapons status within the NPT makes it even more urgent to find a pragmatic modus vivendi.

Experts continue to debate the feasible options for eliciting cooperation from India in restraining its dual-use exports in the future.[23] This is linked to the broader debate among experts regarding reforms, and options to strengthen the effectiveness of the export control regimes in promoting international security.[24] This includes questions such as whether the regimes should extend membership to all countries that have the capacity and incentive to exploit WMD technology for economic reasons, or limit it to countries that share similar values and commitments, but might lack the capacity to proliferate?[25] India straddles both these categories in that it possesses the WMD capacity but has shown sustained commitment to nonproliferation beyond its borders. Thus, it maintains a unilateral system of controlling exports of WMDs, related technologies and materials, and is an active member of the IAEA on nuclear safety issues, but refuses to sign the NPT.[26] The US-India deal of July 2005 responds to these dilemmas by finding a way around the NPT-India gridlock.[27]

It is also precisely within this context that India and the NSG have approached their recent dialogue, especially since the 1998 nuclear tests. India has been sending representatives to the NSG outreach seminars on export controls since 2003-04.[28] An NSG delegation, comprising the current chair (South Korea), the Czech Republic and Sweden visited India for an official meeting on April 7, 2004. They were there in India reportedly for consultations on peaceful uses of nuclear energy and nonproliferation.[29] However, at least one report in the Indian media suggested that India's position on NSG has "recently changed and India is seeking active US support in its quest for NSG membership… without signing the NPT."[30] No breakthrough was reported after the April 2004 NSG visit, but both sides agreed to continue their dialogue on a regular basis.

The Indian strategic community has begun to openly debate the possibility of a rapprochement with the NSG based on a mutually beneficial "bargain". "In recent years, U.S. officials said, the French government has worked behind the scenes to change the NSG rules with the aim of developing nuclear cooperation with India**.**"[31] Briefly, the bargain had centered round the "islanding" idea that India has informally explored in recent years. Under this, India would place all its civilian facilities under IAEA safeguards in exchange for receiving international assistance in building additional nuclear power plants. "In mid-2002 New Delhi diplomats told US Deputy Secretary of State Richard Armitage that India would consider putting up to 80% of its reactors under safeguards if the US would not interfere with efforts led by the governments of Russia and France to bend or change nuclear export control laws and allow industry in these vendor countries to build PWRs (pressurized water reactors) in India."[32] With the July 2005 nuclear deal with the United States, India has formal-

ized this bargain – and U.K., France, Russia, and Canada have welcomed this by announcing that they too shall engage in civilian nuclear cooperation with India – under IAEA safeguards.[33]

India's position on MTCR has also evolved over time. Indian officials had seen the establishment of the MTCR (in 1987) as designed to thwart its domestic Integrated Guided Missile Development Program (started in 1983) – a view that was mirrored in China during the previous decades.[34] While the government of India has acknowledged that MTCR-related technology embargoes delayed its missile development, it also forced India's domestic programme to develop indigenous capabilities, eventually boosting its overall civilian and military missile capacity.[35] In September 1994, the MTCR had sent its first official delegation to India, and consultation with MTCR was revived in 2004.[36]

While India has not reconsidered its opposition to seeking membership, India's policies in recent years reflect a growing sensitivity to the MTCR. Thus, Categories 4 and 5 of India's control list (SCOMET) clearly regulate MTCR-controlled items. And like the MTCR, Indian laws do not prohibit but restrict (i.e. require a license for) the export of these items. Moreover, in public statements in early 2005, Indian officials have emphasized that the range of its BrahMos supersonic anti-ship cruise missile (290 km range; Mach 2.8 speed) has been deliberately kept under the MTCR's range limits. This missile was developed by BrahMos Aerospace Pvt. Ltd, a joint-venture company established in February 1998 between India's DRDO and Russia's missile design bureau NPO Mashinostroyenia.[37] India and Russia plan to induct the missile into their armed forces in the near future. An export version has been offered in the international market, and as mentioned in the first section of this report, has generated strong response. Indian defense sources, however, stress that "the missiles to be exported will in no way contravene international norms or exceed restrictions imposed by the Missile Technology Control Regime (MTCR), even though India is not a signatory to it."[38] Now, as of July 2005, Indian national export control list [SCOMET] is fully harmonized with the control lists of NSG and MTCR.[39]

India has also participated in outreach by the Australia Group in recent years. India's list of controlled chemicals is extensive as per the requirements of the CWC. It also controls a number a pathogens as per its obligations under the BTWC and the Indian Environment Protection Act mandates the establishment of procedures for security and oversight of pathogens, microorganisms, genetically modified organisms and toxins in production, import, export, use and research. As such, there is a significant degree of overlap between India's control list regarding chemicals and biological materials. However, there is no information in the public domain on whether India plans to expand its control list in order to unilaterally reconcile it with the AG control list, much like China has done while increasing its outreach with the AG since 2003.[40]

On a parallel front, from January 2004 till July 2005, the US-India bilateral dialogue included the initiative called Next Steps in Strategic Partnership (NSSP). The NSSP envisaged cooperation in the civilian nuclear and space sectors, high-technology commerce, and missile defense. The two sides concluded Phase One of this initiative in September 2004, with India agreeing on procedures for conducting end-use visits in India and enhanced nonproliferation measures. The United States also recently posted an export control attaché at its embassy in New Delhi to conduct end-use checks and outreach to Indian government officials and industry on export controls.[41] The two sides worked on

additional phases of the NSSP, under which India will continued to strengthen its export control regime and harmonize its dual-use control list with international/multilateral lists. In return, the United States further eased certain restrictions on exports of dual-use items to India. This also allowed each side to build confidence and understand each other's export control systems.[42] In July 2005, the NSSP was declared to have been concluded, and new agreements have been put into place to carry the detailed dialogue on further cooperation.[43]

3.3 UNSC Resolution 1540

India is a signatory to the 12 UN Conventions that deal with various aspects of terrorism. (See Table 2)

Table 2: India's Membership in Multilateral Conventions on Terrorism

	Name of Convention	Year	Signed	Ratified
1	Convention on the Prevention and Punishment of Crimes against Internationally Protected Persons, including Diplomatic Agents	14.12.1973		State party
2	International Convention against the Taking of Hostages	17.12.1979		State party
3	International Convention for the Suppression of Terrorist Bombings	15.12.1997		State party
4	International Convention for the Suppression of the Financing of Terrorism	09.12.1999		State party
5	Convention on Offences and Certain Other Acts Committed on Board Aircraft	14.09.1963	22.07.1975	20.10.1975
6	Convention for the Suppression of Unlawful Seizure of Aircraft	16.12.1970	14.07.1971	12.11.1982
7	Convention for the Suppression of Unlawful Acts against the Safety of Civil Aviation	23.09.1971	11.12.1972	12.11.1982
8	Convention on the Physical Protection of Nuclear Material	03.03.1980	12.03.2002	11.04.2002
9	Protocol on the Suppression of Unlawful Acts of Violence at Airports Serving International Civil Aviation, supplementary to the Convention for the Suppression of Unlawful Acts against the Safety of Civil Aviation	24.02.1988	22.03.1995	21.04.1995
10	Convention for the Suppression of Unlawful Acts against the Safety of Maritime Navigation	10.03.1988		State party
11	Protocol for the Suppression of Unlawful Acts against the Safety of Fixed Platforms Located on the Continental Shelf	10.03.1988		State party
12	Convention on the Marking of Plastic Explosives for the Purpose of Detection	01.03.1991	16.11.1999	15.01.2000
13	SAARC Regional Convention on Suppression of Terrorism	04.11.1987	04.11.1987	04.11.1987

In October 2004, India submitted a comprehensive report to the 1540 Committee, detailing its various laws, regulations, procedures and penalties that regulate/limit unauthorized possession and use of WMDs and related technologies. Subsequently, in May 2005, the Indian Parliament passed the Weapons of Mass Destruction and their Delivery Systems (Prohibition of Unlawful Activities) Act, 2005. This Act, as per UNSCR 1540, criminalizes WMD-possession by unauthorized individuals and entities. The provisions of this comprehensive Act apply to export, transfer, re-transfer, transit and trans-shipment of material, equipment or technology related to

weapons of mass destruction – thereby closing some of the loopholes in existing Indian laws and regulations that could be exploited by non-state actors and terrorists seeking weapons of mass destruction and related materials. The Act provides a more comprehensive definition of "technology" to include intangible technology transfers by Indian citizens abroad and by foreign nationals studying or working in India. It also establishes specific civil and criminal penalties for violations and expands liability for WMD export control violations to all individuals involved in a particular business enterprise. Finally, the Act establishes that an individual will be deemed in violation of its provisions if he/she "knowingly facilitates" the prohibited WMD-activity and exports an item "knowing that the item is intended to be used" in WMDs. This increased liability on the individual suggests a clear insertion of the intent of catch-all clause (although not the clause itself) in the regulation as well as implementation of India's controls on WMD-relevant strategic exports.

3.4 PSI

India has become fairly concerned about protecting its sea lanes of communication and has been active in the Indian Ocean region in the past few years. Since 2001, Indian and Japanese Coast Guard warships have undertaken four joint exercises focusing on anti-hijacking and sea piracy. The latest of these took place off the Mumbai coast in October 2004.[44] Emphasizing the immediate necessity to institutionalize regional mechanisms aimed at dealing with these threats, the Indian Defense Minister, in his concluding address at the 7th Asian Security Conference, said Indian Navy and Coast Guards could play a significant role in building up maritime cooperation with other regional navies to deal with these threats.[45]

With the Indian Navy sitting astride the Indian Ocean's sea lanes of communication, Washington keenly seeks India's participation to make PSI (Proliferation Security Initiative) a broad-based venture extending beyond states under the US-led nuclear umbrella and other security arrangements. US Secretary of Defense Rumsfeld reportedly discussed India's participation in the PSI during his visit to India during 2004.[46] The US also raised the issue of Indian participation in the PSI with Prime Minister Manmohan Singh during the US visit in mid-July 2005. On the Indian side, there appears to be some debate as to the suitability of India either joining or even conditionally cooperating with the PSI. One school of thought believes that India needs to impress on the US that it should seek suitable amendments to treaties, conventions or international law to set the PSI operations on a sound legal basis before India can consider joining the PSI.[47] Others had argued that "the central, unresolved issue is India's status. The US does not desire or see the need to accommodate India within the nonproliferation regime, yet paradoxically wants India to extend full cooperation to that regime."[48] This particular criticism, however, is likely to go away now as the United States and its allies make concerted efforts to bring India into the fold via the July 2005 deal. Those who are cautiously considering the implications of Indian cooperation with the PSI have highlighted some added concerns: (1) the accuracy and unbiased nature of the intelligence inputs provided by the PSI core group to cooperating countries when an interdiction is needed, and (2) the possibility that some WMD-transactions will be ignored by PSI members because they involve strategic allies (e.g. Pakistan).

On the other hand, there are some Indian analysts who see value in India joining the PSI. In May 2005, India's Chief of Naval Staff, Admiral Arun Prakash, reportedly

hinted at this by saying: "While it will be a political decision whether or not to join the PSI, the Navy has the wherewithal and is also ready and willing."[49] Some experts believe that "by joining this initiative, New Delhi will be in a position to share its intelligence on Pakistani proliferation as well as have access to western intelligence on the Pakistan-Chinese-North Korean interactions. Since terrorism by non-state actors has assumed global dimensions, the war against that must necessarily be fought by a world-wide coalition of democratic nations. In such a war, intelligence-sharing is of crucial importance."[50] Other analysts believe that PSI will augment the role of the Indian Navy in the region and help India cement its strategic cooperation with the United States, Japan and other Asian members of the PSI.

3.5 CSI

India plans to start its partnership with the United States on the bilateral Container Security Initiative in 2005. The CSI programme will begin with a pilot project at the Jawaharlal Nehru Port Trust and will be gradually replicated at other ports depending on the programme's success.[51] The supporters of this programme see it as the first step toward regionalizing (if not globalizing) such bilateral undertakings, to make container cargo safe from terrorist actions – no matter which port it is heading toward.

4. Conclusion

The above discussion shows that India's relationship with the nonproliferation regime is fairly nuanced. India has voiced its consistent opposition to those components of the nonproliferation regime which it deems to be discriminatory and/or arbitrary: the NPT, the CTBT, and the informal export control regimes fall in this category. Treaties which are universal and apply uniformly to all signatories get enthusiastic and firm support from India. However, even where India has opposed particular treaties and agreements by not joining them, it has unilaterally adopted the practices and commitments of these agreements. India, for instance, has unilaterally maintained a moratorium on nuclear testing since 1998, and has unilaterally adopted a no-first-use principle in its nuclear weapons doctrine. Moreover, it has unilaterally imposed and maintained strict export controls on its nuclear, biological, and missile capabilities – while remaining a target of technology denials from members of the NSG, MTCR, and AG.

In the past few years, increasing pragmatism is evident in Indian foreign and security policies: there is a marked decline in anti-NPT and anti-export control regime rhetoric. This has been complemented by initiation of focused and constructive dialogue with all nonproliferation agreements/groups that hold out the possibility of cooperation with India outside of the NPT. There are several examples of the new Indian desire for rapprochement with those components of nonproliferation that do not make de-nuclearization the cornerstone of engagement with India. These include India's renewed dialogue with the multilateral export control regimes such as the NSG and MTCR on the one hand, and with the IAEA and the United States on the other.

Thus far, despite remaining outside the NPT-CTBT, India has managed to enhance its nuclear and missile capabilities significantly – to the extent that Indian nuclear and missile programmes are inured against external sanctions and denials.[52] At the same time, India has not used its WMD capabilities to undermine the nonproliferation regime – for instance, by aiding other states in acquiring nuclear and missile capabilities. As one of the fastest growing economies in Asia, and the fifth largest economy in the world (in PPP terms), India

has embarked on its path toward becoming a knowledge economy and constituting 1 percent of global trade by 2007. As India becomes a major economic and technological power in the coming decades, a formal rapprochement between India and the nonproliferation regime would be mutually beneficial to both sides.

Notes

1 Text of the Joint Statement available at http://usinfo.state.gov/sa/Archive/2005/Jul/18-624598.html.

2 See Strobe Talbott: Good Day for India, Bad for Nonproliferation, in: Yale Global, July 21, 2005, http://yaleglobal.yale.edu/display.article?id=6042 Korb, Lawrence/Ogden, Peter: A Bad Deal With India, in: Washington Post, August 3, 2005, p.A19; and Lim, Robyn: US Makes a bad deal with India, in: PacNet 37B, September 7, 2005, http://www.csis.org/pacfor/pac0537b.pdf

3 See: Power, Jonathan: Bush starts to get it right on India's nuclear status, in: Daily Times, July 29, 2005, http://www.dailytimes.com.pk/print.asp?page=story_29-7-2005_pg3_2&ndate=7/29/2005%209:03:45%20PM; Harrison, Selig S.: Why the India Deal Is Good, in: Washington Post, August 15, 2005, p.A15; and Gahlaut, Seema: U.S.-India nuclear deal will strengthen nonproliferation, in: PacNet 37, August 31, 2005, http://www.csis.org/pacfor/pac0537.pdf

4 These are the Nuclear Suppliers Group (NSG), the Australia Group (AG), and the Missile Technology Control Regime (MTCR). The fourth regime is the Wassenaar Arrangement (WA) – which is somewhat irrelevant here as it concerns conventional weapons and related dual use technology and India is not an exporter of such weapons.

5 The other three are Pakistan, Israel and Bhutan. With North Korea withdrawing from the treaty in 2003, there are now 5 countries outside of the NPT.

6 http://www.iaea.org/Publications/Documents/Infcircs/1998/infcirc568.pdf

7 Scheinman, Lawrence: Disarmament. Have the Five Nuclear Powers Done Enough?, in: Arms Control Today, January 2005; http://armscontrol.org/act/2005_01-02/Scheinman.asp

8 Statement of the Indian Minister for External Affairs, March 2005, available at http://www.iaea.org/Publications/Documents/Infcircs/2005/infcirc644.pdf

9 Zerriffi, Hisham/Makhijani, Arjun: Pure Fusion Weapons?, in: Institute for Energy and Environmental Research (IEER), http://www.ieer.org/ensec/no-6/fusion.html. On implications of stockpile stewardship, see Paine, Chris/McKinzie, Matthew G.: Does the U.S. Science-Based Stockpile Stewardship Program Pose a Proliferation Threat?, in: NRDC Report, http://www.nrdc.org/nuclear/athreat.asp.

10 See Reynolds, Paul: Mini-nukes on US agenda, in: BBC Online, http://news.bbc.co.uk/2/hi/americas/3126141.stm and Peña, Charles V.: Mini-Nukes and Preemptive Policy: A Dangerous Combination, in: Cato Policy Analysis 499, November 19, 2003; http://www.cato.org/pubs/pas/pa-499es.html; and Bush seeks cash for bunker-buster nukes, ABC News Online, February 8, 2005, http://www.abc.net.au/news/newsitems/200502/s1298463.htm. On UK initiatives, see "US-UK Nuclear Weapons Cooperation Up for Renewal," Disarmament Diplomacy, Issue No.76, March/April 2004, and Edwards, Rob: Conspiracy threat to anti-nuke treaty, in: New Scientist, 17 June 2004, http://www.newscientist.com/article.ns?id=dn6016. On France see: Tertrais, Bruno: France Stands Alone, in: Bulletin of the Atomic Scientists, July/August 2004 pp.48-55; http://www.thebulletin.org/article.php?art_ofn=ja04tertrais.

11 CTBT lists 44 countries – without whose signature the treaty cannot come into force. For the list of these countries, see Annex 2 at http://www.ctbto.org/.

12 Iyengar, P. K.: In Testing Times. Repercussions of Signing the CTBT, in: The Times of India, February 17, 2000, http://www.timesofindia.com/170200/17edit4.htm.

13 On Indian debate regarding the FMCT, see Rajagopal, S.: Fissile Material Cut-off Treaty and Options for India, in: NIAS Report WP1-99, 1999, Banglore, India.

[14] Global Stocks of Nuclear Explosive Materials. Summary Tables and Charts, ISIS, July 12, 2005, Revised September 7, 2005; http://www.isis-online.org/global_stocks/end2003/summary_global_stocks.pdf

[15] In November 2005 it organized a regional training workshop on nuclear safety training under the IAEA auspices.

[16] "Consolidated Unclassified Verification Implementation Report (April 1997 – 31 December 2002)," OPCW Technical Secretariat Background Paper, First Review Conference RC-1/S/6, URL: http://www.opcw.org/html/global/ra_frameset.html

[17] "Report of the OPCW on the Implementation of the Convention (CWC) in 2003," C-9/5, 30 November 2004; available at http://www.opcw.org/docs/csp9/c905.pdf

[18] For more, see Gahlaut, Seema/Srivastava, Anupam: Export Control Developments in India, in: Report for Carnegie Corporation of New York, Center for International Trade and Security, University of Georgia, June 2005; available at http://www.uga.edu/cits

[19] In 1980s, Libya had offered to pay all of India's national debt in return for nuclear weapons technology. India refused, and Libya approached Pakistan, which, through A.Q. Khan, complied. In November 1991, India signed an agreement with Iran to supply it a 10 MW nuclear reactor. United States and its allies convinced India that it might contribute to proliferation by Iran. Despite its excellent relations with Iran, and its dependence on Iran for oil, India backed out of the deal. Subsequently, other states (Russia and China) stepped in to fill the void. In September 2005, India voted with the EU-3 and the United States in the IAEA resolution asking Iran to comply with its NPT obligations.

[20] For a description of Indian views on the export control regimes, see Brahma Chellaney, Orbis, 2003. For an analysis of Indian views on export controls, see Cupitt, Richard/Gahlaut, Seema: Indian and US Perspectives on Nonproliferation Export Controls, in: Gary Bertsch/Seema Gahlaut/Anupam Srivastava (eds.): Engaging India. US Strategic Relations with the World's Largest Democracy, New York 1999. For an early examination of India's options vis-à-vis the export control regimes, see Gahlaut, Seema: Removing the (Cob-) Webs of Technology Controls. Assessing the Relevance of Nonproliferation Regimes for India, in: Amitabh Mattoo (ed.), India's Nuclear Deterrent. Pokharan II and Beyond, New Delhi 1999 and Gahlaut, Seema: Technology, Security, and International Regimes. India's Options, in: Bharat-Rakshak Monitor, November 1999; available at http://www.bharat-rakshak.com/MONITOR/ISSUE2-3/gahlaut.html

[21] India is a member of the Chemical Weapons Convention and has enacted extensive controls on exports of chemicals specified under the CWC Schedules. India is also member of the BWC, and despite the absence of a similar specification of controlled items in this treaty, it maintains self-imposed restraint on exports of pathogens – these are similar to Australia Group controls.

[22] The Chairman of Nuclear Power Corporation of India Limited (NPCIL) reiterated in 2002 that if the goal of generating 20,000 MWe from nuclear power plants by 2020 has to be achieved, then NPCIL should have some flexibility and get investments from sources other than government. Indian officials have stated that additional sources could be domestic or foreign. See: Nuclear Power Sector to Seek More Investments, The Hindu, April 3, 2002; URL http://www.hinduonnet.com/thehindu/2002/04/03/stories/2002040303731300.htm

[23] See, for instance Cohen, Avner/Graham Jr., Thomas: An NPT for non members, in: Bulletin of the Atomic Scientists 60, May-June/2004, pp.40-44; and Miller, Marvin/Scheinman, Lawrence: Israel, India, and Pakistan: Engaging the Non-NPT States in the Nonproliferation Regime, in: Arms Control Today, December 2003; URL: http://www.armscontrol.org/act/2003_12/MillerandScheinman.asp

[24] For more on this issue, see Michael Beck and Gahlaut, Seema: Creating a New Multilateral Export Control Regime, in: Arms Control Today, April 2003; URL http://www.armscontrol.org/act/2003_04/beckgahlaut_apr03.asp

[25] For more on this issue see Gahlaut, Seema/Zaborsky, Victor: Do Nonproliferation Export Control Regimes Have the Members They Really Need?, in: Comparative Strategy, Fall 2003. The recent induction of China into NSG appears to be a response to the former imperative while the induction of states like Estonia, Malta, and Latvia suggests the latter imperative.

[26] India has signed all 12 international conventions on anti-terrorism measures. However, no

effective mechanism exists till date that ensures and verifies their continued enforcement by signatory states.

27 For more, see Gahlaut, Seema: U.S.-India nuclear deal will strengthen nonproliferation, in: PacNet 37, August 31, 2005, http://www.csis.org/pacfor/pac0537.pdf

28 Author interviews with senior Indian officials, 2004-05.

29 "On Visit of a Nuclear Suppliers' Group (NSG) Troika", April 8, 2004 (posted on Embassy of India website). The US Nuclear Regulatory Commission also visited India twice during 2003-04 to discuss physical protection and nuclear safety issues.

30 Nayar, K.P.: Delhi marches ahead on 'strategic' tie-up road, in: The Telegraph, April 12, 2004; URL http://www.telegraphindia.com/1040412/asp/nation/story_3116122.asp?headline=Delhi~marches~ahead~on~'strategic'~tie-up~road

31 Hibbs, Mark: New Delhi Last Year Offered U.S. to Safeguard Most Power Plants, in: Nucleonics Week, March 27, 2003; URL: http://www.platts.com

32 Ibid.

33 Jain, Ajit: Canada to supply N-reactors to India, in: Rediff, September 27, 2005, http://www.rediff.com/news/2005/sep/27canada.htm; Text of France India joint statement, Paris, September 12, 2005; http://news.webindia123.com/news/showdetails.asp?id=115744&n_date=20050912&cat=World; White, Michael: Blair backs improved nuclear cooperation with India, in: The Guardian September 9, 2005, http://politics.guardian.co.uk/foreignaffairs/story/0,11538,1566218,00.html; and "Russia Endorses Nuclear Energy Pact," Press Trust of India, New York, September 16, 2005; http://www.defenceindia.com/12-sep-2k5/news18.html

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36 An MTCR delegation had visited India in September 1994, and unofficial consultations had occurred in 2001-02; but the next official visit took place in March 2004.

37 India holds 69% stake in the joint venture while Russia has a 31% stake. BrahMos has been successfully field-tested from sea-based platforms, but is capable of being launched from aerial and land platforms as well. For more, see URL http://www.brahmos.com/aboutus.html.

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42 For other achievements of NSSP, see Gahlaut, Seema/Srivastava, Anupam: A Deal Whose Time Had Come, in: India Abroad, August 12, 2005.

43 New US-India agreements include the Economic Dialogue, the Energy Dialogue, the Global Democracy Initiative, the HIV/AIDS Partnership, and proposals to establish a Science and Technology Framework Agreement and the Knowledge Initiative on Agriculture. See the testimony of US Under Secretary for Political Affairs, R. Nicholas Burns at http://www.state.gov/p/us/rm/2005/52753.htm

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[51] Dhal Samanta, Pranab: India soon to join a US-led security group, in: Indian Express, 31 January 2005; http://www.indianexpress.com/full_story.php?content_id=63758

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India-US Relations

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Abstract

India and the United States have initiated a sustained effort in recent years to pursue strategic cooperation, with an explicit focus on security/defence, trade, and technology security issues. The process of bilateral convergence across a range of economic and security issues started imperceptibly in the 1990s, expanded significantly in content and scope in the last few years, and is likely to have a growing impact on the strategic stability and prosperity of Asia in the future.

This chapter will look at three domains of the bilateral relationship: economy/trade, security/defence, and advanced technology. For each domain, it will review the level of existing US-India cooperation, identify the drivers of this convergence of interests, and assess the challenges and opportunities inherent in their efforts to deepen the relationship in the coming years.

1. Introduction

The May 2005 report by CIA identified India "as an emerging global power" and the Bush administration has publicly stated that it welcomes this rise and wants to assist India in reaching this position, so that the two countries can work together to solve a range of economic and security problems in Asia and elsewhere in the world. One explicit indication of the rapid qualitative transformation of bilateral ties was the agreement signed on July 18, 2005 by President Bush and the Indian Prime Minister, Dr. Manmohan Singh, during the latter's first state visit to the United States.[1] The agreement recognizes India "as a state with advanced nuclear capabilities" and commits each side to a set of reciprocal steps that will enable US assistance to India's civilian nuclear programme. This agreement builds upon the progress made under the previous bilateral initiatives, specifically the High-Technology Cooperation Group (HTCG) of November 2002,[2] and the Next Steps in Strategic Partnership (NSSP) of January 2004.[3] Both initiatives helped improve the state of technology security in India, and in turn enabled the US side to assist India overcome its energy deficit through nuclear energy without undermining US nonproliferation goals and commitments. Aside from the above, the two sides are also engaged in significant collaborative initiatives in counter-terrorism and defence, apart from diverse programmes in agriculture, infrastructure and the broader economic sphere.

This emerging partnership between the world's most powerful democracy and its largest represents one of the most significant developments in the post-Cold War international system. The end of the Cold War provided both countries the incentive and the latitude to emerge from decades of relative estrangement to begin identifying domains of mutual convergence. In 1995, the US government recognized India as one of the ten "big, emerging markets" with which it wanted to increase trade and economic cooperation. The same year, with the initiative of Dr. William Perry, the then US Secretary of Defense, the Indo-US Defense Agreement was signed, aimed at removing obstacles to greater defence and high-technology cooperation. In 1996, both sides coordinated their positions during the early negotiations for the Comprehensive Test Ban Treaty (CTBT), but ended up

with significant differences in their final decisions.[4] The upward trend lines of engagement were ruptured following India's second round of nuclear tests in May 1998, with the US imposing severe economic and non-proliferation related sanctions. However, within months, both sides began an intense dialogue that by end-1999 resulted in the lifting of most of the sanctions, greater clarity about each other's strategic positions, and the resumption of broad-spectrum engagement.[5]

Bilateral ties received a big boost with President Clinton visiting India in March 2000, although significant differences remained, especially in the non-proliferation and security arena. The Bush administration came into office with the clear recognition that India merits a much higher profile in the US strategic calculus than had been reflected in US policies thus far.[6] "President Bush viewed India not just in the narrow and distorted perspective of a sub-regional context, but as an emerging global power."[7] The traumatic events of 9/11 re-inserted Pakistan as an ally in the US-led Global War on Terror (GWOT). Nonetheless, the Bush team has continued the Clinton-era approach of gradually "de-hyphenating" US relations toward India and Pakistan, crafting policies that enable the US side to pursue closer relations with both countries. Furthermore, apart from deepening cooperation on counter-terrorism, the United States has pursued an impressive agenda of collaboration with India that the current US ambassador to India characterizes as "the most significant strategic partnership for the United States anywhere in the world."[8]

With President Bush slated to visit India in February 2006, the pace and scope of cooperation is expected to intensify further. Although notable normative and practical differences remain in select quarters, overall engagement has acquired sufficient gravitas such that a convergent trend line can be predicted for the foreseeable future. It is within this context that the subsequent sections of this chapter examine the diverse domains of US-India relations.

2. Economic dimension

US-India economic relations are long-standing and diversified, and yet remain far weaker than bilateral ties in defence and technology sectors. The reasons for this include their estrangement during the Cold War period and the relatively insular nature of the Indian economy until the 1990s. Even so, the United States provided critical and catalytic assistance to a range of Indian initiatives during the Cold War, including during the years when US policy "tilt" toward its military ally, Pakistan, was most discernible.

Thus, the United States provided crucial assistance as India launched its three agricultural revolutions -- the Green Revolution (food grain), the Blue Revolution (marine products) and the White Revolution (milk/dairy products). During the Green Revolution (1960s-70s), key US parties introduced disease-resistant and high-yield variety seeds and crops, and used PL-480 offset funds to introduce modern farming and storage techniques. In less than two decades, India became self-sufficient in food grain production, liberated from the scourge of famine and mass starvation to become a net-exporter of select agricultural commodities. During the Blue Revolution (1970s), the United States provided modern technology for fishery and storage that helped catapult India's annual fishing production from 67,000 tons in 1981 to 5m tons by 2004. Marine products are now a large and growing share of Indian exports. Similarly, during the White Revolution (1980s), parties in the United States assisted India develop its cooperative farming techniques and banking support structures. The result is that India is now the

world's largest producer of milk and an increasingly competitive exporter of milk, cheese and assorted dairy products.

The government of India (GOI) is now taking steps to launch its second green revolution with US assistance. Its net food grain production reached a record high of 213 million tons in 2003. GOI has set itself the stiff target of reaching 300 mT by 2020, by increasing the production of not only food grains but high value cash crops, and also increasing the land area under irrigation and improving farming, storage and distribution techniques. In this context, United States and India signed a landmark Agriculture Initiative in July 2005 that envisages targeted US investment and technology assistance to help India reach this ambitious goal.[9] GOI will facilitate this by further liberalizing investment norms and reducing non-tariff barriers so that US goods can compete more equally in the Indian markets.

For now, US-India trade in goods (at $28b)[10] appears anaemic in comparison to US trade figures with Mexico, Canada, Japan and China, which are all in the range of $200b. However, US-India trade in goods has registered a compounded annual growth rate (CAGR) of 16% during 2001-04, and is poised to grow faster. Both sides have set the target of $50b by 2010 and crossing $100b by 2020. This should not be difficult given the current growth rates, although significant structural and factor market barriers will need to be overcome. And in addition to trade in goods, US-India trade in services stood at $35b in 2004, growing at over 35% CAGR in recent years.

United States remains the largest trading partner for India, and the second largest investor (behind Mauritius) in terms of foreign direct investment (FDI) and foreign institutional investment (FII). In 2004, US annual FDI and FII flows to India stood at $4.2b. In addition to these, intra-company flow of funds has also registered an impressive growth in recent years. Thus, US multinational companies (MNCs) transferred over $20b into their Indian subsidiaries during 1994-2004, while Indian MNC investment into its US-based holdings crossed $5b during the same period.

Table One: United States-India Trade & Investment Figures, 1993-2004 ($ millions)

Year	Exports	Imports	Trade Balance	FDI (Approved)	FII (Approved)
1993	2,777.90	4,553.60	-1,775.70	1100	228
1994	2,293.80	5,309.60	-3,015.80	1112	1382
1995	3,295.80	5,726.30	-2,430.50	2138	587
1996	3,328.20	6,169.50	-2,841.30	2823	1166
1997	3,607.50	7,322.50	-3,715.00	3769	1144
1998	3,564.50	8,237.20	-4,672.70	869	33
1999	3,687.80	9,070.80	-5,383.00	830	488
2000	3,667.30	10,686.60	-7,019.30	1031	900
2001	3,757.00	9,737.30	-5,980.30	1247	973
2002	4,101.00	11,818.40	-7,717.40	1448	1488
2003	4,979.70	13,055.30	-8,075.60	1789	1787
2004	6,109.40	15,572.00	-9,462.70	2124	2261

Sources: Various US and Indian government websites.

The above figures, especially of US-India trade in services and intra-company transfers, compare favourably with US trade with the more developed economies of the world. Beyond that, they highlight the growing salience of two critical factors. First, the private sector of India and the United States is increasingly the locus for dynamic growth in the future. And second, in recognition of this fact, both the US and Indian governments are devising strategies to facilitate cooperation between their respective private sectors. Thus, the US government is providing greater domestic market access to Indian farm and agro-industry products, seeking reciprocal non-discriminatory access for its products and services, and encouraging India to build upon the successes of its first generation of economic reforms and remove remaining barriers to free trade and investment. And in July 2005, an Indo-US CEO Forum was established comprising CEOs of the top 10 companies in each country to advise the two governments on specific strategies to boost economic cooperation.

India's recent policies and initiatives reflect growing political consensus and commitment to continue and speed up economic reforms that began in 1991. Over time, successive governments have simplified administrative procedures for transactions at home and abroad, reduced structural barriers to the entry and operation of domestic and external firms, and enhanced the overall export-orientation of the economy. The result has been a strong affirmation of the salutary dividends to the Indian economy, as the statistics clearly reveal. Thus, with GDP growth averaging 6.5%, the economy grew from about $280b in 1991 to $692b in 2004-05, making India the tenth largest economy in the world.[11] During the same period, exports grew to $80b and imports to $104b, while foreign exchange reserves swelled to $142b, sufficient to finance over 15 months of imports. Equally significantly, peak import tariff duties of 300% in 1991 declined to 15% in 2005 (compared to 10.5% in China), and are slated to reach 5% (i.e. ASEAN-levels) by 2008, with receipts from direct (i.e. income) taxes estimated to exceed indirect (i.e. customs and excise) taxes in 2006, mirroring the situation in developed economies.[12]

A notable aspect of the Indian growth model is a balanced approach between tapping the domestic market and reliance on exports to drive production. As such, foreign trade contributes only about 25% to the national economy, while the remainder of domestic production is consumed by the large and growing domestic market. On one hand, this shields the economy from any violent fluctuations in the international market as was the case during the 1997 Asian financial crisis. And on the other, with a population of 1b and a middle class estimated at over 250m, this represents an enormous opportunity for both domestic and foreign companies to sell products and services to this vast and rapidly growing Indian market.

2.1 Issues of convergence

The first and foremost consensus on both sides is that bilateral trade and economic ties are far below their potential, and need to dramatically improve if broad spectrum Indo-US partnership has to become a reality.[13] Thus, both governments are engaged in intensive efforts to increase flexibility in the Indian labour market, raise equity and investment limits for foreign participation in India's medical, banking and insurance sectors, and reduce tariff and non-tariff barriers to make the cost of doing business with India, or in India, a more competitive proposition. It is estimated that India's poor infrastructure, notably electricity, roads, ports and civil aviation, has slowed economic growth by as much as 2%. GOI has estimated that India needs about $200b by 2020 to make its infrastructure internationally competitive. And to induce FDI, it has committed a massive $17b over the next 10

years to various national and provincial infrastructural projects. Further, given that India's banking and financial sectors (including capital and stock markets) are strong by Asian standards, including those of China and Japan, the potential for increasing US-India trade and investment ties is enormous.

A second area of tremendous growth potential is in bio-technology.[14] On the R&D side, US companies are keen to tap into the much wider pool of germs and pathogens available in India relating to plants, animals and humans. Given GOI's less restrictive regulatory guidelines as compared to the US FDA, and the availability of bio-informatics to speed up R&D, a vast range of clinical trials can be conducted for diagnostic and treatment purposes, and to generate vaccines and medicines. The two sides are also cooperating to introduce more genetically-modified (GM) crops in India that are more disease resistant, can withstand drier climate, and provide higher yields. Similar initiatives are underway to stagger the time for ripening of fresh fruits and vegetables, and to improve their storage and distribution techniques, which will substantially augment the capacity to sell them to domestic and export markets.

A third and related area is intellectual property rights (IPRs).[15] India has put into place a WTO-compliant IPR regime via its new IPR Act of January 2005 that provides protection for both product and process patents. However, the US government is rightly pushing for much better enforcement of private India companies, especially in the pharmaceutical sector. India is the world's largest producer of generic drugs, many of which violate national or global process patents. A strong IPR regime would facilitate US drug and pharmaceutical majors to collaborate with Indian counterparts to produce a range of vaccines and medicines. This would be of particular help in treating the large HIV/AIDS-infected population in India and worldwide.

A fourth issue receiving growing attention is on the merits of creating a bilateral Free Trade Area (FTA), given the rapid growth in collaboration across their private and public sector entities. However, this issue is still at an exploratory stage, with India seeking an FTA in service sector first, and in goods and movement of persons later, whereas the US preference is for an overarching FTA, and not for negotiating a segmented or sequential process. Besides, with US companies establishing subsidiaries or partnerships with local companies in India and vice versa, intra-company transfers of capital, technologies and persons are not going to be directly affected by an FTA. Nonetheless, the FTA negotiation reflects the pragmatic and forward-looking approach by both governments to streamline policies and procedures in anticipation of a major surge in bilateral economic cooperation.

2.2 Issues of divergence/challenges

The most visible and politically-sensitive area of US-India disagreement relates to outsourcing and off-shoring. The rapid advances in IT, broadband connectivity, digitization of data, and ISP (internet service providers) has made it possible for a range of US companies to outsource their labour-intensive operations to the lower-wage and English-speaking pool of professionals in India. This issue reached a feverish pitch during the 2004 US presidential elections with several US state governments making those US companies ineligible to receive government contracts that outsourced their work abroad, especially to India and China. This issue has abated somewhat since then, in part because of a concerted campaign by Indian and US companies and business associations to point to the significant cost savings from outsourcing. A

study by the reputed McKinsey & Company in 2004 showed that the US economy received $1.43 for every dollar outsourced.[16] And more information emerged showing several Indian companies had acquired US companies, opened their branches, or entered into partnerships with US companies that provided employment to thousands of local labour, showing the gains of economic openness.[17] Even so, with growing job losses in the United States, this issue is likely to vitiate bilateral economic discourse for at least two reasons. One, US companies are outsourcing not only their low-end operations, but increasingly higher-end work in healthcare, tax preparation, insurance and legal sectors that are traditionally higher-paying, white-collar jobs. And two, more US companies are resorting to off-shoring, where they do not outsource a foreign company to do a job under contract, but simply establish a subsidiary in that country and hire local labour to do that work. The leadership in both countries has prudently recognized that these business practices are inevitable as globalization blurs the distinction between domestic and international boundaries regarding flow of capital, technology and persons, and the only durable antidote is not protectionism but to invest in creating an internationally competitive marketplace and workforce.

A second issue of contention in bilateral discourse relates to the rigidities in the Indian labour and the capital sectors. Rigid laws and strong trade unions constrain the capacity of businesses to set market-clearing wages, and to hire and fire workers depending on demand and supply needs. Similarly, high interest rates for borrowing capital and bureaucratic delays in securing loans from banks thwart the capacity of foreign and domestic producers to scale up production in response to market signals, and to reduce per unit cost of production and enhance competitiveness.[18] GOI response reveals its growing acceptance of the need to adopt more market-friendly policies while also tackling the need to create more employment for over 1 million new entrants to the job market each year. And although India has one of the fastest growing workforces in the world, government policies in recent years have progressively liberalized norms and reduced price distortions in the factor markets, especially in the labour and capital sectors.

Data in the public domain clearly shows that foreign and Indian private companies have registered impressive gains in labour productivity over the past decade, with smaller but notable gains in the public sector as well.[19] Similarly, India's efficiency of capital utilization has improved considerably during the past decade.[20] This is in spite of, or perhaps because of, the relatively lower level of FDI inflows into the country ($5.33b in 2004) compared to, say, $60.65b to China in 2004.[21] Even so, pressure from US and Indian sources for further and faster liberalization is expected to continue in the future.

A third area with the potential for discord relates to textiles. With the WTO replacing the Bretton Woods-era GATT (Generalized Agreement on Tariffs and Trade), textile quotas determined by the MFA (Multi-Fibre Agreement) were phased out on December 31, 2004. This has led to a surge of 36% more Chinese textiles into US markets in 2005 and 16% more from India. For now, this issue has injected fresh steam to the US trade spat with China that includes concerns over trade imbalance, valuation of the renminbi and unfair Chinese labour practices. It has also provided new opportunities for Indian textiles exports to the United States. But over time, given the significant job losses that are feared in the US textile industry, an emerging concern is whether the US government might introduce non-tariff barriers to shield its domestic producers from cheaper Indian textiles flooding the US markets.

A fourth area of discord relates to environmental safeguards in agricultural and industrial production. The US government is unwilling to reduce its greenhouse gas emissions to comply with its obligations under the 1997 Kyoto Protocol. And India has not responded positively to certain radical US proposals such as "carbon reserves" wherein Indian farmers could receive payment for not farming their land, and the emissions foregone would be tallied under US reduction of emissions. However, in July 2005, the United States, Australia, Japan, South Korea, India and China – which together account for more than half of global greenhouse emissions – signed an accord on environment that essentially takes this issue out of the Kyoto framework.[22] This new, non-binding but 'results-oriented partnership', will make newer pollution-reducing technologies available to the Asian signatories, and the flexibility to all members to set their own targets of emission reduction. If implemented as planned, this accord will facilitate US demand that India makes stiffer environmental safeguards mandatory for its industry. So far, the GOI has resisted, contending that the added cost of these safeguards in production and waste disposal would erode the already thin profit margins for Indian industry in an era of declining domestic tariffs and subsidies and the increasingly competitive export market.

It is notable that Indo-US economic interaction has over time become more pragmatic with issue-oriented negotiations, moving away from the era of lofty ideology and desultory implementation. Each side will continue to have differences on specific issues but these irritants will not stymie overall cooperation. A notable illustration of this pragmatism relates to the on-going Doha round of WTO negotiations. While India is spearheading the demand from G-20 nations for sharp reduction in agricultural subsidies by the developed world, it is also closely coordinating its position with a parallel dialogue with the USTR (United States Trade Representative).[23]

A final cementing factor for US-Indian economic cooperation is the large (2 million strong) cadre of Indian-American IT professionals, doctors, engineers, scientists and entrepreneurs who over time have distinguished themselves in their fields and in public service, and act as informal bridges to help integrate the two economies across a wide spectrum.[24] As India positions itself to emerge as a "knowledge-intensive" economy, their role will assume added importance in promoting bilateral technology cooperation, which is discussed in the third section of this paper.

3. Security dimension

United States and India have in recent years expressed increasingly convergent views regarding threats to national and global security. There is also a growing overlap in their strategic outlooks and interests for enhancing security and prosperity in Asia, the world's fastest growing region but also beset with several "unsettled" security equations. This convergence has provided the overarching normative rationale as well as the pragmatic impetus for the United States and India to deepen and widen their security cooperation in recent years.

The process began in 2000 with the creation of a joint working group on counter-terrorism, shortly after the conclusion of the intense bilateral (Talbott-Singh) negotiations that followed the Indian nuclear tests of May 1998. To an extent, those 14 rounds of negotiations clarified respective national positions relating to proliferation, terrorism and other security challenges, and facilitated rapid progress on counter-terrorism. The two sides created a Mutual Legal Assistance Treaty[25] to help in extradition of terrorists, among others, and had

met three times before the tragic events of September 11, 2001 (hereafter 9/11) catalyzed them toward greater cooperation. The prosecution of the US campaign in Afghanistan, and the terrorist attacks on the Indian parliament and the state legislature of Jammu and Kashmir during 2001-02 intensified intelligence cooperation, and the creation of a Cyber Security Forum[26] to track the financial flows and encrypted communications amongst Al Qaeda and other terrorist groups.

This was followed by the creation of the Defense Policy Group (DPG) which oversaw and coordinated progress in two critical areas. The first relates to increasing familiarity about the operational concepts and arsenals of the two militaries and later positioning them to conduct joint operations. Under this umbrella mechanism, the army, air force and navy of both countries have conducted a series of exercises with their counterparts. The two sides have conducted over 20 exercises since 2002, in a variety of locations in each country, including sharing of command and weapon systems, and increasingly complex simulations of joint operations during combat and peacetime.

Table Two: US-India Joint Military Exercises

TYPE OF EXERCISE	**NAME**	**DATES**
Naval Exercises (Annual Series)	Malabar	Sept 25-Oct 4, 2005
		Oct. 1-9, 2004
		Oct. 5-13, 2003
		Sept 29-Oct 2, 2002
		1996
		1995
		1992
Air Force Exercises	Cope India	Nov-05
		Feb 16-25, 2004
		Oct 20-26, 2002
	Cope Thunder	Jul-04
	Geronimo Thrust	Sept 29-Oct 2, 2002
Counter Insurgency Exercise	Yudha Abhyas	March-April 2004
	Vajra Prahar	Apr-03
	Jungle Warfare School	Jul 11, 2002
US Special Ops & Indian paratroopers	Balanced Iroquois	May 14-16, 2002
Peacekeeping Command Post Exercise		Apr-03

The second component of DPG's work has been carried out under a sub-group called the Joint Technical Group (JTG), dealing with issues such as materials sciences, nano-technology, use of IT in network-centric warfare, and test and evaluation of equipment. A diverse team of defence scientists from each side have explored the avenues of collaboration in R&D and joint production. India has also signed the Generalized Security of Military Information Agreement (GSOMIA) to ensure the integrity of sensitive information shared under this cooperative endeavour. A notable sign of progress is the resumption of cooperation relating to the Indian Light Combat Aircraft whose on-board mission computers had been tested aboard US F-16s until the US sanctions on India after its nuclear tests in 1998 had suspended all contacts. With the lifting of the sanctions, General Electric has been permitted to sell F-404 engines that will power the early LCA aircrafts until the indigenous (Kaveri) engine being built by GTRE can be used to power the aircraft that will be built in the future.

Bilateral defence cooperation received a big boost with the signing of a 10-year agreement on June 28, 2005 by the US Secretary of Defense and the Indian Defence Minister. The DPG remains the apex body to provide policy-level support and to coordinate the work of the sub-groups, some of whom have been restructured, and some new ones created. The most notable new group is the Defense Products and Procurement Group (DPPG) that will oversee defence trade and explore prospects for co-production, technology transfers and collaboration, broadening the scope of its predecessor sub-group, the Security Cooperation Group.

The sale of advanced weapons systems is another area of growing bilateral engagement. In 2003, the US government approved the sale of eight Firefinder weapon-locating radars (WLRs) for a sum of $180m, the biggest-ever sale to India. The WLRs, built by Raytheon Corporation, are being deployed along India's porous land/water boundary with Pakistan in Kashmir to deter the cross-border movement of terrorists. Since then, the US side has offered several state-of-the-art weapons systems to India, including maritime patrol and reconnaissance aircraft (Hornets and P-3C Orion), multi-role combat aircraft (F-16, F-18), and anti-missile systems (Patriot Advanced Capability i.e. PAC-2 or PAC-3). GOI is currently evaluating bids by US companies versus those from European, Russian and Israeli companies, some of which are worth several hundred million to above one billion dollars. India now has amongst the world's highest procurement budgets, and is keen to rapidly modernize its military and diversify its procurement sources. This has opened up an important new avenue for expanding US-India defence cooperation.

3.1 Issues of convergence

The clearest area of convergence is expanding cooperation on counter-terrorism and promoting the development of democracy worldwide. Both sides are convinced that the best long-term antidote to the range of social and economic afflictions that give rise to terrorism is to strengthen democratic institutions, which in turn facilitate articulation of competing interests and their resolution in a consensual manner. Indo-US cooperation is most visible in their leadership of the Conference on Democracy at the United Nations to which both sides have pledged substantial amounts for a Democracy Fund, and are pursuing initiatives to foster institutions that are more transparent and accountable to democratic aspirations.

Aside from creating the legal and institutional framework for bilateral cooperation discussed earlier, they are employing sophisticated technology to unearth terrorist communication. One example is the use of

"steganography" which can read coded messages below the visible image in an email communication. Both sides have found that since 9/11, with heightened scrutiny of "suspect" communications, terrorists are using the image of Allah, or even pornographic images, as the visible (external) image in an email, and hidden underneath that image is encrypted communication about a terrorist plot or other sensitive correspondence. Indo-US intelligence cooperation has helped access several such communications and take corrective action.

Both countries have intensified policy and logistical coordination along India's northeastern borders. Over the past decade, mass poverty and other domestic malaise has fuelled violence and Islamic radicalism in neighbouring Bangladesh, which has worsened after 9/11 with a significant influx of elements of Pakistan's secret service (Inter-Services Intelligence or ISI). US and Indian economic interests, especially in Bangladesh's natural gas sector, have been repeatedly targeted. In 2003, when the Indian Army cooperated with neighbouring Bhutan to flush out terrorists, a large number of them took refuge in Bangladesh. Despite repeated GOI requests, Bangladesh has refused to extradite them or cooperate in staunching the flow of illegal immigrants into India. While India is building a fence along this porous boundary, the alarming rise in Islamic radicalism and violence in Bangladesh has persuaded New Delhi and Washington to increasingly coordinate their policies regarding the regime in Dacca. Similarly, Indo-US counter-terrorism strategies and supply of armaments is being increasingly coordinated to stem the Maoist insurgency in Nepal and to seek a negotiated solution to the long-standing Tamil-Sinhala struggle in Sri Lanka. And on October 3, 2005, United States and India signed the protocol to streamline work within their Mutual Legal Assistance Treaty on counter-terrorism, narcotics, drug trafficking, economic offenses and organized crime.

A second area of convergence relates to the enhanced Indian role in maritime security – from the Straits of Hormuz near the Persian Gulf to the Straits of Malacca in Southeast Asia. With over 60% of international cargo and oil supplies transiting through these waters, and the Indian Navy rapidly augmenting its blue water capability, Indo-US cooperation is designed to keep the sea lanes of communication open, and secure this territory from piracy and acts of terrorism. India has recently joined the US-led Container Security Initiative (CSI) that seeks to introduce "smart" containers, and to harmonize procedures for identifying, screening and handling of high-risk cargo at domestic ports. Similarly, India is deliberating the legal and procedural ramifications of joining the US-led Proliferation Security Initiative (PSI) – designed to interdict illicit WMD cargo at national ports or in international waters – that currently has 61 subscribing states.

A third area of convergence relates to missile defence. India was among the earliest supporters of the US initiative to move away from the offensive-deterrence undergirded by the ABM Treaty to a defensive-deterrence paradigm wherein a country will deploy a missile defence shield to protect against incoming missiles. While the United States is testing a range of interceptor missiles to be integrated into a national missile defence shield, India has been working for some years to develop a far smaller system comprising point-defence and area-wide defence shields. In essence, India is building an open-architecture design wherein its indigenous radars and quick-reaction short-range missiles can form the inner core of defence, and longer-range radars and interceptor missiles from Russia and Israel would form the outer core, while an aircraft-mounted AWACS system would provide

early warning for initiating preemptive or retaliatory strikes.

The United States has offered a customized version of the Patriot system that India could integrate into its missile shield, and in March 2005 provided a classified briefing to GOI about the operational parameters of the PAC system. And Indian scientists and armed forces personnel have witnessed live missile defence tests on US soil on at least three occasions since 2003 to help improve the smaller version that India is working to deploy.

A fourth area of emerging convergence relates to the need for greater Indo-US cooperation to maintain strategic stability of Asia. If this "grand" strategic objective were to be pursued in earnest, it would have a transformative impact on the contours of the Asian balance of power in the coming decades, and is best understood in its two separate dimensions.

One dimension relates to the rapid advances in the military capabilities of China, and the shared US and Indian uncertainty about predicting China's behaviour in the future. The United States is currently pursuing a strategy often described as "congagement", i.e. a judicious mix of containment and engagement. On the one hand, it is encouraging China's membership in key regional and global economic and security institutions, in the hope that China will increasingly become a major stakeholder in the stability of the Asian and international system. On the other hand, if unilateral assertiveness returns to Chinese behaviour as was the case in its past, then the United States should have its own forces stationed in the region, and the help of regional allies, to counter any Chinese moves that undermine regional stability. India, which is engaged in negotiations with China to solve their boundary dispute, is concerned about China's growing military assistance or economic-security influence in its periphery, especially Pakistan, Myanmar, Bangladesh and Nepal. While Sino-Indian economic cooperation is proceeding rapidly, New Delhi shares many of Washington's concerns about China's possible behaviour in the near future. And although India has refused to join a US military alliance, unlike Japan and South Korea, closer relations with the United States is a critical variable as India recalibrates its "sphere of influence" vis-à-vis China in maritime and wider domains.

The second dimension of this grand strategic objective relates to the Indian arsenal, the need to reorient its predominantly Russian-based weapons platform to enable inter-operability with US armaments, and the absorptive capacity of the Indian defence industrial base for technology transfers and joint-production of armaments. The US Department of Defense (DOD) has conducted assessments that rank India favourably in the above areas compared to Washington's allies in East Asia. The major concern before initiating joint programmes, however, is to ensure an adequate level of technology security in India. This requires robust "firewalls" separating India's weapons facilities from its civilian sector, and separating the unit that is working with the US side from other units of the parent entity working on an indigenous programme or with a foreign partner. This assumes added importance because India's public-owned majors, such as Hindustan Aeronautics Limited, have on-going collaborative programmes with Russia, Israel, and possibly France in the near future. Moreover, some large Indian private sector entities are crucial vendors to the Indian defence public sector undertakings, and might be added to the US-India defence collaboration programmes.

3.2 Issues of divergence/challenges

The area of sharpest disagreement between India and the United States relates to the "means" each has adopted to secure their

shared "ends" regarding Pakistan – that of assisting it to become a moderate Islamic country with greater democracy, and at peace with itself and its neighbours. India contends that Pakistan never completed its process of nation-building, and its armed forces, landed aristocracy and civilian bureaucracy have consistently undermined democracy by dominating the country's economic, political and security policies. This troika has recruited radical domestic Islamic groups since the 1980s to pursue its aggressive goals regarding Kashmir through a calibrated use of cross-border insurgency at low cost to itself. As such, Kashmir is a violent manifestation of the anti-India agenda of this troika, and bilateral relations will not become peaceful even after a negotiated settlement of Kashmir.

Washington has belatedly begun to share a diluted version of some aspects of this Indian assessment. But it has repeatedly subordinated its demands for democracy and stopping insurgency against India by recruiting Pakistan to pursue more pressing US goals. Most recently, following US strikes on Afghanistan, Pakistan has been granted a "major non-NATO ally" status and is a key ally in the US-led Global War on Terror. Further, Washington has not pressed for direct access to AQ Khan or applied any punitive pressure on Islamabad for its lax export controls and the worst nuclear proliferation spanning two decades that involved transfers to Iran, Libya and North Korea. In sum, US policies toward Pakistan will continue to cast a long negative shadow on the deepening and widening of US-India security ties.

Another area of divergence relates to mutual suspicions in increasing technology cooperation in the defence sector. During the Cold War, the Soviet Union supplied almost 80% of the Indian weapons systems. With its overwhelming dependence on this source, New Delhi was careful not to publicize its problems regarding cost over-runs and delays in receiving spares and servicing, both of which became worse as Russia struggled to honour its Soviet-era contractual obligations. Over the past decade, as India diversified its procurement sources to include Britain, France and Israel, Russia has responded by entering into technology-embedded, licensed co-production agreements with India for major combat platforms. India's decision-makers contrast Russia's time-tested partnership with decades of technology-denials from Washington in evaluating whether the United States can prove to be a reliable technology partner. An additional consideration is the massive investments required to make the Indian weapons platform flexible enough to integrate both US and Russian technologies and armaments.

From the US perspective too, after decades of perceiving India on the opposite side of the proliferation and technology divide, it will require pragmatic successes in improving technology security in India to build greater institutional confidence. The steadily productive military exercises, and growing interaction across governmental agencies on a range of security issues impacting Asia and beyond, are likely to assist in charting a convergent course.

A related broader area of concern stems from the varying US and Indian approach to international security. Washington has often pursued a binary approach of "you are with us or against us" in seeking decisions regarding Iraq, and more recently Iran. India, on the other hand, has to temper its impulse to be the voice of the developing world with a better recognition of the bargain-embedded nature of realpolitik as it seeks a greater role for itself in global decision-making bodies, including the UN Security Council. In the near term, Indo-US cooperation in dealing with the Asian tsunami disaster in December 2004, and in taking the reciprocal steps to implement their July 2005 agreement, will likely instill greater mutual confidence and help

them chart a more convergent path over the longer term.

4. Technology dimension

As the preceding sections demonstrate, India and the United States have identified a wide range of common economic and security interests, established bilateral mechanisms for regular consultation, and agree that lack of movement in the contentious areas should not stymie progress in others. However, both sides also acknowledge that if all the proposed economic and security objectives are to be achieved, the state of technology security in India will be a critical element. The US Government and US industry are interested in Indian policies, institutions, and practices regarding technology innovation as well as in technology security because that alone will set in motion greater flow of technology-embedded US capital and managerial investment into India.

In 2003, the Chairman of the U.S. Nuclear Regulatory Commission (NRC) visited India for the first time in more than five years to discuss safety and emergency-operating procedures for India's civilian nuclear programme. Other NRC delegations have subsequently held technical discussions and made visits to select Indian nuclear facilities. Similarly, in June 2004 the two governments organized a conference on space science and commerce in Bangalore which identified specific areas in which cooperation has already begun. In 2004, India purchased counterterrorism equipment worth $29 million for its special forces, and received sophisticated U.S.-made electronic ground sensors to help stem the tide of militant infiltration in Kashmir.[27] In July 2005, the US Congress was notified of the proposed sale of aircraft self-protection systems worth $40 million to be mounted on the Boeing 737s that transport the Indian head of state. The State Department has also authorized Israel to sell their jointly-developed Phalcon airborne early warning system to India. Other U.S.-made weapons under negotiation, as discussed earlier, include PAC-3 anti-missile systems, P-3C Orion maritime patrol aircraft, electronic warfare systems, F-16 fighters and/or F/A-18 multi-role fighters.

Given the rapid strides made by each side as of July 2005, considerable expansion in the scale and scope of bilateral cooperation is on the anvil. And technology will remain the critical determinant for both economic and security re-orientation. "Technology and innovation are the keys to competitiveness, economic growth, and prosperity, and present opportunities for international cooperation. But ... these opportunities come with challenges and responsibilities that, in turn, require critical attention."[28]

On the economic side of technology initiatives, the High Technology Cooperation Group (HTCG) was initiated in November 2002 to pursue the growing bilateral commitment to stimulating high-technology commerce. Comprised of senior officials from both governments, it is co-chaired by the US Under Secretary of Commerce for Industry and Security and the Indian Foreign Secretary. It seeks to identify steps to create a favourable environment for high-technology trade and collaboration, while enhancing security related to such trade. Its agenda is to "explore possibilities of expanding cooperation in space, diverse forms of energy, high-technology commerce, and science." However, a testament to the critical role of technology in US-India relationship is the fact that a cyber security forum was launched in April 2002 – several months before the HTCG was established.[29]

On the security side, the Next Steps in Strategic Partnership (NSSP) was initiated in January 2004 to bolster cooperation in civilian space and nuclear programmes, high-technology commerce, and to pro-

mote bilateral dialogue on missile defence. India agreed to the posting of an Export Control Attaché at the US Embassy in Delhi, and came to an agreement about regular conduct of post-shipment verifications by the US side.[30] It also instituted changes in its export control and customs regulations, such as introducing catch-all provisions and expanding its unified dual-use control list, and passed a new WMD Act to cover exports, re-exports, transit, transshipment, and brokering in WMD items.[31] In return, the Indian Space Research Organization (ISRO) headquarters was removed from the Entity List, and the US government reduced licensing requirements for exports to the 7 ISRO subunits remaining on the Entity List by about 80 per cent - by removing any licensing requirements for EAR99 and "999" items exported to those facilities. USG has also established a "presumption of approval" for all items not controlled for nuclear proliferation reasons when going to the "balance of plant" operations in safeguarded Indian nuclear facilities.

The July 2005 Agreement builds on these established ground rules: US nuclear cooperation will be directed solely at safeguarded Indian facilities – and more cooperation would take place now as India will separate civilian facilities from weapons facilities, and place them under International Atomic Energy Agency (IAEA) safeguards. The IAEA has welcomed this 'unilateral' US initiative. India is likely to enter into similar nuclear cooperation agreements with France, UK, Canada, and Russia.

4.1 Issues of convergence

The first area of general consensus relates to India's deficiencies in IPR [Intellectual Property Rights] protection and data privacy regulations. Most US actors believe that India needs to enhance its data privacy framework to fully meet the requirements of US businesses operating in India or working with companies in India. Indian actors, however, believe that this is more a perception problem among US officials and businesses and that India's legal system already provides significant protections for data. Nevertheless, they too agree that Indian regulations in this sphere need upgrades and that they themselves can play a crucial role in disseminating information about Indian regulations to their foreign partners. Indian industry associations, for instance, are fully engaged in conducting assessments of domestic regulations and violations, and establishing unilateral codes of conduct to establish data privacy practices. Interestingly, in a clear indication of competitiveness concerns, US industry has suggested that India not adopt European Union-style privacy legislation, as its restrictive nature might force many American companies to send data service work to markets other than in India.

A second area of convergence is in defence trade. USG favors greater defence exports to India to further strengthen the overall relationship. US defence industry sees India as a lucrative and untapped market where, owing to restrictive US export control regulations, foreign competitors (Russia, France, UK and Israel) have established long-term business relationships with the Indian armed forces. The Indian government, for its part, wants to ensure stability of defence imports and to diversify its procurement sources. On the other hand, Indian private and public sector entities are interested in not just being a market for US defence firms, but collaborators in R&D, components and sub-systems, and potential partners for joint exports to third countries. It should be noted that India's signature on the General Security of Military Information Agreement (GSOMIA) was aimed at facilitating this entire range of options, beyond simple imports of US defence technologies. As an example of growing competitiveness of the Indian manufacturers, in March 2004 the US Bell

Helicopters placed an order worth $5m with India's HAL to produce composite tail rotors.[32] And while US defence exports to India have grown from $5.6m in 2003 to $64m in 2005, [33] and could exceed $1b if PAC, P-3C Orions or F-16/18 sales are approved, the two sides are separately exploring technology transfer and co-production mechanisms for select conventional munitions.

The third area of convergence is in recognizing that unless the security of US dual use exports to India is ensured, via strengthened export and re-export controls and firewalls, neither economic nor defence related trade is likely to reach its true potential. An unwritten understanding behind the NSSP process was that India wanted the removal of unilateral US export controls via relaxation and re-interpretation of the EAR requirements, and the quid pro quo was a concerted Indian effort to make its export control policy more transparent and to adopt international best practices in high technology export controls. As such, the commitments undertaken by India under the July 2005 Agreement include harmonization of its control lists with those of the multilateral Nuclear Suppliers' Group and the Missile Technology Control Regime.

4.2 Issues of divergence/challenges

For a long time, the United States cited the closed nature of the Indian economy as the biggest impediment to expand ties. Now, with India having reduced tariffs, and exports from China, Japan, Korea, Singapore and the European Union freely available in the Indian market, US high-tech exporters are facing stiff competition in expanding their share in the Indian market. The US demand has accordingly shifted now to the rigidities in India's labour laws where, as discussed earlier, GOI will move slowly by balancing this demand with the need to provide employment security to the disadvantaged sections of the society.

Similarly, in the near term US defence exports to India will likely have to contend with residual foreign policy concerns and ignorance about procurement/licensing procedures. In the past, the US balancing act between India and Pakistan stymied processing of major defence sales to India, especially by the State Department and the Congress. This perspective is unlikely to change significantly in the short term. On the Indian side too, entrenched lobbies could hobble progress citing unreliability and capriciousness of US policy. And, as mentioned earlier, India also prefers to maintain defence relationships with less volatile suppliers such as Russia, Israel and Europe – as much to ensure uninterrupted defence supplies as to cement strong technology-embedded security relationships with these states.

On a different axis, lack of awareness of mutual policies and procedures might also hinder the Indo-US defence export relationship in the near term. For instance, the Indian industry and public sector importers remain unclear about the precise implications of India being a "friendly foreign country" in US export licensing regulations. They seek a one-time vetting of Indian buyers of US equipment and a clear negative list of items that require a license. The perceived complexity and delays of the US export licensing regime has forced some Indian firms to avoid purchasing from US suppliers if possible. There has also been a disconnect, most notably in terms of timing, between Indian requests for proposals (RFPs) and US export licensing processes. This is likely to be minimized in the coming months as USG has begun to offer public outreach in India regarding its dual use export licensing procedures.[34] US defence exporters, for their part, are unclear about Indian defence procurement procedures and are wary of vio-

lating strict US laws about bribery or non-proliferation. Beyond these lie a set of even deeper concerns about issues such as deemed exports and intangible technology transfers. USG requires defence exporters to establish a range of procedures for shielding proprietary data on equipment and processes from foreign customers and partners. These practical issues will need to be sorted out before US and Indian companies can establish Joint Ventures or enter into co-production agreements – a process that could take months or even years.

The major Indian export to the United States in the high tech sector is brain power – thousands of Indian citizens working in US defence-related projects. The new Indian WMD Act prohibits Indian citizens from "knowingly" contributing to a WMD programme. GOI has to establish implementing procedures that define how an authorization might be granted to Indian citizens falling in this category and under what conditions they could be recalled and/or prosecuted. Tens of thousands of technically qualified Indian citizens currently work in the United States and throughout the developed world in organizations that directly or indirectly cooperate with the host country's nuclear and space programmes. If India were to establish criteria as strict as is currently used by the members of the multilateral export control regimes, a vast majority of civilian nuclear and space activities in these host countries would fall in the proscribed category. This is an issue that has not yet been clarified in Indian policy, although most observers assume that India would create an exemption for its citizens working in the United States. This, however, might depend upon how the bilateral nuclear deal develops: India might make such an exemption conditional upon reciprocal changes in US deemed export and intangibles regulations regarding Indian citizens.

In the nuclear and missile area, it is clear that NSSP was declared to have been completed because both sides realized that no further relaxation of US licensing laws was possible within its limited (nonproliferation and NPT-oriented) framework.[35] Unilaterally-imposed controls had been removed by July 2005, and for the rest, US exports would continue to be restricted as per the NSG and MTCR lists. At best, the US could have made exceptions regarding some NP-controlled items on the NSG's Dual Use List – on grounds of safety-assistance to safeguarded facilities. However, Indian export restraint had to be sustained beyond the changes in Indian export control laws. At the same time, India was no longer content with what many considered minor changes in India's position vis-à-vis US nonproliferation policy. For instance, the major Indian clients for controlled or dual-use goods from US are the triad of strategic departments - Atomic Energy, Space and Defense Research - with the Department of Space accounting for a major share. Licensed exports to Indian industry, particularly the private sector, are insignificant even now, and licensed exports of most such items in the past years (after the relaxation in US rules) have been to US MNCs operating from India! As such, neither side was able to see a long-term future as per the NSSP. This was probably one of the major reasons behind the July 2005 nuclear deal.

However, bringing this deal to fruition may itself be one of the greatest challenges for both sides. Critics in both countries have begun to line up the reasons why the deal is detrimental to respective national security and nonproliferation policies. They have also pointed out varying interpretations of what each side has agreed to "sacrifice" and the low value of reciprocal benefits. Thus, US lawmakers are seeking Indian "acquiescence" with every US demand in the IAEA regarding Iran, and contend that the US side should fulfill its side of the July deal only after India has completed all steps that it has promised. Outside experts argue that the United

States should not permit India to decide which of its nuclear facilities will remain outside of IAEA safeguards. Others have sought a unilateral freeze on India's fissile material production even before FMCT negotiations in the CD reach any consensus. Similarly, on the Indian side, supporters of maximalist nuclear posture contend that India should not separate its civilian and weapons facilities until after US Congress has changed its laws. Others argue that only a minimal list of civilian facilities, comprising some power plants, should be placed under safeguards, or demand that India should retain the option to withdraw some civilian facilities from the safeguards if its security needs require more fissile material in the future. Clearly, it is not merely the details of the proposed July 2005 deal, but also the sequencing of reciprocal actions under it, that will remain a matter of intense debate in both countries in the coming months. At the same time, if some of the salient steps envisaged in the deal are completed, it will go a long way toward strengthening the hands of the pro-engagement lobbies in both countries.

5. Conclusion

The US-India relationship has undergone a significant transformation in the past decade. Modest military assistance of the past has been replaced by training on interdiction of technologies and materials. The sales of military equipment are no longer subsidized by the US government via the Foreign Military Sales (FMS) programme, but take place at market prices via Direct Commercial Sales (DCS).[36] The weapons package currently on offer to India exceeds $1b, and if approved, will make the United States a major contributor to the Indian weapons platform. The two sides are cooperating in missile defence, and their military exercises involve arsenals and war-gaming simulations that are more similar to US exercises with its major NATO partners.

In the economic sphere, both sides are committed to a quantum jump in bilateral trade which currently stands at $28b in goods, and $35b in services. They are negotiating a free trade area, reduction of tariff and non-tariff barriers to products, services and investments in each other's markets, and coordinating closely on issues like textiles, agricultural subsidies, and environment in bilateral and global institutions.

In the technological sector, the HTCG and NSSP have moved the bilateral focus away from the era of technology embargoes and sanctions to where IPRs, firewalls and technology security now dominate the discourse. If resolved, this will provide the legal and institutional framework to initiate broad-spectrum engagement in economic and security spheres from technology-embedded sales to joint R&D and co-production for domestic and third-country markets.

An important foundation for bilateral rapprochement was laid with President Clinton's March 2000 visit to India, signaling the end to the estrangement that followed India's nuclear tests of 1998. President Bush has built astutely and imaginatively over this edifice, and animated it with his vision that the two countries should partner in pursuing a range of shared regional and global priorities. And in distinct contrast to the Bush Administration's brusqueness in dealing with dissenting states, its handling of India has been marked with sensitivity and preference for quiet diplomacy.

The Indian side has also shown greater pragmatism and a similar preference for understated public diplomacy and behind-the-scenes consultations. Indeed, such pragmatism is increasingly apparent in the formulation, implementation, and assessment of India's overall foreign, security and economic policies. Its strategic elite – in the government, academia and

industry – has pursued coherent strategies to elevate the country's position in the international system and promote it as a worthy partner for the United States in addressing the weighty security and economic issues of Asia.

There is growing recognition in the United States that India's rise in the international arena can exert a stabilizing influence on South and Central Asia, wider Asia, and beyond. American policymakers and the 'military-industrial complex' visualize a greater role for India in the US strategic calculus in maintaining security, promoting democracy, and fighting terrorism in Asia and elsewhere. As prominent stakeholders on the US side have enunciated a vision that elevates India beyond the confines of the "South Asia paradigm," their counterparts in India have outlined the growing synergy in mutual visions and interests.

At the same time, unless each side is willing to take bold steps to move beyond "bounded" cooperation, the immense potential of this bilateral relationship might well remain unrealized. The simple and forthright declaration of the July 2005 agreement and the Indian vote at the IAEA on Iran are steps in this direction. These were preceded by less spectacular but rather significant turnarounds in US and Indian policies in the past few years, including President Clinton's public reprimand to Pakistan during Kargil (1999), and US stance that Kashmir is a purely bilateral issue for India and Pakistan to solve. On the Indian side, it includes support for the US National Missile Defense initiative before even the traditional European allies accepted it in varying measures, and its supportive vote in the OPCW for the removal of Director General Jose Bustani. More recently, an indication of the growing maturity in bilateral dialogue was the juxtaposition of two news items within the space of a few days: reports of Indian Foreign Minister's statement in support of Iran's nuclear programme and a US delegation from the Pentagon making a classified presentation on missile defence in New Delhi![37]

Despite this convergence of interests and aspirations, however, significant sections of the strategic elite on both sides remain uncertain about the ultimate "end game" of this engagement. The Cold warriors on either side continue to question the scope of this bilateral engagement, mechanics of its implementation, and the over-arching rationale of the other side. Moreover, even the most ardent supporters of this new engagement agree that problems in implementation of the bilateral agreements are likely to drag the process down. These implementation problems are likely to emerge from diverse factors ranging from the different bureaucratic cultures and political systems to differing interpretations of the agreed agenda of cooperation. The challenge facing each side is to normatively, institutionally and politically separate the agreements in different areas, and ensure that problems of implementation in one area do not cast a negative shadow on progress in other areas. The current status of this relationship represents significant but early steps to realize a bold dream, and will require the ingenuity and resolve of stakeholders on each side to sustain and strengthen a convergent course of action.

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India's New Global Role after the US-India Nuclear Deal

Karsten Frey

The upgrading of Indo-US relations into a close strategic partnership has emerged as one of the core aims of the US Administration under President George W. Bush. When President Bush signed a comprehensive agreement over nuclear cooperation with Prime Minister Manmohan Singh during his visit to New Delhi on March 2, 2006, he was not just aiming at increasing bilateral trade in the area of civilian nuclear power production. The agreement forms the cornerstone of a new strategic partnership, and as such its importance for the Asian power balance resembles the normalization of relations with China by the US Nixon Administration in 1971/72.

1. The content of the agreement

Nuclear cooperation between the two countries was established in two steps. During the visit of Prime Minister Manmohan Singh to Washington on July 18, 2005, both states agreed on the principles of close Indo-US cooperation in the nuclear field. On this basis, a more detailed agreement on nuclear cooperation was signed during President Bush's visit to New Delhi nine months later. However, the way to the cooperation had already been paved by the Clinton Administration in the 1990s. The establishment of the bilateral partnership, which, next to the nuclear deal, further encompasses cooperation in the fields of defence, space technology, trade and financial services, health, and agriculture, undoubtedly has the potential to transform the Asian balance of power as a whole. The fact that nuclear technology was chosen as the symbolic cornerstone of the partnership was based less on economic than on political considerations. The USA and India belong to the few states (with the possible inclusion of France) that give nuclear technology the most attention and define their international positions by the possession of nuclear weapons to a greater extent than do other countries. In this context, to place this technology on the symbolic top of the bilateral partnership appears to be quite consequential.

Within the agreement, 14 of India's nuclear installations are labelled civilian and are made accessible to International Atomic Energy Agency (IAEA) inspections, according to its safeguards provisions. Eight further installations are declared military, and are therefore excluded from inspections and from nuclear technology transfer. For its civilian nuclear infrastructure, India receives access to nuclear know-how, and, more importantly, nuclear fuel from the USA and other country members of the Nuclear Suppliers Group (NSG), pending cartel approval for relaxing non-proliferation provisions. The division of India's nuclear infrastructure into a civilian and a military programme remained the most difficult issue during the negotiation process. The debate focussed on the classification of the so-called fast breeder reactors for reprocessing burned fuel rods, in which fissionable plutonium is produced as a by-product. Although the fast breeder technology is not yet sufficiently developed for the commercial production of energy, India emphasized its potential civilian application in the future. Still, it refused to actually declare it civilian and place it under the IAEA safeguard regime. While in the first agreement of July 2005 it appeared as if the USA had asserted its demand for inspections of the Indian fast

breeder reactors, the final cooperation agreement signed in March 2006 adopted the Indian position by excluding them from the safeguard inspections regime.

2. Obstacles for the implementation of the agreement

The crucial precondition for the implementation of the agreement is the lifting of export restrictions to India, which had been imposed by the US government after India's first nuclear test in 1974 in consent with several other leading nuclear supplier states. As these restrictions are laid down in American national law, their repeal has to be confirmed by the US Congress. The existing legal position does not allow the export of nuclear technology to countries not member to the Nuclear Nonproliferation Treaty (NPT). The original condition of US Congressmen for their support of the agreement had been a clear-cut separation of civilian and military installations, and it is still unclear whether the exclusion of the fast breeders from inspections will meet their approval. As some Congressmen indicated, the US Congress will most likely approve the agreement with some marginal changes.

The debate on the necessary adjustments to US legislation, which began in the US Congress in October 2005, triggered some negative repercussions in India. Next to approval by Congress, the US Administration aims at seeking a consensus among the 45 members of the Nuclear Suppliers Group to change their basic respective policies. However, the NSG's Charta is not an international treaty with legally binding provisions, but only formulates 'practices' and norms of conduct. This legal structure suggests that the US Government would adhere to the agreement even if some NSG members opposed it.

3. The relevance of the agreement for the USA

In economic terms, the USA is not only hoping to give new life to its civilian nuclear energy industry, but views the agreement as a first step towards close economic cooperation between the two countries in the future. Washington is increasingly aware of the risk that the two emerging giants China and India might not only create rosy export markets for American goods and services, but that the American economy might also be more affected by the displacement process in key sectors than other economies, such as the European Union. The strategic alliance with India would, as the US government hopes, help to cope with the negative effects of this competition. In addition to these long-term economic interests, the US government is hoping that the increase in Indian nuclear power production will relieve the global oil market in the medium-term future.

Geopolitically, the agreement is part of an American strategy to prevent the emergence of China as the dominant Asian power. The alliance with India is intended to maintain American influence in the Asian power balance. Despite past frictions in their bilateral relationship, India appears to be a reliable partner for the US government due to its democratic structure, economic prospects, and foreign policy outlook. In American official language, the US-India alliance is thus labelled a 'natural partnership'.

The insistence and haste with which the Bush Administration pushed the agreement through in 2005 and 2006 was caused in part by the criticism and negative assessments most of its other foreign policy projects had attracted. The agreement was reached at a time when the engagement in

Iraq faced increasing difficulties, and widespread anti-Americanism limited the room to manoeuvre in other parts of the world, such as Latin America and Europe. In this context, the creation of a Washington-Delhi axis appeared to be an attractive possibility for improving the administration's record in the foreign policy arena. Correspondingly, several government officials have already expressed the view that this partnership would become the most important achievement of the George W. Bush Presidency.

4. The relevance of the agreement for India

Today, the USA is India's most important trading partner. In a memorandum attached to the agreement, both countries declared the goal of increasing the already considerable bilateral volume of trade from 22 bn $ (2005) to more than 50 bn $ in 2008.[1] Next to a wide range of commodities, the bilateral trade agenda is planned to include nuclear power plants and fuel rods.

In 2006, nuclear power's share of India's overall energy production was less than 3%.[2] According to the projections of the Indian government, this share will increase to about 25% by the year 2050. The agreement reached in 2006 is thereby considered to be the most crucial element in the government's strategy to reach this ambitious target. While these projected figures appear overly optimistic to many observers, the transfer of badly needed know-how in reactor design and the import of nuclear fuel undoubtedly have the potential to improve the relatively low cost-benefit performance of India's nuclear energy industry to an acceptable level. Correspondingly, India's nuclear scientists and engineers mostly welcomed the agreement: in former Atomic Energy Agency Chairman M. R. Srinivasan's words: "It re-establishes India's capabilities in the international stage while removing the decades of isolation in which atomic energy in India was developed".[3]

In India, criticism of the agreement was modest at best, which is remarkable considering the traditional scepticism among India's elite with regard to any agreement which would ostensibly curtail the country's sovereignty. The vehement criticism raised by the oppositional BJP party was widely considered to be guided by partisan considerations. As one analyst remarked, "[w]hat is astonishing, however, is the intense criticism emerging from India, particularly from leaders of the BJP who when they were in power had made proposals embodying identical principles to those underlying the current agreement".[4]

Overall, regardless of whether the civilian use of nuclear energy will ever play the crucial role for India's economic development that the government hopes it will, the agreement remains of vast importance for the Indian government beyond its economic implications. According to a view widely shared in India, it symbolizes the ultimate recognition of India as a major nuclear power. American policy makers were well aware of the fact that India's desire for this status could be presented as the single most dominant foreign policy issue in this country, and skilfully adjusted their rhetoric in declaring that the USA was keen "to help India become a major world power in the twenty-first century".[5] This rhetoric turned out to be most compelling, and was crucial in removing any criticism and objections the agreement would have otherwise faced in India.

5. The relevance of the agreement for the Southern Asian region

A possible problem for India is the geopolitical outlook of the agreement as intended by the USA. Positioning against China or against Iran is not in India's interest, as maintaining good relations to both coun-

tries appears strategically essential with regard to its energy demand, trade interests, and regional security interests. But in view of the traditional emphasis of India's foreign policy on sovereignty and non-alignment, a shift towards commitments unfavourable to its genuine interest appears to be a rather unlikely scenario.

Of more concern is the risk of a further deterioration of India's relationship with Pakistan. The satisfaction with which India's opinion leaders reacted to the emphatic flattering by President Bush during his stay in New Delhi, which contrasted sharply to the cool distance he maintained during his subsequent visit to Islamabad, appears short-sighted. The rather brusque way in which the American President turned down the request of Pakistan's President Pervez Musharraf for a similar agreement between the USA and his country was perceived by many observers in Pakistan as a loss of face. Correspondingly, reactions by Pakistan's public and opinion leadership were indignant. President Musharraf indicated that Pakistan would now orient itself towards China for the transfer of nuclear know-how. In fact, China had promised to sell Pakistan three fast breeder reactors, a deal which was welcomed by Pakistan as a tit-for-tat response to Indian efforts in this field. Furthermore, Pakistan's Foreign Minister Kurshid Kasuri declared that his government could question its support of the international nuclear nonproliferation regime in light of India's successful instrumentalization of its nuclear programme in its struggle for international status and power.

For India, these developments bear two major new risks: first, a positioning of the Washington-Delhi axis against China could lead to a rethinking of Beijing's export policy towards Islamabad, which has become increasingly restrictive since 1991. As one analyst remarked:

"Since there are theorists in both Washington and Delhi who seek to play the India card against China, it makes sense for Beijing to use the lower-cost option of propping Pakistan's military capabilities against India. Never shy of upgrading its military strength, Pakistan in effect gets a licence to weaponize, with materials and technology from China".[6]

Second, the increasing isolation of Pakistan could further poison the bilateral relationship between the two countries.

6. The Indo–US non–proliferation dialogue

The US–India nuclear agreement faced substantial criticism around the globe, as it was feared that this deal ran counter to global efforts to prevent the spread of nuclear weapons. The three most important institutional pillars of the international nonproliferation regime – the rules laid down in the NPT, the attendant international safeguards regime of the IAEA, as well as the rules established by the Nuclear Suppliers Group – are thought to be severely weakened by the agreement, for it not only accepts the build-up of a nuclear arsenal by a non-member country of the regime, but clearly rewards it. As a consequence, the credibility of the USA as the major driving force behind the implementation of global nonproliferation standards might be damaged irreparably, and further countries might learn the wrong lessons from India's success by launching nuclear weapons programmes themselves.

In view of such problems, many critics within the American polity expect the US Congress to block the nuclear deal, or at least modify some of its conditions. Analysts from the Brookings Institution, one of the most reputed think tanks in Washington, summarize this viewpoint:

"Many administration critics on and off Capitol Hill believe that the deal, which would open nuclear commerce between the United States and India without requiring New Delhi to give up its nuclear weapons program, is so fundamentally flawed that it cannot be salvaged. They argue that states join the Nuclear Nonproliferation Treaty (NPT) and forgo nuclear arms in large part because membership grants them access to civilian nuclear technology. Now that India will be allowed such access without joining the NPT and giving up nuclear weapons, those who are party to the treaty will feel cheated and may decide to opt out. Given the coming confrontation with Iran over similar issues, the Indian deal comes precisely at the wrong time, the critics argue, so Congress should reject the deal out of hand".[7]

US Secretary of State Condoleezza Rice countered such apprehensions by emphasizing the fact that India, for the first time ever, gave IAEA inspectors access to parts of its nuclear installations, which would finally lead to the strengthening of this institution. This argument, however, appears questionable, for the agreement excludes every installation from IAEA inspections which would be necessary for the production of nuclear weapons. Anticipating criticism about the ostensible damage done to the struggle against the global spread of nuclear weapons, Condoleezza Rice stated:

"Aspiring proliferators such as North Korea or Iran may seek to draw connections between themselves and India, but their rhetoric rings hollow. Iran is a state sponsor of terrorism that has violated its own commitments and is defying the international community's efforts to contain its nuclear ambitions. North Korea, the least transparent country in the world, threatens its neighbours and proliferates weapons. There is simply no comparison between the Iranian or North Korean regimes and India".[8]

This weak response to critics within the American polity actually worked to reinforce their doubts about the agreement. Indeed, the exclusion of military nuclear installations from safeguard inspections appeared to be a point of sensitivity for many US legislators. Defenders of a more liberal export policy for nuclear technology counter this criticism by pointing to the fact that the USA claims similar exceptions from IAEA safeguard inspections for its own nuclear installations. This application of double standards became visible in David Albright's testimony on the issue before Congress:

"India may want similar considerations as the five nuclear weapons states. These states accept IAEA safeguards, but in general offer no commitments not to use such facilities for nuclear weapons purposes. Granting India the same safeguards conditions as the nuclear weapon states would make this agreement worthless".[9]

While differing on their judgement about the impact of the nuclear deal on global nonproliferation, both critics and defenders agree that its provisions in certain ways 'legalize' India's military infrastructure through the back door. Correspondingly, many among India's strategic elite, above all their leading figure K. Subrahmanyam, welcomed the agreement as the 'formal' recognition of India as a nuclear armed major power. Subrahmanyam's positive assessment of the nuclear deal reflects the worldview inherent in India's traditional strategic thinking:

"Ever since US made up with China in 1971, the US had been applying pressure on India to cap, halt and roll back Indian capability. This policy was consistently pursued from 1967, when US would not extend a nuclear guarantee to India till the Bush administration took office in 2001. For the nuclear nonproliferation ayatollahs in the US, proliferation by China to Pakistan was acceptable but not legitimate ac-

quisition of nuclear weapons by India. It is to the credit of President George W. Bush that he realized that a nuclear China, also the third largest market, on the way to becoming the second, upset the balance of power in Asia unless the Indian nuclear weapon capability was recognised and legitimized".[10]

A further problem caused by the agreement, in the critics' view, is the renunciation of the principle which had previously been adopted by all major nuclear exporting countries: not allowing the transfer of nuclear technology or the export of fissionable material to countries that are non-members of the NPT (and correspondingly have not placed all of their installations under the IAEA safeguards regime).

7. The relevance of the agreement for global nuclear proliferation

Despite such legitimate concerns about the fairly pragmatic handling of export and nonproliferation provisions by the USA, those who view the agreement as the death of multilateral efforts to prevent the global spread of nuclear weapons clearly overshoot the mark. Obviously, at no time in history have such efforts rested on the principles of equity and consistency, ideally the basis of international treaties. Beyond the fact that the NPT gives privileged status to five specific states, there is also the manner in which specific cases of (alleged) non-compliance were guided less by global principles than by the particular political and economic interests of certain states. Whether a defector's nuclear build-up was tacitly accepted (Israel, India), ignored (Pakistan), fiercely condemned (Iran, North Korea), forcibly stopped (Iraq 1991), or cooked-up (Iraq 2003), did not primarily relate to the state of its progress towards weaponization, nor by its threat potential, but first of all by the realpolitik considerations of the leading states in the global nonproliferation movement. In this context, the US agreement with India appears less as a renunciation of multilateralism than as a continuation of predominantly bilateral patterns of nonproliferation policy making. Leading U.S. strategic thinkers emphatically defend this approach:

"Using U.S. power to prevent some countries from securing controlled technologies, even as Washington assists others to acquire them, is eminently defensible – as long as it comports with national interests. If nonproliferation were the sole U.S. national security objective, or if India did not matter in this regard and others, such inconsistency would be intolerable. Precisely because this is not the case, enhanced cooperation with New Delhi becomes a compromise that the United States ought to settle for – however reluctantly – given India's importance for the success of both U.S. nonproliferation goals and other geopolitical objectives".[11]

Such prioritizing of considerations of power politics over nonproliferation interests is looked at much more critically in strategic circles outside the USA and India.

For many analysts, more worrisome than the inherent bilateralism is the timing of the nuclear deal. The agreement was reached at a time when the USA, together with other four states, was intensively engaged in complex and embittered negotiations with Iran over the progress of its nuclear programme. As Michael Krepon remarked:

"The weaknesses, as well as the importance, of the rule designed to prevent proliferation are now evident in the cases of North Korea and Iran. This is an awkward moment, to say the least, for the Bush administration to set a high priority to relax these rules in favour of India. But the nuclear deal has become a fixed idea for President Bush, Prime Minister Manmohan Singh, and their inner circles".[12]

Formally, the American position in the negotiations with Iran rested on the identification of Iran's alleged violation of IAEA safeguards and NPT rules. The cooperation with a nuclear weapons state, which did not violate the treaty only because it never signed it, is thought to seriously damage the credibility of this argument. It is feared that this application of double standards might cause Iran to follow suit and turn its back on the nonproliferation regime as a whole.

However, the overall likelihood that the nuclear agreement between the USA and India will cause an acceleration of the global threat of nuclear weapons is rather modest. Next to the eight states with proven arsenals of nuclear weapons, only two further countries allegedly run an active military nuclear programme: North Korea and Iran. Among the further 30 states that have the potential and technical expertise to launch a weapons programme, when weighing the benefits of possession of the bomb on the one side, and the benefits of a non-nuclear weapons status on the other, there is an increased preference for the latter. In this light, the risks that one of these countries might actually activate such a programme as a consequence of the Indo–US deal appears to be quite low.

The nuclear programme of a largely isolated North Korea mainly follows a dynamic widely detached from the international discourse on the nonproliferation of nuclear weapons. As such, it is unlikely that the Indo–US nuclear deal, or for that matter, any other event occurring outside the East Asian region, will immediately affect North Korea's nuclear policy. The case of Iran is different. The paramount importance India has given to nuclear technology, either civilian or military, for international status gains can be similarly detected in Iran's nuclear discourse, though to a lesser degree. Similarly to India, Iran asserts a regional leadership position and views nuclear technology as an important tool in enforcing this claim. Indeed, the discourse strategies applied by the Iranian government in the negotiation process display many similarities to the Indian nuclear discourse before 1998. As with the India of that period, the Iranian leadership is emphasizing the exclusively civilian nature of its nuclear programme. Further, it views any attempt to restrict its programme as an act of discrimination and an insult to its identity as a proud and sovereign nation. Such efforts are rejected as being designed by the West to prevent its emergence as an internationally important actor. An additional resemblance to pre-1998 India is how the discriminatory nature of the international nonproliferation regime has emerged as the epitome of an unjust world order, and, as a logical consequence, the resistance to this order has become both a heroic act and a national duty. The US–India nuclear agreement reached in March 2006 has the potential to amplify such perceptions in Iran.

8. Conclusion

For India, nuclear cooperation bears many advantages and few disadvantages; for the USA, on the other hand, the deal bears many more risks. Next to the economic advantages related to the transfer of badly needed know-how and nuclear components, the agreement is viewed by India first of all as valuable in terms of increasing its international status, and its goal of finally becoming recognized as a major power. India's opinion leaders displayed great satisfaction from their perception that the agreement has finally awarded India with the status of an important international actor, which it deserves. Critics of the agreement point to the loss of sovereignty which India faces due to its accession to the IAEA safeguard inspections regime. In view of the long list of restrictions and limitations of the inspections, such criticism appears to be more symbol than substance.

For the USA, the value of the agreement is, next to the expected boost to its nuclear energy industry, considered to be above all geopolitical. It is hoped that the emerging partnership with India provides the necessary basis for shaping the tilting of the Asian balance of power to its advantage. Paradoxically enough, the USA is currently the most important Asian power. The fostering of a partnership with India is hoped to consolidate this position.

It is unclear whether the American economy will actually benefit from the agreement to the desired extent after dropping the export restrictions of nuclear technology, as several other nuclear exporters have simultaneously increased their efforts to get a slice of the cake. With regard to the envisaged Indian acquisition of nuclear power reactors, France appears to have the best chances to win the bidding war. With regard to India's acquisition of uranium fuel, Russia has taken the lead position, a fact already causing some discontent in the USA.

The main problem of the agreement for the USA, however, is its potential damage to the country's position in the global struggle against nuclear proliferation in general, and in the negotiation process with Iran in particular. The agreement has the potential to cause a lasting loss of credibility to its reputation as the spearhead of this struggle. The agreement obliges the United States to transfer nuclear technology to India in return for its partial accession to the IAEA inspections' regime. As a consequence, India's obligations would cease should the USA decide to stop transferring nuclear technology for political reasons – further Indian nuclear tests, to name a realistic scenario – which could have severe consequences for America's overall position in Asia.

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India and the New International Economic Order: a Focus on Trade*

Lawrence Sáez

1. India and the new international economic order: a focus on trade

While India's demonstrated nuclear capability has raised its profile internationally, India's prospects and challenges as it emerges as an economic power in a new international economic order remains under-examined. Some scholarly analysis has tended to subsume India's growing economic status within a broader framework of its security environment.[1] These analyses have either framed India's impact regionally or have attempted to frame it globally. This chapter offers an international political economy perspective on India's external economic prospects and challenges irrespective of its military ambitions globally or its security pretensions regionally.

This chapter will outline the critical developments in India's emergence as growing economic power. Although India has made impressive gains since 1991, this author will show that India's global integration has not been impressive if measured in terms of relative gains, that is India's global integration has been unimpressive relative to other emerging markets. Some authors have, for instance, tended to offer structural explanations for India's weaker export performance relative to other peer countries, like China.[2] The chapter will show that it is the nature of India's trade, rather than its aggregate volume, that has made India's recent trade growth noteworthy. This chapter extends this analysis further to show that, paradoxically, India's global integration may be hampered by the unique structure of its national output, which is primarily concentrated in the services industry. Although export growth in the services sector has been impressive, India's future global integration has been fraught by the lack of trade with its regional neighbours. This chapter will show, however, that there are important structural constraints that will inhibit the growth of India's trade reach regionally, a factor that may have important implications for regional security in South Asia and for the sustainability of India's economic growth.

2. The new international economic order

India's global integration has been facilitated by the conjuncture of several developments. The first has been the growing building of an international trade regime. The features of this regime include increased global interdependence in trade and other forms of mobile capital stock. India's emergence as an economic power is closely linked to the building of this new international economic regime. Second, as a result of a balance of payments crisis in 1991, successive Indian governments have responded to the challenges posed by both the crumbling of a state directed economy and the external vulnerability posed by a potentially volatile international trade regime. Third, India is based in an unique regional sphere that has permitted it to engage in specific types of trade, namely in the services industry, that are unusual for low-income economies.

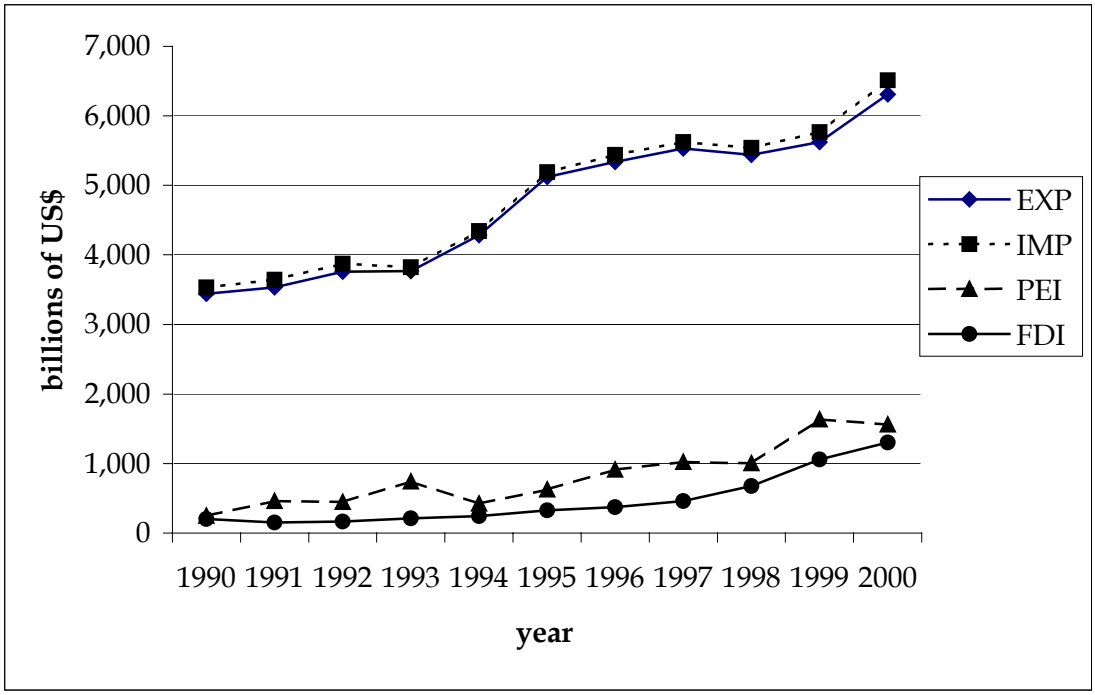
The concept of globalization has engendered an extraordinary amount of intellectual output in the international political economy literature, largely focusing on the

positive and negative externalities of such a phenomenon. However, little attention has been paid to empirically verifiable indicators of globalization in developing countries.

Globalization can be defined narrowly as the growing international integration of markets. This definition can be derived from the simple aggregation of a few critical macroeconomic indicators. Therefore, the most basic measures of such global integration should include trade (TRA), portfolio equity investment (PEI), and foreign direct investment (FDI). Trade itself can be further disaggregated into imports and exports in a given economy. In accordance with Garrett (2000), I have measured globalization as the sum of these basic measures of international integration.[3] These indicators are, of course, not the only relevant yardsticks of the impact of mobile capital stock, but it would be difficult to argue that they are not crucial ones.[4]

Using these measures, we can see that since 1990, there has been a steady increase in all four forms of global capital flows (i.e., exports, imports, PEI, and FDI). [See Graph 1]

Graph 1. Pattern of global capital flows (1990-2000)



Source: IMF 2001a (for export and import data) and IMF 2001b (for PEI and FDI data). Legend: EXP equals the sum of global exports; IMP equals the sum of global imports; PEI equals the sum of global portfolio equity investment flows; and, FDI equals the sum of global foreign direct investment flows.

As Graph 1 shows, the global sum of exports and imports has increased dramatically, especially for the 1993-1996 period. Graph 1 also shows that there was a slight decline in global exports and imports in 1997-1998, followed by a period of recovery thereafter. As expected the global volume of imports and exports is closely correlated during the entire time period. Similarly, Graph 1 shows that there has been a steady increase in the two other forms of global capital flows, namely PEI and FDI. Although the increase in FDI flows has been incremental, global PEI flows have been appreciably sensitive to financial crises, particularly in emerging

markets. Thus, there was a sudden decline in PEI during the 1994-1995 period (following the tequila crisis) and 1997-1998 (during the East Asian financial crisis).

Faced with this phenomenon, India has been one of the most rapidly integrating economies. India's economic integration into the global markets began slowly in the mid-1980s with a modest series of trade liberalization measures largely designed to encourage capital imports and commodity exports. During the first year of Rajiv Gandhi's rule (1984-89), tariffs on imports of capital goods were slashed by 60 percent. Other subtler trade liberalization measures included the reduction of taxes on profits from exports and the simplification of the import licensing system. As a result of these measures, India experienced unprecedented growth in exports and imports.

India's integration into the global markets, though, was not achieved without some pitfalls. In 1990, India suffered a balance of payments crisis, largely prompted by mounting current account deficits. For instance, in 1983, India had a current account deficit of 1.9 billion U.S. dollars (-0.9 percent of GDP). This deficit increased to 7.1 billion U.S. dollars by the end of 1990 (-2.6 percent of GDP). India's level of current account deficits was not unsustainable. However, long term financing of balance of payments deficits could not be sustained with the gradual depletion of foreign exchange reserves that India experienced during the 1980s, reaching a low of 1.5 billion U.S. dollars at the end of 1990.[5]

The change to India's policy direction, largely under the guidance of then Finance Minister Manmohan Singh as well as Commerce and Industry Minister Thiru Murasoli Maran, has been widely described and analyzed elsewhere. To summarize the crucial developments, India's domestic currency became convertible and was devalued sharply, from 25.7 rupees per U.S. dollar in 1990 to 45.8 rupees per dollar in 1994.[6] At the same time, Manmohan Singh and Murasoli Maran further advocated the reduction of tariffs (from an average of 85 percent to 25 percent of import value) and eliminated a wide array of quantitative restrictions. Although India's trade volume increased steadily in the 1990s, the current account balance began to decline. By 1993, India's current account deficit reached 1.8 billion U.S. dollars (-0.6 percent of GDP). A decade after these measures took effect, India began to run its first current account surplus, 1.7 billion U.S. dollars (0.7 percent as a proportion of GDP in 2001). This development is important because from 1993-2003, the average annual growth in the export of goods and services reached 13.3 percent.[7]

The 1990 crisis suggested a critical problem in India's macroeconomic landscape because it highlighted the disproportionate weightage of remittances to balance of payments stability. For that purpose, following the 1990 crisis, India also began to undertake a gradual program of financial liberalization in order to diversify the source of capital inflows. In this sense, India began to strengthen its capital and financial accounts while at the same time building up its foreign exchange reserves. During the first decade of financial liberalization, both foreign direct investment (FDI) and portfolio equity investment (PEI) increased. For instance, FDI inflows to India increased from a mere 277 U.S. million dollars in 1992, reaching a high of 4.3 billion U.S. dollars in 2001. Likewise, PEI increased tenfold, from 289 U.S. million dollars in 1992, reaching a high of 2.7 billion U.S. dollars in 2000.[8]

3. India's trade and economic growth

Trade has a disproportionate impact on an emerging market's global economic integration. For instance, in the year 2000,

trade in goods and services as a proportion to GDP reached 53.5 percent among all middle income countries and 69.8 percent among all emerging markets.[9] In this sphere, the position of India is unique. India's economic integration (measured in aggregate terms) has been increasing steadily, yet the country lags compared to other emerging markets. In the year 2000, for instance, India's aggregate trade only amounted to 25.4 percent as a proportion of GDP (well below the average of 69.8 percent for all emerging markets). Likewise, India's share of world merchandise trade exports in 2004 was a meagre 0.8 percent.[10] Given that endogenous growth theory suggests a strong link between trade and economic growth, the relationship between India's trade performance and economic growth needs to be examined in more detail.

Early empirical tests of export-led growth typically have found that there is a strong positive correlation between both factors.[11] Subsequent studies have found that export-led growth has also been associated with important inter-industry repercussions and a rise in investment and productivity. For instance, in an empirical study of 57 countries between 1970 and 1989, Wacziarg showed that an increase in investment is positively associated with greater trade openness.[12] Finally, a World Bank policy research report has conclusively claimed that, in a sample of 24 LDCs, more globalized poor countries have had comparatively higher rates of economic growth than their less globalized counterparts.[13]

The link between trade openness and economic growth has not been universally accepted in the literature. For instance, in Rodriguez and Rodrik, lower tariffs and non-tariff barriers to trade were shown not to be significantly associated with economic growth.[14] Other studies have questioned the link between the level of exports and economic growth.[15] In this sense there appears to be an inconclusive link between exports and economic growth among all emerging markets.

Nevertheless, I will now address how some low-income countries – like India – have specifically benefited from global market integration.[16] The most visible impact of the growing global economic interdependence has been the promotion of trade in commercial services, that is intermediate inputs in the production process for final goods.[17] While starting from a low point in the mid-1980s, India's growth in commercial services exports has been impressive. For instance, in the year 2003, India's annual percentage change in commercial services exports reached 20 percent, one of the world's fastest rates of growth. In the year 2004, India's share of world trade in commercial services was a respectable 1.5 percent.[18] It is for this reason, namely the type of trade rather than the volume of trade, that India's trade growth is noteworthy.

As I have argued elsewhere, the critical increase in international trade in services – such as banking, insurance, telecommunications, etc. – can be specifically traced to the WTO's General Agreement on Tariffs and Services (GATS) and later to the Agreement on Trade-Related Investment Measures (TRIMs).[19] Overall, the WTO-led liberalization in trade in services can have important implications on national economic welfare and for the international competitiveness of goods and services industries. Although this influence has generally had a positive effect on the investment climate of both developed and developing nations, there are continuing gaps between developed and developing economies on the long-term acceptance and agreement upon the precise extent of trade openness and the liberalization of capital accounts. Nevertheless, several no

table empirical studies, mostly using Engler-Granger cointegration and error-correction modelling procedures, tend to find strong support to the export-led growth thesis in the Indian case.[20] Therefore, although the empirical studies on the relationship between trade and growth in India are strong, an extrapolation from the Indian experience to other emerging markets may not be apt.

4. The challenge of regionalism

Having highlighted India's performance globally, I shall now turn to its economic role regionally. Compared to other markets, India's global economic integration in the 1990s is less notable than discussed. If we examine the data on Table 1, we learn that Pakistan and Sri Lanka have similar levels of economic integration to India.

Table 1. Leading indicators of global economic integration in India, Pakistan, and Sri Lanka (1980s and 1990s compared)

Country	TRA/ GDP (a)	TRA/ GDP (b)	Δ	FDI/ GDP (a)	FDI/ GDP (b)	Δ	PEI/ GDP (a)	PEI/ GDP (b)	Δ
India	11.9	20.4	8.5	0	0.7	0.7	0	0.6	0.6
Pakistan	27.4	35.6	8.2	0.02	0.9	0.9	0.1	0.7	0.6
Sri Lanka	55.7	65.3	9.6	0.7	1.3	0.6	n.a.	1.1	***

Source: IMF, International Financial Statistics 2001. The indicators represent trade as a proportion of GDP, foreign direct investment as a proportion of GDP, and portfolio equity investment as a proportion to GDP. Legend: TRA: Trade (exports plus imports), PEI= Portfolio equity investment, FDI = foreign direct investment, GDP= Gross domestic product. GDP figures at current prices. Figures in column (a) represent 1980-1989 cumulative averages. Figures in column (b) represent 1990-1999 cumulative averages. Figures in columns (a) and (b) represent percentages.

For instance, the indicator of trade as a proportion of GDP for Sri Lanka for the 1990s is 65.3 and for Pakistan it is 35.6 for the same time period. In contrast, India's total trade as a proportion of GDP for the 1990s is 20.4. Likewise, using other indicators of globalization, the level of economic integration in the 1990s is slightly higher for Sri Lanka and Pakistan than for India. Thus, using the indicator of FDI as a proportion of GDP, we learn from Table 1 that Sri Lanka's average rate for the 1990s rate is 1.3, higher than Pakistan's ratio (0.9) and almost twice as high as India's ratio (0.7). Similar differentials can be observed if we examine PEI as a proportion of GDP. Sri Lanka, once again, has a higher level of economic integration (1.1) compared with Pakistan (0.7) and India (0.6).

Finally, if we compare India, Sri Lanka, and Pakistan in terms of nominal economic growth, we find that India's performance, although laudable in such a short time span, is not much more impressive than the performance of Sri Lanka and Pakistan over the long run. For instance, during the 1990s, Pakistan achieved an average economic growth of 4.25 percent, while Sri Lanka (with an ongoing civil war) had an average level of economic growth of 5.23 percent. India's average economic growth in the 1990s was slightly higher than Sri Lanka's (5.56 percent).

I would argue that the reason why India's long-term global trade performance may be constrained concerns the lack of intraregional trade. Regional trade patterns within

South Asia, but especially between India and Pakistan, are peculiar. For instance, if we examine the patterns in the direction of trade, we learn that in 2001, India exported more goods and services to Switzerland or Nigeria than it did to Pakistan. It imported more from Uganda or the Czech Republic than it did from Pakistan. Pakistan exported more to Portugal than it did to India. Likewise, with a cursory examination of the International Monetary Fund's Directions of Trade Statistics Yearbook (DOTSY), we learn that Pakistan ranks 11th (among Asian nations) as a destination for India's exports. In turn, India ranks 7th (among Asian nations) as a destination for Pakistan's exports.[21]

It is important to stress that the marginal level of trade between India and Pakistan does not account for hidden or shadow trade between both countries. In addition to smuggling, it appears that a favoured channel for such unofficial trade transactions is via the United Arab Emirates (especially Dubai) and Singapore.[22] Some authors have estimated that the unofficial trade between India and Pakistan through these channels may currently range between $1 and 2 billion. If these figures are correct, then we should anticipate – with lower transactions costs – a threefold increase in official Indo-Pakistan trade, a level that would be on par with current bilateral trade between India and Bangladesh. However, for the structural reasons listed below, it may be imprudent to deduce that a hypothetical long term normalization of political relations between India and Pakistan would lead to an explosion of bilateral trade between India or that the level of trade would increase to such an extent that it would constrain the incentives for militarized interstate conflict.

The obvious absence of cross border linkages with positive externalities, such as the case of trade, has been a concern among scholars and policy-makers of India-Pakistan relations. These concerns have important theoretical implications within the international political economy (IPE) literature on the role of institutions in constraining state behaviour. The perception that improved trade between India and Pakistan should contribute to regional stability is premised on the idea that bilateral trade increases the collective wealth of nations and creates incentives to minimize the likelihood of militarized interstate disputes in order to preserve economic interests.

5. South Asia as a test case

The case of South Asia is interesting because it provides an important empirical test case to this array of neoliberal institutionalist claims. Although not explicitly linked to theoretical arguments, calls for increased trade between India and Pakistan are often couched in neoliberal institutionalist premises. For instance, Sridharan has argued that "the way forward towards eventual resolution of the India-Pakistan conflict lies in growing economic cooperation."[23] Inversely, some policy makers, such as Maleeha Lodhi, have expressed optimism that intra-regional trade in South Asia would improve if India and Pakistan did not have hostile military and political intentions. In Lodhi's assessment, "[t]here can be little doubt about the economic and trade benefits that could accrue to the global economy from a peaceful and stable South Asia."[24]

Supporters of the perspective that India and Pakistan (and South Asian countries in general) ought to increase trade relations are not unaware of the critical challenges facing both countries, namely with the festering problem in Kashmir. However, trade is viewed as having a long-term beneficial effect, even if the immediate outcomes are marginal. Zaidi has argued that "even if trade and better economic relations between the two countries do not resolve or even address the Kashmir issue,

they will certainly not make things much worse as this is a win-win situation."[25]

The abysmal trade relations between India and Pakistan are also viewed as an impediment towards the improvement of regional trading arrangements among South Asia nations. Since its inception in 1985, the SAARC has been portrayed as a potential institution that may facilitate intraregional trade.[26] During the 11th SAARC summit held in January 2002, the member states voiced their interest in creating a South Asian Economic Union. Later, at the 12th SAARC summit held in Islamabad on 4-6 January 2004, they once again renewed their calls for such levels of regional cooperation. These calls, since the Agreement on SAARC Preferential Trading Arrangement (SAPTA), have followed a decade long effort in South Asia to provide for the adoption of various instruments of trade liberalization on a preferential basis.

The precise ways in which South Asian nations pledge to liberalize trade is enumerated in the Agreement on South Asian Free Trade Area (SAFTA). In the Agreement, the contracting states pledged to engage in a trade liberalization programme composed of accelerated tariff reductions, harmonization of standards, and a dispute settlement mechanism. Within the South Asian context, these debates have been subsumed by the view that the South Asian Association for Regional Cooperation (SAARC) may be a possible venue with which to jumpstart India and Pakistan's poor trade relations.

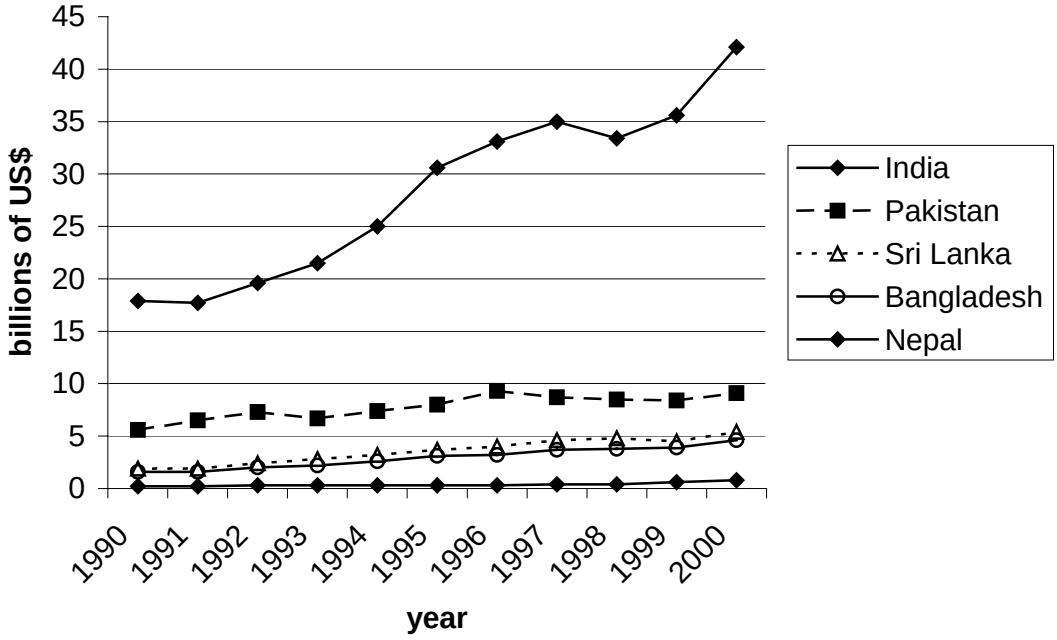
The expectation that improved trade relations need to form part of the larger peace process between both countries has been fully enumerated elsewhere. Kavita Sangari and Teresita Schaffer, for instance, have stated emphatically that "the biggest barriers to trade [between India and Pakistan] are political."[27] Likewise, Kishore Dash stresses a similar theme for the lack of overall intraregional trade in South Asia. He argues that "political differences and a lack of willingness to create trade complementarities among the leaders of the South Asian countries contribute to the current low level of intraregional trade."[28] In what follows, though, I will instead argue that there are specific structural (and not political or institutional) barriers that prevent trade between India and Pakistan, just like they impede trade between South Asian countries.

6. Structural impediments to India's trade growth: the challenge of divergent economic asymmetries

The primary structural impediment to intraregional trade are growing macroeconomic asymmetries between India and its neighbours. India and Pakistan both have among the world's largest armed forces (ranking 3rd and 7th respectively). Although all South Asian economies are low-income – with equivalent levels of purchasing power parity per capita – if they measured in terms of net GDP, India is the world's 12th largest economy, Pakistan is ranked 48th, Bangladesh is ranked 53rd and Sri Lanka is ranked 73rd.[29]

The asymmetries in economic power between India and other South Asian countries are dramatic and there has been a growing divergent trend. If we examine net exports from the leading South Asian economies, we find that over time there has been an overall increase in exports from the region. As Graph 2 shows, though, India's exports have increased dramatically during the 1990s, while the rest of South Asia's economies have lagged behind. (See Graph 2)

Graph 2. Comparison of net exports among the leading economies in South Asia (1990-2000)



Source: International Financial Statistics Yearbook (Washington, D.C.: International Monetary Fund, 2001).

As Graph 2 shows, India's net exports have increased dramatically during the 1990s, particularly in relation to its regional competitors. Similar disparities occur if we examine other forms of mobile capital flow (such as foreign direct investment and portfolio equity investment).

Under these conditions, a trade regime in South Asia would lead to asymmetric trade bargains. Given India's comparative economic strength vis-à-vis its South Asian neighbours, there is a possibility for trade to act as a vehicle for regional stability. It is for India's neighbours to accept these disparities and to engage in what may be termed submissive trade, namely a condition in which a weak power accepts the hegemony of the regional power (in this case India). This is a condition under which the Maldives, and to a lesser extent Nepal, find themselves in vis-à-vis India. It is unlikely that other South Asian countries (especially Pakistan) would accept this role in an Indian-dominated South Asian trade regime.

A related problem with the regional hegemony in South Asia is the asymmetry of corporate power. For instance, there is a possibility for Indian and Pakistani corporations to engage in mutually beneficial joint ventures. For this, international institutions such as SAARC can act as a useful intermediary to suggest a harmonization of rules. Nevertheless, given the asymmetry between corporations from India and other South Asian countries, joint ventures of any note are only likely to take place with respect to Indian companies establishing ventures abroad. Only a handful of industries, primarily in the services sector, are likely to be represented. They would include banking (State Bank of India, ICICI, Bank of India, Bank of Baroda, Canara Bank, Punjab National Bank), telephone operators (MTNL), pharmaceuticals (Ranbaxy), software makers (Infosys, Wipro),

or physical infrastructure concerns (Reliance, Hindustan Lever, Bharat Petroleum, Indian Oil Corporation, Gail).[30] In contrast, there is only one Pakistani company with combined annual sales of $1 billion or more. The asymmetry between Indian and other South Asian corporates is particularly important in this context because these are the most likely institutions that could have a deterring effect on foreign policy aggression.

There are some crevices for potential increased trade between India and Pakistan and among South Asian countries in general. The most viable of the possibilities for increased trade between India and Pakistan concerns tourism. Although they are not as lucrative as high-end tourists, there is a prospective market for middle-income Pakistani and Indian tourists that can be catered by a network of tour operators, domestic hotel chains, etc. Nevertheless, for tourism and related downstream industries to have a measurable impact on the betterment of Indo-Pakistani relations, it would first be necessary to secure ex ante agreements between India and Pakistan relating to the free transit of potential tourists. Given India's concern about cross-border terrorism from Pakistan, negotiations leading to free transit agreements are certain to be protracted and complex.

An option is for South Asian nations, but especially India and Pakistan, to engage in what may be termed symbolic trade, namely trade in non-essential commodities (films, regional foodstuffs, etc.) that may serve part of a larger set of bilateral confidence building measures. In this sense, there may be some sociological spillover effect from trade, one that could increase contact and communication in other channels. Operationalizing such spillover effects, it may prove to be impossible to measure the success of such a strategy. Moreover, this author is too sceptical about the effect symbolic exchanges would have in minimizing tensions among nuclear adversaries.

One of the basic premises in the calls for increased trade between India and Pakistan (as well as among South Asian countries in general) is that whilst trade may not alleviate existing political tensions, it will not make things much worse. A potential flaw with this line of argument is that increased trade is not neutral and need not lead to a reduction in conflict. Given the sizable disparity in economic might, trade could play a mischievous role. For instance, India's interest in the Israeli Phalcon early warning system and the Arrow anti-ballistic missile system sparked a great deal of concern in Pakistan. This illustrates that in a situation of bilateral military conflict among nuclear adversaries, trade can acquire strategic importance, though seldom to decrease tension. For instance, trade in seemingly beneficial products (such as pharmaceuticals or food) could be subject to boycott or sabotage. Moreover, past military conflicts between India and Pakistan have led to the expropriation of Indian and Pakistani assets.

A great deal of expectation has been expressed with respect to the building of interstate oil pipelines, either between India and Iran or India and Bangladesh. While these ventures could have an obvious beneficial payoff for all the players concerned, they have not been undertaken for three more powerful reasons. First, trade involving Iran, especially on strategic commodities such as oil, would destabilize relations with the global hegemon. Second, an oil pipeline between India and Bangladesh, for instance, would not be practicable due to continuing upheavals by insurgents in India's northeast, an event for which there is some speculation that either the Bangladeshi intelligence service or Al Qaeda operatives may play a part. Third, it may be too much of a risk for India to make itself dependent on Pakistan

for such a strategically important natural resource.

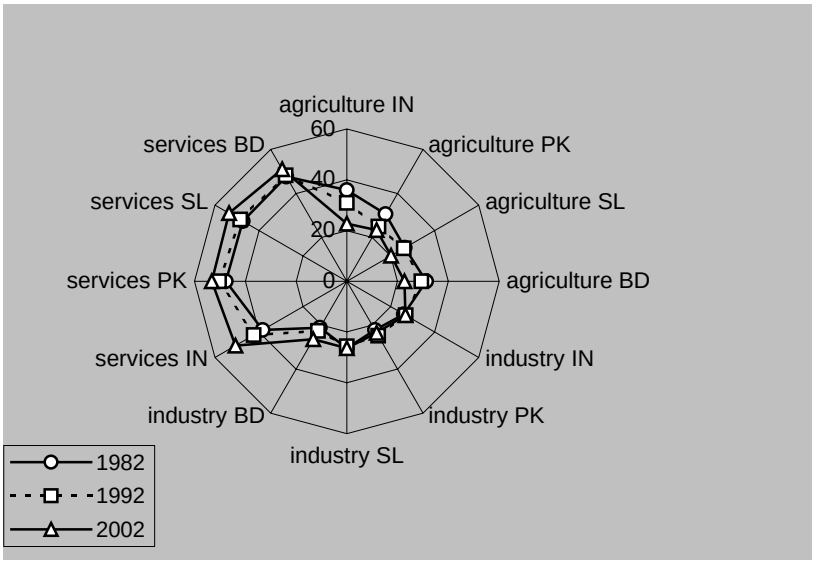
The inherently asymmetrical nature of economic interdependence in South Asia has important theoretical implications for the proposition that trade promotes peace. As I have argued elsewhere, the theoretical expectation that trade leads to peace has been empirically and theoretically contested. Most of these debates concern variants of the democratic peace argument, namely the expectation that democratic states do not wage war with each other. My view is that these types of neoliberal institutionalist claims are difficult to sustain in specific circumstances, specifically in cases where there is a lack of trade complementarity between contiguous military adversaries.[31]

As noted at the start of this chapter, trade relations between India and Pakistan are notoriously weak. Moreover, as I outlined in the previous section, there are significant obstacles that prevent the improvement of trade relations between India and Pakistan. In the case of South Asia, the argument about democratic peace is difficult to disentangle due to the wide variation of democratic swings regionally, but especially in Pakistan. In a historically driven exploration of Indo-Pakistani relations, Sumit Ganguly shows that the evidence for democratic peace is mixed at least as it pertains to these two specific adversaries. Ganguly argues emphatically that 'the presence of democratic governments in both states had little to do with the avoidance of war; on the contrary, democratic political powers in both countries pushed toward increasing conflict'.[32]

7. Further structural impediments to India's trade growth: the problem of trade complementarity

I would suggest that the principal impediment to intraregional trade is that South Asia's economies are incongruent.[33] South Asian economies are unique among developing countries in that they are driven by services, not manufacturing, or agriculture as is the case in other developing countries. Among the four largest South Asian economies, the trend away from agricultural production and towards services has been dramatic. If we use broad macroeconomic measures, such as agriculture, industry, and services as a proportion of total output, the dominant (and growing) sector in all four economies has been services. In contrast, agriculture as a proportion of GDP has declined in all the four leading economies in South Asia (See Graph 3).

Graph 3. Agriculture, industry, and services output as a proportion of total GDP output in selected South Asian countries (1982, 1992, and 2002)



Source: World Bank, World Development Indicators, 2004. Legend: BD = Bangladesh, IN = India, PK = Pakistan, and SL = Sri Lanka.

As Graph 3 shows, services account for over 50 percent of total output in all four leading economies in South Asia. In contrast, agricultural output has declined in all four leading economies in South Asia, averaging 30.9 percent of total output in 1982 and dropping to 22.2 in 2002.

As a consequence of South Asia's service dominated economies, there is no demand for its products among other South Asian nations. Moreover the complementary nature of South Asia's economies is reflected in the share of imports and exports as a proportion of total trade per country.[34] If we compare the dominant sectors in Indian and Pakistani exports and imports, we see that the three leading exports for India are textiles (30.5 percent of total exports), chemicals (16.2 percent), and mining quarry products (16.2). In turn, Pakistan's leading export is industrial textiles (76.7 percent of total exports), food, beverage, and tobacco (7.4 percent), and agriculture (5.4 percent).

If we examine the three primary imports (in declining order of total import share) for India and Pakistan, we find a similar level of non-congruence. India's three leading imports (in declining order to total import share) are: primary fuels (33.6 percent of total imports), processed industrial supplies (20.3 percent), and primary industrial supplies (15.6 percent). The listing of the three leading imports for Pakistan is almost identical: processed industrial supplies (26.4 percent of total imports), processed fuels (21.5 percent), and machinery (13.9 percent).

Any potential viability in a trade relationship between India and Pakistan must take into account the fact that neither country can be a supplier of the other country's leading import demand. Moreover, the likelihood of trade cooperation is weak given that India and Pakistan are evidently competitors in their respective leading export (textiles).

If we compare the structure of exports and imports in the other South Asian economies, we come to the realization that the likelihood of improved trade relations within South Asia is also unlikely to be

realized. Sri Lanka's leading export is textiles (encompassing 59.5 percent of Sri Lanka's total exports) and Bangladesh's leading export is industrial textiles (amounting to a staggering 86.3 percent of Bangladesh's total exports). Textiles are also Nepal's leading export (accounting for 55.9 percent of total exports). Just as was the case with India and Pakistan, the leading three imports for Sri Lanka, Bangladesh, Nepal, and the Maldives include the three following items: primary or processed industrial supplies, capital equipment or machinery, and primary or processed fuels. No other South Asian country can currently meet this demand.

It is true that some South Asian nations have a comparative advantage in relation to other South Asian nations by virtue of their specialization in a given primary commodity. For instance, 4.8 and 8.1 percent of Bangladesh's exports are rice and cereals respectively. Likewise, 14.5 percent of Sri Lanka's exports are tea. Exports from the Maldives are dominated by the export of fish, crustaceans, and molluscs (amounting to nearly 56.6 percent of total exports). Nevertheless, South Asia's domestic economies are dominated by oligopolistic industries that meet basic domestic consumer demand. Therefore, the demand of these primary commodities is likely to be weak among other South Asian countries, primarily because demand is met with domestic production. Moreover, as shown before, future trade relations between South Asian countries are unlikely to be dominated by agricultural products (or seafood) given the declining share of agriculture as a proportion of total GDP output.

Overall, the previous data on trade statistics show several things, none of which point to improved trade relations between India and Pakistan or between South Asian nations in general. First, in addition to being regional military competitors, India and Pakistan are also trade competitors. Neither the structure of its exports nor its import demand structure provides much hope for an improvement in trade relations. Second, given that South Asian economies' exports are so dominated by textiles and industrial textiles, there is little likelihood that a lowering of tariffs among South Asian nations would have a noticeable effect in increasing trade among South Asian nations (it should however increase textile exports by South Asian countries vis-à-vis other textile manufacturing centres).

The existing dynamics of South Asia's economies suggest a very low level of interregional trade, even in the absence of hostile relations between India and Pakistan. This pessimistic observation is as robust empirically as it is in theory, primarily because there are going to be continuing regional asymmetries in the production of either labour intensive or capital-intensive goods.[35] Viewed in this context, the expected gains from growing intraregional trade in South Asia, regardless of the international vehicle chosen to undertake this trade (such as SAFTA), can only have a marginal impact.

8. Conclusion

This chapter has attempted to make a contribution to the growing literature on the relationship between the growth in India's military and economic apparatus. The chapter started by highlighting India's gradual integration into the global economy. This was first accomplished by a gradual current account liberalization and followed by capital account liberalization. During my discussion, though, I have illustrated that compared to other emerging markets, India's gains have not been as impressive.

As I have shown in this chapter, South Asia's economies depart from other low-income developing countries in one important respect; they are economies where

total output is skewed towards services. Over time, agricultural output as a proportion of total output has declined in all South Asian countries and industry has, as a proportion of total output, remained steady. As it pertains to manufacturing exports and imports, the dominant South Asian economies (India, Pakistan, Bangladesh, and Sri Lanka) also exhibit similar factor endowments. Despite India's impressive achievements in services-oriented growth in the 1990s, I have also argued that India's long term growth sustainability may be hampered by a low level of intraregional trade.

This chapter has offered a pessimistic perspective on the likely effects of increase upon regional stability in South Asia. Although they are low-income economies, I have first demonstrated that South Asia's economies are service-based, hence there is little likelihood that there will be a great deal of demand for these inputs in other low-income economies in South Asia. Moreover, I have shown that, based on the pattern of trade needs by the leading South Asian economies, these economies are competitive and unlikely to engage in great increases in trade even under the most optimal geopolitical circumstances. For this reason, I have concluded that neither the nature of the interstate relationship nor the expectation of future gains from trade may lead to peace if two adversarial nations (like India and Pakistan, for instance) are not trade congruent.

My discussion doesn't need to be interpreted as a comprehensive rejection of the possibility of increased trade between India and Pakistan or among South Asian countries in general. Nevertheless, it is important to see that the facility of constrained state behaviour in the face of growing economic interdependence has minimal application in South Asia. More importantly, though, a constrained parameter of export-led growth could have a damaging impact to India's long-term economic growth.

Notes

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1 Notable examples of this type of analysis include Cohen, Stephen: India. Emerging Power, Oxford 2001; Mitra, Subrata K.: The Reluctant Hegemon. India's Self-Perception and the South Asian Strategic Environment, in: Contemporary South Asia 12, 3/2003, pp.399-417.

2 See Sáez, Lawrence: Globalization, Market-Preserving Federalism, and Subnational Economic Growth. Evidence from India and China, in: M.P. Singh/Bhagwan Dua (eds.), Indian Federalism in the New Millennium, New Delhi 2003, pp.351-78.

3 Garrett, Geoffrey: The Causes of Globalization, in: Comparative Political Studies 33, 6-7/2000, pp.941-991. For a similar set of empirical measures, using a small sample of highly industrialized developed countries, see Held, David/McGrew, Anthony/Goldblatt, David/Perraton, Jonathan: Global Transformations, Oxford 1999.

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5 Data calculated from the International Monetary Fund, International Financial Statistics, Washington, D.C., various years.

6 Ibid.

7 India's balance of payments data are calculated from the World Bank website. Available at http://www.worldbank.org/data/countrydata/countrydata.html.

8 International Monetary Fund, International Financial Statistics, op. cit.

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[16] For an application of this argument to other developing countries in Asia, see Vohra, Rubina: Export and Economic Growth. Further Time Series Evidence from Less Developed Countries, in: International Advances in Economic Research 7, 3/2001, pp.345-350.

[17] For an examination between trade openness and the rate of investment in equipment, see Sen, Kunal: Trade Policy, Equipment Investment and Growth in India, in: Oxford Development Studies 30, 3/2002, pp.317-331. Greater trade openness in India has also been empirically linked to an improvement in human endowment and the accumulation of physical capital, see Gopinath, T.: Integration and Growth. An Indian Experience, in: Indian Journal of Economics and Business 2, 1/2003, pp.73-86.

[18] World Trade Organization, p.20. Nevertheless, India still does not rank among the world's top 20 exporters in either merchandise trade or commercial services.

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[29] Net GDP rankings are for the year 2003. See the World Bank's World Development Indicators database (September 2004). Data is available at URL http://www.worldbank.org/data/databytopic/GDP.pdf.

[30] In the year 2004, there were no Sri Lankan, Nepalese, or Bangladeshi corporations listed in Forbes magazine's list of the top 2000 corporations worldwide. See www.forbes.com.

[31] These debates are developed further in Sáez, Lawrence: Trade Congruence, Regionalism, and International Security. A Critical Examination of Neoliberal Institutionalist Claims, in: Maria Izabel de Carvalho (ed.), Brazil and International Relations, Brasilia 2005, forthcoming.

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[33] This theoretical argument is formally developed in Sáez, L.: Trade Congruence. For a fuller treatment of trade complementarity in South Asia, including revealed measures of revealed comparative advantage, export specialization, import compositional share, and commodity complementarity components, see Pitigala, Nihal: What Does Regional Trade in South Asia Reveal About Future Trade Integration?, in: World Bank Policy Research Working Paper Series 3497, Washington, D.C. 2005.

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