

# WHAT DOES INDIA THINK?

Edited by François Godement



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Robert Bosch Stiftung

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# List of acronyms

**AIIB** - Asian Infrastructure Investment Bank

**AMRUT** - Atal Mission for Rejuvenation and Urban Transformation

**ASEAN** - Association of Southeast Asian Nations

**BJP** - Bharatiya Janata Party, or Indian People's Party

**CPEC** - China-Pakistan Economic Corridor

**JeM** - Jaish-e-Muhammad, Pakistan-based militant group

**JnNURM** - Jawaharlal Nehru National Urban Renewal Mission

**JuD** - Jamaat-ud-Dawa, alleged front for the LeT

**LAC** - Line of Actual Control (separating India-controlled Jammu & Kashmir from China-controlled Aksai Chin)

**LeT** - Lashkar-e-Taiba, Pakistan-based militant group

**LOC** - Line of Control (separating Pakistan-controlled Kashmir from India-controlled & Kashmir)

**NRI** - Non-resident Indians

**SAARC** - South Asian Association for Regional Cooperation

**TTP** - Tehreek-e-Taliban Pakistan, the Pakistani branch of the Taliban

# Map of India



- 1** The region of Kashmir (including Pakistan-controlled Kashmir and India-controlled Jammu & Kashmir) is claimed by both countries, and their territories have been separated by the Line of Control since the 1972 Simla Agreement.
- 2** Aksai Chin and three smaller areas bordering Tibet have been controlled by China since the 1962 war, but are claimed by India. Jammu & Kashmir and Aksai Chin are separated by the Line of Actual Control.
- 3** Arunachal Pradesh, an Indian state bordering Tibet, is claimed in part by China.



# Foreword

“What does India think?” – the question that lies at the heart of this anthology – gained new urgency with the coming to power in May 2014 of Narendra Modi. Since then, India has embarked upon an ambitious project of self-reinvention, pursuing an administrative and economic reform agenda, and repositioning itself in world politics. Still, social, institutional, and infrastructural constraints to economic reform loom large. There are also questions concerning religion-driven changes that Modi’s party may enforce or condone.

The essays in this volume seek to provide a better idea of India’s interests, ambitions, opportunities and constraints – in terms of foreign policy and the economy, but also with regard to domestic politics and Indian society. They reflect the many discussions and encounters we had during a study tour to India in autumn 2015. This study tour, with European Council on Foreign Relations (ECFR) Council members and other European policymakers and journalists, was the third in a series of Robert Bosch Stiftung-ECFR collaborations on Asia. Starting with China, then taking a more general outlook in the publication *How do Asians See their Future?*, these projects reflect our interest in improving international understanding and fostering Asia-European relations.

The work of the Robert Bosch Stiftung, one of the largest foundations in Europe associated with a private company, builds upon the legacy of Robert Bosch, who sought to promote international cooperation through his philanthropic endeavours. By engaging India in our activities, we are building on the idea that to promote international understanding it is necessary to have an in-depth knowledge of each other, and to get rid of any misperceptions. We aim to make India’s presence felt more strongly in multilateral forums, reflecting its rise to international leadership and its relevance for global governance.

“What does India think?” is a question of growing relevance to Europe, where a greater acknowledgement of India’s importance is gradually gaining momentum. We hope that the study tour and this essay collection evoke more interest in India on the European side, and make Europe appear as a more valuable strategic partner to India. On behalf of the Robert Bosch Stiftung, we would like to thank ECFR, particularly François Godement, Angela Stanzel, and Abigaël Vasselier, for organising the tour and editing this volume.



*François Godement*

# Introduction: Europe and India

India is changing, and Europe is missing out. India is now the world's fastest-growing economy, ahead of China, and the European Union is both its biggest market and biggest trading partner. The two unions share common values and democratic political systems. Yet Brussels has not found time to meet Prime Minister Narendra Modi, and trade talks are deadlocked.

Europeans are frustrated by India's complexity, fragmentation, and changing rules. But, while European firms complain about the difficulty of doing business across the diverse Indian subcontinent, few realise that Indians feel exactly the same about Europe. Indians tend to approach Europe through bilateral relationships with each member state, rather than treating it as a whole.

The North–South divide pits Europe as a giver of lessons against an India that often will not accept them – an India that can say no. Add this to India's defensive and anti-interventionist international stance and Europe's increasingly centrifugal trends, and India–Europe relations begin to look like a car crash.

On ECFR's recent trip to India, we heard the following comments from senior voices, both Indian and European:

“Europe summons up a big yawn for us.”

“Don't treat India merely as a benign 5,000-year-old civilisation.”

“There is no commitment from the top in Europe on cooperation with India. All it brings to us are complaints about climate change and human rights.”

“European defence starts in the Hindu Kush.”

“India may be a difficult partner. But contrast the EU’s attitude with US persistence, over a decade and three administrations, which has led to a breakthrough in its relationship with India, now coming to fruition.”

We could go on. This collection of essays from leading Indian thinkers, about their country’s state of affairs, economic prospects, and international activism follows a week-long series of encounters in September and October 2015 between ECFR Council members, leading European journalists, and a range of Indian voices – from government and politics to business, the media, and think-tanks. During this trip, participants heard many wise insights, along with harsh assessments of the status quo and calls for changes.

### *The EU and India: Common ground*

India and the EU have much in common. Both are societies caught in perpetual debate, defined by the difficulty of reaching and implementing strong common strategies. Both take great pride in their democracies, and both are under pressure from hardnosed authoritarian neighbours.

India has 29 states and seven union territories, with a patchwork of communities, languages, and religions. It maintains a delicate balance between central and state powers (the word federal is avoided, as it is in Europe) amid controversy over transfers and uneven development. There is tension in foreign policy between the soft power that is a heritage of the Gandhi-Nehruvian era, and a realist hard-power streak; it has a troubled neighbourhood policy, with the looming shadow of a big and resurgent power on its borders. All this could be the European Union as much as the Indian union.

Indeed, it’s not that the EU and India don’t interact, especially in terms of trade. The EU is India’s biggest market, and, because much of its trade goes via Dubai, the amount is underestimated. Europe is also the biggest source of foreign investment in India – though many European firms operate from Mauritius or Singapore shell companies for tax reasons.

Like Europe, India has missed the boat on mega trade deals: while the Obama administration has successfully concluded its Trans-Pacific Partnership (TPP) with 11 nations, India has no major initiative save joining the Regional

Comprehensive Economic Partnership (RCEP),<sup>1</sup> and the EU has not yet reached a deal with either India or Japan.<sup>2</sup>

### *Europe's disconnect with India*

All this common ground should be a basis for mutual understanding and strategic convergence.<sup>3</sup> However, two weaknesses do not make a strength. There has been no EU–India summit since 2012 – after a run of 12 since 2001 – though the need for strategic dialogue has greatly increased. Europe actually crafted a Joint Action Plan for strategic cooperation in 2005, whose first two points were about increasing dialogue.<sup>4</sup> It is now all but forgotten.

Modi is a globetrotter and will have visited four European capitals by the end of November 2015, but has not yet met with Brussels.<sup>5</sup> This could be explained by the thin ranks of diplomats in India's vast bureaucracy, or by the European Commission's many silos, but there are harsher realities at play.

On Europe's part, its claim that “India and the EU, as the largest democracies in the world, share common values and beliefs”<sup>6</sup> has given way to sniping at India's failings. Many of the European Parliament's actions on India concern the area of human rights. The two unions have launched anti-terrorist cooperation, but, as one commentator pointed out during our visit, “Europe's condemnation of capital punishment conflicts with routine praise for India's legal system”. Since 2005, there have been only three executions in India (all related to the New Delhi and Mumbai terror attacks of 2001 and 2008). In the same period, there were 472 executions in the United States, and an estimated 50,000 to 80,000 in China – has the EU been as strong a voice in these cases? India is stubborn too. In 2013, the arrest of an Indian diplomat to the United Nations over a nanny visa issue sparked a major row between India and the US.

European policy towards India is not fully coordinated. As one arm of the European Commission was reviving trade negotiations in summer 2015, another declared a ban on India's generic drugs. More generally, the EU is saddled by a

1 RCEP, which was started by the Association of Southeast Asian Nations (ASEAN) with six non-ASEAN partners since 2011, is generally regarded as a case of shallow trade liberalisation.

2 India may be ambivalent about a free trade agreement, since exports are only 5 percent of its GDP.

3 Pallavi Aiyar, “Multi-ethnic India an answer to EU-skeptics?”, Yale Global Review, 19 November 2014, available at <http://www.gatewayhouse.in/multi-ethnic-india-an-answer-to-eu-skeptics/>.

4 The India–EU Strategic Partnership Joint Action Plan, 7 September 2005, available at [http://eeas.europa.eu/delegations/india/documents/eu\\_india/021\\_eu\\_india\\_res\\_6th\\_summit1\\_en.pdf](http://eeas.europa.eu/delegations/india/documents/eu_india/021_eu_india_res_6th_summit1_en.pdf) (hereafter, The India–EU Strategic Partnership Joint Action Plan). The plan was revised in 2008.

5 Manu Pubby, “PM Narendra Modi's Brussels visit cancelled as EU fails to respond”, the *Economic Times*, 14 March 2015, available at [http://articles.economictimes.indiatimes.com/2015-03-14/news/60111638\\_1\\_italian-marines-india-european-union-suggestions](http://articles.economictimes.indiatimes.com/2015-03-14/news/60111638_1_italian-marines-india-european-union-suggestions).

6 The India–EU Strategic Partnership Joint Action Plan, p. 1.

disconnect between member states who compete fiercely over the Indian market, and those who hold back due to criticism on religious or human rights grounds.

On trade and investment, India's large-scale central government projects and the flowering of initiatives by state governments challenge the conventional way of doing business for European member states, who would find it easier to deal with a more unified partner.

### *Modi and illiberal India*

The arrival of Modi's Indian People's Party (Bharatiya Janata Party, BJP) with the largest majority in 30 years has triggered some illiberal trends. Hindu nationalism has led to state bans on beef consumption, and NGOs are challenged on their foreign sources of financing. Greenpeace has been particularly targeted.<sup>7</sup>

Though Modi has a clear majority in the Lower House, he does not control the Upper House – yet. Some of his reforms have therefore been initiated by the government under an act which allows for temporary promulgation between parliamentary sessions. It is still a far cry from Prime Minister Indira Gandhi's infamous 21-month Emergency which allowed her to rule by decree in 1975–1977. In fact, Modi has now desisted from this strategy, and follows parliamentary procedure to the letter. Ironically, he is now accused of being less effective than he proclaims; in the words of one wry commentator, he is “a lamb in wolf's clothing”.

Modi and the BJP have no monopoly on intolerance. As we heard on our visit, “left and right alike have displayed authoritarian tendencies”. And Hindu nationalism, or *hindutva*, exists in the two major parties – among the 54 who compete for attention at the national level.

### *The roots of Modi's appeal*

More important for our analysis are the factors that lie behind Modi's mass popularity.

The first is his mastery of communications and social media, which is in effect nationalising political campaigns across India's fragmented constituencies

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<sup>7</sup> Samanth Subramanian, “India's war on Greenpeace”, the *Guardian*, 11 August 2015, available at <http://www.theguardian.com/world/2015/aug/11/indias-war-on-greenpeace>; Aneesha Mathur, “Centre cancels Greenpeace India's FCRA registration”, the *Indian Express*, 4 September 2015, available at <http://indianexpress.com/article/india/india-others/greenpeace-indias-fcra-registration-cancelled-govt/>.

and bypassing the traditional media, of which he is wary. A striking example is the success of the #GiveItUpMovement: a campaign to encourage those who can afford it to give up their liquefied petroleum gas (LPG) subsidy. Six months later, the government claims that three million people have responded to Modi's appeal, and that it will save INR 4.8 billion of public money (around €66 million).<sup>8</sup>

The second factor is Modi's appeal to the aspiring middle and lower-middle classes, a group that is composed of urban dwellers and of those who dream of becoming urban dwellers. In the latest Pew poll on India,<sup>9</sup> 87 percent of respondents (and 74 percent of supporters for the opposition Congress Party) had favourable views of Modi. Officially, India's urban population is around 30 percent. Unofficially, it is 50 percent – although 17 percent of these live in slums. Some 40 percent of schoolchildren (31 percent in rural areas) attend fee-paying private schools.

The third factor behind Modi's popularity is his tactic of incremental change rather than frontal assault on the status quo. As much as he has centralised political power within a small coterie of followers, he is also tactically reaching out to other political forces at state level. A key move has been the devolution of significant fiscal resources to the states themselves, fostering competition among them.

On many Modi policies, the jury is still out. Kicking the thorny issue of a land acquisition act to the states will look like a stroke of genius if state governments move on the issue – but so far, only five have done so. He has retreated on the implementation of a Goods and Services Tax (GST) that would tear down trade barriers between states – but is still promising this by April 2016.<sup>10</sup> Clearly, much depends on coming state elections that may reshape the Upper House, and on his success at wooing third parties, often representing disadvantaged castes, that are key to these elections. More fundamentally, after ending some corrupt practices – redistributing coal mines licences handed out in murky circumstances under the previous government – Modi will have to prove to voters that he runs a cleaner house.

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8 "Amitabh Bachchan gives up LPG subsidy", Press Trust of India, 24 September 2015, available at <http://timesofindia.indiatimes.com/entertainment/hindi/bollywood/news/Amitabh-Bachchan-gives-up-LPG-subsidy/article-show/49092630.cms>. See the GiveItUp campaign website at <http://www.givitup.in/>.

9 Bruce Stokes, "The Modi Bounce", Pew Research Center, 15 September 2015, available at <http://www.pewglobal.org/2015/09/17/the-modi-bounce/>.

10 See the GST India website at <http://www.gstindia.com/about/>.

Modi is making a fresh start with India's neighbourhood, which had been neglected by previous governments. He has signed a land border deal with Bangladesh and renewed ties with the Indian Ocean states and Sri Lanka – though attempts to reach out to Nepal have been unsuccessful. It is a welcome development that India has practically admitted its role in supporting Baluchistan separatist groups who have carried out attacks in Pakistan. However, despite Modi's initial opening to Pakistan's Nawaz Sharif, it is the Pakistani military and intelligence agencies who hold the key to the thorny India-Pakistan relationship. More broadly, Modi has pivoted east – to Japan, where there are shared interests in corralling China, as well as a kinship with the conservative Shinzo Abe. "A visit to Japan by the chief minister of Maharashtra state may matter more than Modi's reception at Facebook headquarters", we were told.

### *Delivering growth and reform*

None of this will matter if India misses its chief goal – annual growth of at least 8 percent. Growth, jobs, inflation, and corruption are the issues that now move voters. The country's urgent needs in terms of sanitation,<sup>11</sup> health, and education require delivery and follow-through – scarce commodities in India's high-decibel politics. While Modi's "Make in India" slogan and his new foreign policy approach are the means for the country to tell its story internationally, it is economic growth and the distribution of its benefits that motivate voters. And, unlike in developed democracies, Indians do vote – 67 percent of them – a number that is going up, not down.

India is changing scale. It has gone through several years of 10 percent-plus growth, and its current rate of 7 percent makes it the fastest-growing economy, just ahead of China: and, if these numbers are disputed, China's are too. It is blessed by the current international conjuncture of low import prices for energy and commodities plus cheap capital – and it relies far more for growth on its domestic market than on exports.

But it is also cursed by its own demons – crony capitalism, and an individualism whose flipside is indifference to public goods. It is not surprising that Modi is accused of authoritarian leanings in a system where "inefficiency is a tax on democracy", as we heard on our visit. These issues predate the Modi administration, and require fundamental changes in governance structures. For

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<sup>11</sup> In the 2015 Pew poll, Modi's first achievement, cited by 71 percent of respondents, is a programme to build sanitary toilets.

example, India's cities are largely controlled by the states, and their expansion is largely informal and ungoverned. The new Smart Cities programme, which aims to use technology to improve India's cities, may simply be a way to assert central control over some urban development. Modi's first real failure may be the Goods and Services Tax, which has floundered between many divided interests. Winning state elections in the next 16 months and gaining a free hand will be the real test for Modi and his camp.

Meanwhile, India is charging ahead, in an example of "leapfrogging" development. A national biometrics identity-card scheme – started under the Singh administration – now covers 920 million people. The government is planning to carry out direct subsidy transfers through this scheme, bypassing levels of potential corruption. This goes hand-in-hand with the creation of transaction banks that will enable direct payments for all without the need for a traditional bank account, and with the resurrection of microfinance and microcredit. India's railways – major real-estate holders – are part of a scheme to develop solar energy, and India has just committed to a 40 percent renewable energy target by 2030, while steadfastly defending cheap coal and rejecting consumption ceilings.

Still, the country faces two major obstacles: first, the global demise of job-rich manufacturing may prevent it from becoming a "second China". Small, high-tech firms and the service sector will provide more jobs than standard manufacturing. Second, building much-needed infrastructure depends on both foreign investment and state-level funding. Expect to see several divergent economic Indias rather than a country-wide process. In fact, Modi is promoting a "competitive federalism". In another echo of the EU, this raises the issue of growing development gaps between states, and calls into question the long-term endurance of India as a successful "transfer union".

### *Multipolarity as a way of doing business*

These issues explain much of the foreign policy of today's India, turning its back on the long era when it conformed to the colonial vision of a passive state – without the empire or alliances that its masters possessed. India now relies squarely on its undeclared alliance with the US, with alternate suppliers to keep Washington honest.

"Modi is indifferent to the colour of money", our interlocutors told us. He has welcomed Chinese investment in infrastructure, while increasing ties with **17**

Japan, the country's closest partner in Asia. Israel and Iran – with which India always maintained contact, even while being forced to implement sanctions – also rank as special relationships. Russia is there for the long haul, and can be used, like other emerging centres of the multipolar world, to allow India to say no to the established powers. In fact, India's use of the BRICS or BASICS is largely defensive, in response to the lack of recognition for its interests in global governance structures. US policy – clinging to shares of reserves and voting rights inside the International Monetary Fund (IMF) and World Bank system – is criticised at the highest level in Indian government, while Europe's acceptance of the need for reform unfortunately goes unnoticed.

India's reaching out under Modi is clearly self-interested – garnering investment and technology while corraling China is the name of the game. But isn't India's market of 1.3 billion people a desirable option for European companies? At a moment when the US is reaping the reward for years of patient groundwork with a concluded Trans-Pacific Partnership, Europe should pursue the EU–India free trade agreement (FTA) as a priority, instead of letting issues such as a quarrel on drug certification derail it.

At a strategic and global level, India matters to Europe. Despite its rivalry with Pakistan, India has been a key supporter of governance in Afghanistan. Should the Taliban (or chaos) win the day there, the current flow of refugees to Europe will vastly increase. India has moved from a traditionally sovereigntist and defensive stance to advocate freedom of navigation on the seas. Shouldn't Europe build on that, given that it shares the same strategic interest in guaranteeing future trade flows? India will also be a key partner for an Iran reintegrated into the international community.

These avenues all point towards the need to refocus European policies. Here, the key challenge is Europe's perception of India. On our trip, those we spoke to repeatedly tore down the conventional wisdom:

“Multilateralism is a weapon of the weak, and we are growing strong.”

“The sell-by-date of the Non-Aligned Movement has arrived.”

“India has all the attributes of a great power – the cost of not exercising this power is subordination to China.”

together, it amounts to a \$6 trillion economy, closer to that of China.”

“Let’s forget about the G4 and the Security Council seat and be more promiscuous with our alliances, calling on the world to aid our development and build our growing strength.”

None of the above should preclude India facilitating greater access for its European partners. But a fresh start between the two unions requires a realist vision of India’s goals and its prospects of achieving them.



# **INDIA'S IDENTITY AND POLITICS**



*Lord Meghnad Desai*

# What does India think?

1

There is no one “India” that thinks. There are several Indias, each of which has its own separate consciousness. Indeed, if there is any culture or civilisation that has rejected monism for pluralism, it is the ancient Hindu culture. Hinduism is not a religion in the Abrahamic sense. It has no creed, no single orthodoxy, nor a prescribed formula for affirming religious faith. There are many gods and there is no god – only a single disembodied essence, the *Brahman*, which permeates the universe.

But modern India is not just a Hindu civilisation. It has multiple religions – all the various sects of Islam and of Christianity, Judaism, Zoroastrianism, Buddhism, Jainism, and Sikhism – and its people often subscribe to more than one. There are also many languages – perhaps as many as 700, though only 22 are recognised officially, and a couple of thousand dialects. Geographically, India is comparable to Europe, minus European Russia, and many of its regions are larger than some European nations. Indeed, India is in a way a collection of nations.

Even so, there have been attempts through the last 200 years to fashion a single India, with a single identity. The struggle to throw off the British yoke led the elite to fashion stories of why India was a nation, in order to counter British jibes that India was no more a reality than the equator, as Winston Churchill once said. Thus Indians fashioned a story of nationhood.

Indeed, they fashioned more than one story. The idea of India as a single nation was countered by the idea of two nations: Hindu and Muslim. This led to India’s division into two nation states, India and Pakistan. One constant in Indian thinking since then is the notion of Pakistan as the Other, if not the Enemy. After Partition, a revised idea of India emerged, thanks to Jawaharlal Nehru, its first prime minister. India was to be a secular nation in which there was equal respect for all religions, but with special attention to the Muslims who had stayed behind rather than migrating to Pakistan.

The hegemony of the Nehruvian idea of India was bolstered by the near-monopoly of his Congress Party and the dynastic succession of Nehru's daughter and grandson as prime ministers. His grandson's widow will now be succeeded by his great-grandson. In the 68 years since independence, Congress has been in office for 55 and the dynasty in control for all but seven.

### *Rival ideas of India*

The Nehruvian idea of India is facing a challenge not only because Congress lost power in 2014 but also because a rival party, the Indian People's Party (Bharatiya Janata Party, BJP) – commonly labelled as Hindu nationalist – has won a majority to form India's first non-coalition government in 30 years. Rival ideas of India are in the air. The hegemony of the Congress idea of secularism is being challenged and the idea of Indian nationhood is being debated anew. If Pakistan was born out of the idea of two nations and it is the Muslim nation, then why isn't India the Hindu nation?

The notion of two nations produced two nation states, but both nations were split between them, albeit unequally. There were Hindus and Muslims in both India and Pakistan. However, Muslims were divided much more evenly between the two than Hindus. Pakistan was itself divided between the territories of modern-day Pakistan to the west and Bangladesh to the east – not on grounds of religion but of language. Nations are not defined by religion alone – language counts, as does a common history.

The tension between this pluralist multi-faith society and the search for a single identity or idea of nationhood has moved to the forefront since the victory of the BJP. But the other, equally urgent desire is for economic growth, poverty eradication, and secure livelihoods for all. India had a moderate rate of GDP growth in the first 30 years after independence, which picked up somewhat in the next ten. But it was in the 1990s that India adopted a radical reform strategy, and since then growth has taken off. Even so, in terms of human development, India is a laggard. Poverty is still a serious problem, and the challenge of making India prosperous enough for a decent standard of living is the other issue occupying Indians, along with the question of identity. The new government was elected on the slogan of “inclusive growth”.

The previous Congress-led coalition government failed to achieve high growth or low inflation, and Indians lost their patience and took a bet on the BJP. The need for growth is urgent because India has a young and still-growing population,

three-quarters of which is aged under 30. Educating, skilling-up, and engaging millions of young people in viable employment is high on India's list of worries.

There are also other struggles that occupy Indians. Most recently, the safety of women from sexual harassment, and worse, has been a focus of debate. Young Indians, like others around the world, want equality for the LGBT population. Much more sensitive politically is the movement of the *Dalit* castes, which traditional Hindu society treats as “untouchables”, to achieve equality. There is some legislation, and progress has been made. Yet the hierarchical nature of the Hindu caste system itself has come under challenge by *Dalits* and “Other Backward Castes”. This is facilitated by India's democratic political system, whose electorate is alive to its responsibility to vote regularly, and insists that its demands be met by its representatives.

Indians are also becoming aware that they have a serious health issue, with a lack of sanitary facilities in rural as well as urban areas. The need to keep India clean and free of rubbish poses a huge problem, which has been highlighted by Prime Minister Narendra Modi. Rivers are dirty, cities are filthy, and many people, while keeping their private space clean, treat public space as a waste bin.

There is an elite awareness of the issues of the environment and climate change, but this has not caught the public imagination. Successive governments have taken a distributive rather than an ecological stance towards international agreement on climate change, with economic growth as their priority. India is a low polluter in per capita terms, and the West must clean up first and compensate the rest to catch up, is the argument. It is unlikely that India will take the lead in hammering out a global compact on carbon emissions at the November 2015 UN Climate Change Conference in Paris.

### *India and the world*

While dealing with these internal challenges and struggles, India also aspires to be a substantial presence in the international arena, with the ambition of earning a permanent seat on the UN Security Council. It sees itself as a regional hegemon in South Asia – despite the challenge from Pakistan, a fellow nuclear power. The new government has turned India towards the east and begun to build strong relations with East Asia. China is much admired by Indians, but the two countries share a disputed border where there have been skirmishes. In the economic sphere, there is growing trade between India and China, and there is a genuine desire for China to be a friendly rival rather than an enemy.

India has always been a Western-oriented society, either due to the idea of a shared Indo-European heritage of related languages or the 500 years of Western presence after Vasco da Gama “discovered” India in 1498. Although India remained equidistant from the two blocs during the Cold War, its natural affinities are with the European civilisation. Most recently, Indo-US relations have flourished, with cooperation on the issue of nuclear fuel supply. The new government has deepened this cooperation by leveraging the successful diaspora community of Indians in the West. India and the US are joined in an implicit “just-in-case” alliance to hedge against the chance of either of them getting into a serious conflict with China.

Indians are many, as are their demands, aspirations, and ideas. But the fundamental achievement of Indians has been the construction of an open, liberal democracy that respects human rights, especially free speech. This guarantees that whatever challenges India may face, and however large the differences between Indians, they will solve them by leveraging the old traditions of debate and discussion rather than violence. Given the size of India, that alone should give the world reassurance that whatever India may be thinking, it will be all right.



Deep K. Datta-Ray

2

# India's Gandhian Foreign Policy

If foreign policy is the truest expression of a nation state's identity, the fierce debate around Indian diplomacy precludes any possibility of gauging the character and aims of the Indian state. That this is the result of intellectual disarray, rather than any confusion about India's identity, is illustrated by a curious paradox.

There is a national consensus that Mahatma Gandhi, the strategist who dominated the Indian political scene until his assassination by a Hindu extremist in 1948, was the mentor of India's first prime minister, Jawaharlal Nehru, who held office from independence in 1947 until his death in 1964. Nehru forged a unique foreign policy that expressed Gandhi's ideas. As he put it at the very end of his life, "the policies and philosophy which we seek to implement are the policies and philosophy taught to us by Gandhiji". But, inexplicably, the framework that Nehru made the bedrock of Indian diplomacy is eschewed by academics who uncritically use European categories to explain Indian foreign policy.<sup>1</sup> To understand India's policy, it is necessary to use a category coined by Gandhi – *satyagraha* – instead of thinking in terms of realism and liberalism.<sup>2</sup> These European categories continue to be parroted by some Indian diplomats, though their policy proposals are rejected by India's leaders as anathema to the intellectual fabric of the nation state.

It is only by jettisoning such imported assumptions and the conceptual frameworks they rely upon that we can obtain a glimpse of India's true identity and diplomatic intentions. The rationale for Indian foreign policy can be brought

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<sup>1</sup> See, for example, Srinath Raghavan, *War and Peace in Modern India* (London: Palgrave Macmillan, 2010) and Sumit Ganguly, *Conflict Unending: India–Pakistan Tensions Since 1947* (New York: Columbia University Press, 2001).

<sup>2</sup> *Satyagraha*, or "truth force", is the idea of converting the violent to non-violence (this is a facet of the "truth", in "truth force") without replicating the behaviour of the violent, i.e. violence.

into focus only by viewing it in terms of the most significant relationship in the state's history: that between Jawaharlal Nehru and Mahatma Gandhi.

That relationship has been invested with a new impetus by Prime Minister Narendra Modi of the Indian People's Party (Bharatiya Janata Party, BJP), who took office in 2014.

### *Non-violence in international politics*

Though it may seem paradoxical, the most prominent leader of the rival Congress Party, Gandhi is palpable in all that Modi does. He has unveiled statues of the Mahatma around the globe, paid rich tributes to him, and put into practice many Gandhian ideas such as the campaign to "Clean India". Regardless of the political party in power, Gandhi is inescapable. However, the true import of his ideas lies not in the realm of the explicit but at the level of the intellect, and is most obvious in the thinking behind India's foreign policy. In short, Nehru's "authentic Gandhian era" continues, but what exactly does it denote?

The answer lies in the lesson Nehru learnt from Gandhi – that the principle of non-violence is irrefutable, and that it demands an altogether new type of state.<sup>3</sup> For Gandhi, we live in an inextricably interlinked cosmos in which any form of violence is ultimately self-destructive. For the cosmologically minded, then, politics serves just one purpose: to erase violence. Gandhi pursued this precept within the confines of the British Empire, but his disciple's ambitions were greater. Nehru sought to apply his guru's practices not only within India but also in the realm of international politics.

In seeking to purge violence from the political entity he had inherited, Nehru extended the idea of sovereignty far beyond the old idea of survival for survival's sake. The Nehruvian state sought to eliminate violence, placing the calculus for action beyond history understood either as a Golden Age to be recovered, or as a series of humiliations to be avenged. Instead, action was to be calculated on the basis of present conditions, to eliminate violence now.

However, this ideal posed a significant challenge: how could India non-violently confront violence? The solution lay in Gandhi's concept of *satyagraha*. This might itself seem violent because it challenged authority. Crucially, however, the practitioner of satyagraha was less violent than their opponent, and

<sup>3</sup> This claim is based on original research carried out by the author for India's Ministry of External Affairs, in *The Making of Indian Diplomacy: A Critique of Eurocentrism* (New York: Oxford University Press, 2015).

directed most of their violence inwards. Nehru made this his approach to foreign policy, and, though his country was impoverished, he did not hesitate to put it into practice. Most sensationally, in India's border regions he sought to free Indians from the everyday violence of poverty while simultaneously challenging Chinese aggression. This earliest application of *satyagraha* to international politics continues to shape India's military border policy.

### *Modi: In Nehru's mould?*

Though the Gandhi–Nehru rationale remains, 15 years of economic liberalisation have given New Delhi's foreign policy a new impetus. Modi's renewal of non-violence as a guiding principle in foreign policy is deeply significant. Its effects will cascade across the world, remaking the global system just as India's last prime minister, Manmohan Singh (2004–2014), rewrote the West's international nuclear architecture by negotiating the unique India–US deal. Although many accuse Modi of breaking with the past, he is resolutely faithful to his predecessors. The best example of this continuity is that Modi personally selected as foreign secretary the man whom Singh used to negotiate the India-US deal. The policies of engagement charted in the early years of India's independence continue, with the added vigour that prosperity – if only relative to Nehru's day – and parliamentary majority afford.

In practice, this means widening the definition of violence and seeking it out for eradication with greater confidence, both domestically and externally. Modi did precisely this when he spoke of India's shortage of toilets. In other words, the belief is that India's focus on the quotidian, if successful, will transform the country. Indian diplomacy is firmly geared towards relieving Indians of such unspectacular, everyday suffering by attracting investment for basic infrastructure – hence New Delhi's concerted efforts at harvesting unconventional investors, including its supposed arch-rival China. By seeking a pragmatic alliance with Beijing, New Delhi demonstrates that not only has it overcome fears of Chinese subversion but that it is remaking the world order. An early fruit of New Delhi's labours is membership, with the second largest stake, in China's proposed Asian Infrastructure Investment Bank (AIIB). New Delhi supports this project because it hopes that Beijing will invest in projects that the Japanese and US-led Asian Development Bank and Bretton Woods institutions will not. These include coal power plants, which India sees as essential to its development, but that run counter to environmental objectives.

It would be an abdication of the principle of non-violence if India tolerated violence from abroad to reduce it at home. Hence, there has been no let-up in Singh's Nehruvian policy of building infrastructure, including roads, along the border with China, the purpose being to counter China's perceived international aggression. Moreover, Modi has injected new momentum into the "Look East" policy of former Prime Minister P.V. Narasimha Rao (1991–1996), converting engagement into action. Modi's "Act East" policy represents more than a mere change in nomenclature; it expresses a new resolve to engage the Association of Southeast Asian Nations (ASEAN) both economically and militarily. Negotiations are underway to deepen economic and strategic links across various spheres, and to project Indian influence into East Asia and beyond.

What makes all of this *satyagraha* is that, compared to China, India is a non-violent state. This is best explained in terms of India's nuclear policy, which approaches the possibility of total annihilation from a pacific stance. Instead of replicating the logic of Mutually Assured Destruction (MAD) and outdoing challengers by building arsenals, India became the first country whose "no-first-use" pledge was taken seriously by the comity of nations. In 2010, India moved towards the concept of Credible Minimum Deterrence, limiting the "no-first-use" pledge to non-nuclear states.<sup>4</sup> This ability to defend oneself without replicating violence inspires other foreign policy initiatives that merit the Western world's attention, both for the possibilities they offer and the challenges they pose.

As Sino-Indian relations develop new facets, it is paramount that Europe and North America reconsider their policies, which have amounted to a withdrawal from India. Western investments have been shrinking, and though the responsibility undoubtedly lies primarily with New Delhi, where Modi must find the political will to create a business-friendly climate, the West cannot withdraw in the face of a rising China. By welcoming China as a major trading partner, India is playing a dangerous game – one that needs balancing by Europe. The West needs to show some sign of faith. This could take the form of concessions to make the India-EU Bilateral Trade and Investment Agreement a reality. The costs would be minor in comparison to the heavy global price of China becoming the primary means of meeting India's desperate developmental needs, leading to Indian economic dependence on China. Modi campaigned on the issue of growth, and this is demanded by more than a billion Indians. If the West doesn't respond, it will be providing succour to authoritarian tendencies

<sup>4</sup> Meanwhile, minimal deterrence was espoused but not followed by Beijing. See Alastair Iain Johnston, "China's New 'Old Thinking': The Concept of Limited Deterrence," *International Security*, Volume 20, Number 3, 1995.

among Indians, who marvel at non-democratic China forging ahead while the world's largest democracy falters.

At stake is the nature of India's development, as well as global security and the norms the West holds dear – which matter because they shape the course of development. The West remains the bedrock of innovation and technology. Working in unison, it can ensure that India effectively meets its primary goal of poverty eradication in a “clean” manner that does not risk planetary survival. This is especially important because of the threat from self-styled Maoist rebels who have already seized control of vast swathes of territory in India's geographical heartland. Their terrorism threatens the very existence of the Indian state and, in turn, regional and global stability.

India's foreign policy is constructed around the principle of non-violence. If this has not always been apparent, it isn't because of any dissimulation on the part of India's politicians and diplomats. The greatest stumbling block is that India's actions are so often misread. India's identity was never concealed, even if observers were incapable of understanding what they saw. It is necessary, therefore, to reach a new understanding of India. But this will not happen through the assiduous collection of new facts and figures alone if they continue to be misinterpreted. The West must adopt an entirely new analytical framework that can encompass Gandhi's mission and his abiding influence. That alone can reveal India's foreign policy for what it is.



In September 2014, three months after being elected India's prime minister, Narendra Modi travelled to Japan. He was familiar with the country, having visited it more than once as head of the provincial government in the Indian state of Gujarat. Nevertheless, arriving in Japan, which is in many ways the model for Asian societies embarking on rapid modernisation and industrialisation, was special for him in his new role as prime minister.

By conventional parameters, the visit was successful. There was much reportage on the "personal chemistry" between Modi and Prime Minister Shinzo Abe. The two count each other as personal friends, with Modi, at the time at least, being one of only three people the Japanese leader followed on Twitter. Agreements were announced on economic cooperation and Japanese investment in India, modernising India's railways, and exporting Japanese military equipment and civil nuclear technology. Yet what stood out was the choreography of their meeting and the delicate and deliberate choice of symbols drawn from both Hindu and Buddhist tradition.

It is easy to interpret such semiotics as a concession to the traditionalist constituency that forms an important element of Modi's Indian People's Party (Bharatiya Janata Party, BJP). However, that would be a limiting assessment, perhaps even unduly cynical. The tug of tradition is not merely an act. As one Japanese diplomat put it, "Mr Modi is an economic moderniser who sees heritage, tradition and faith as important aspects of his political persona and his conception of India. In this he is remarkably similar to Prime Minister Abe."

The twin – if paradoxical – attributes of an economic moderniser and a social conservative make Modi a captivating politician. But it is facile to categorise him, as some have, as one among a new generation of nationalist leaders in Asia

who are almost democratically elected “strongmen”. Like Abe, Modi embodies a wider concern in his society that China’s economic gallop may be reducing Asia to a one-horse race. However, in 2014, India responded to Modi’s appeal and voted him into power in an equally important context of long-term social currents. Modi represents those currents today, but they exist independently of him and will survive him. As such, to understand Modi and his multiple identities, it is crucial to understand the context that he thrives in.

### *Youth, urbanisation, and technology*

Modi arrived as India’s leader at the junction of three important currents.

First, India is the beneficiary of (or burdened by, depending on how one sees it) an unprecedented youth bulge. It will have the largest working-age population of any society in the first half of the twenty-first century, with a million people added to the job market every month for the coming two decades. This population of job seekers – and impatient young voters – is set to peak in 2030 with 485 million Indians aged between 15 and 34 (of a total population of 1.5 billion). Many of the members of this cohort have not yet been born, but its oldest members began to vote in 2014. The 2014 election was also the first in which those born after 1991 – when India began its process of economic reform – came of voting age.

This “youth vote” proved to be a game changer for Modi as he won over young voters, even in families and communities that had hitherto been hostile to his party. This was the product of an extraordinary revolution in expectations triggered by a decade of very high GDP growth: between 2003 and 2011, the Indian economy grew at an average of 8.3 percent a year. The dynamism and pent-up aspirations from this youth dividend will define Indian elections until at least the late 2020s, probably longer. In that sense, the Modi mandate is not *sui generis* but may signal a new politics in India.

Second, there is India’s urbanisation. Officially, 32 percent of India’s population are full-time residents and voters in urban areas (by 2011 census figures). However, some 60 percent of the GDP is linked to cities, constituting the urban economy. By 2030, this figure will rise to 70 percent.<sup>1</sup> The discrepancy between the GDP and population numbers is glaring. It masks the fact that

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<sup>1</sup> “India’s urban awakening: Building inclusive cities, sustaining economic growth”, McKinsey Global Institute, April 2010, available at [https://www.mckinsey.com/-/media/McKinsey/dotcom/Insights%20and%20pubs/MGI/Research/Urbanization/Indias%20urban%20awakening%20Building%20inclusive%20cities/MGI\\_Indias\\_urban\\_awakening\\_full\\_report.ashx](https://www.mckinsey.com/-/media/McKinsey/dotcom/Insights%20and%20pubs/MGI/Research/Urbanization/Indias%20urban%20awakening%20Building%20inclusive%20cities/MGI_Indias_urban_awakening_full_report.ashx).

a larger section of people – more than 32 percent – are associated with or dependent on the urban economy. It fails to factor in migrant workers or recipients of remittances, for instance, whose household income and family prosperity is tied to the city, even if they vote in the village. This means, and there is empirical evidence to support it, that voters are learning to distinguish between provincial and national elections, and realising that jobs in the big city cannot be fixed by a local politician. India is therefore seeing the beginnings of a broader middle class with a heightened sense of macroeconomic issues.

The third current is technology. India is in the midst of a massive communication boom encompassing television and the internet, including social media tools such as Facebook and Twitter. In business, these are disrupting local markets and allowing regional brands to go national, using mechanisms such as e-commerce. In popular culture, soap operas and reality shows are carrying customs and lifestyles from one part of the country to another, influencing consumer habits.

The Modi campaign was the political analogue of these trends. Modi deftly used television and social media to go national,<sup>2</sup> effacing the gap between local and pan-Indian recognition to transform himself from a leader of Gujarat state to the prime minister India was waiting for.

### *A bottom-up phenomenon*

India has seen widely popular national leaders before, but they spoke to their people from a certain elevation. In contrast, Modi's rise is a bottom-up phenomenon – the attainment of an outsider, from the periphery of national politics and a humble family background. Communication technology was the force multiplier here, not the privilege of a famous surname. It made and continues to make Modi the classic twenty-first century underdog. It would follow that the principal appeal of Modi in contemporary India is not religion or caste or even hyper-nationalism. It is class. The narrative of a self-made man – whose father sold tea at a railway station and whose mother went house-to-house washing dishes to pay the school fees – is an arresting and powerful one. Being a *chaiwalla* (Hindi for tea seller) is a badge of honour for Modi.

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<sup>2</sup> In March 2013, the Indian Information and Broadcasting Ministry announced that there were 410 television news channels in a variety of Indian languages. Today, the number is estimated to be some 500. According to PTI, the number was still around 400 in December 2014. See "Number of TV channels rises by 37 in one year", *Zee News*, 7 December 2014, available at [http://zeenews.india.com/news/india/number-of-tv-channels-rises-by-37-in-one-year\\_1510793.html](http://zeenews.india.com/news/india/number-of-tv-channels-rises-by-37-in-one-year_1510793.html).

If Modi's electoral successes have capitalised on a class revolt, this expression has to be understood correctly. The reference here is not to class in a Marxist sense. It is simply to primarily young, small town, semi-urban people – or even rural folk, exposed to or associated with city life and the city economy – usually from non-English-speaking backgrounds. They are hungry to learn the language, though – not to read Shakespeare and join the Anglosphere but simply to get a job. They are too well-off to be satisfied by an anti-poverty dole programme (favoured by the previous Congress government) but too poor to be genuinely middle class. They see themselves as socially underprivileged and their progress as thwarted by invisible social hierarchies that set up complicated, if not impossible, rules for entry – for professional advancement as much as political office – that usher in only the initiated.

Modi's voters are motivated by a complex mix of emotions. There is undeniable ambition here, from talented people who have simply not been given the opportunities they deserve. There is also a degree of resentment and anger, sometimes excessive. Inevitably this segment, this middle India, represents a far greater section of the population than the narrow apex of the pyramid that dominates the older Congress Party, constitutes its reference points, and writes its policies in the salons of New Delhi.

Similar binary splits have caused upheaval in other societies as well. In several countries of Africa and Asia, the first generation of genteel post-colonial leaders and *noblesse oblige* elites usually gave way to more angular native (or nativist) politicians who grasped popular hopes and fears more easily simply because they had lived them. India has been lucky. It has accomplished a similar change through the ballot box. Modi is a political product of these forces.

It needs to be reiterated that Modi packaged himself for a market that was ready for him. He didn't invent the market: India's society and polity were primed for such a transition. As a corollary, irrespective of whether Modi himself succeeds or fails as prime minister, India's essential quest will not change. It will continue to determine politics and affect electoral outcomes in the near future, and will set the template for those who want to follow or replace him. Modi the idea has far outstripped Modi the individual.



Rukmini Banerji

# The challenges of basic education in India

# 4

*I am in rural Uttar Pradesh – India’s largest state. It is morning. The road from one village to another winds its way through farms and fields. Looking back at the village we have left behind, I can see the low roof of the school in the distance. Schools here have a green stripe running around the building. Looking ahead towards the next village, the local primary school is clearly visible through a group of dwellings. The road we are on is crowded with children going to school. Some are on bicycles and some are walking – all streaming either towards the school we have left behind or the one ahead.*

It is hard to find a village in India – even in the remotest parts of the country – where there is no school. Over the last two decades, the provision of schools by the government, especially primary schools, has become almost universal. These schools have basic infrastructure; however small or rudimentary, there will usually be a few classrooms and an open space for a playground. Private schools have mushroomed, too. In rural areas they operate under trees or in simple sheds, and in urban areas in residential buildings. Schools are everywhere, and almost all children are enrolled in a school of some sort.

This is an impressive achievement in a country as vast and diverse as India. Access to school is now recognised as a non-negotiable part of a child’s right to education. It is enshrined in law and is widely accepted in practice. The Right to Education Act that was passed by the Indian parliament in 2009 lays down norms that each school should aim for, the processes to put in place, and the qualifications that teachers should have. Parents, politicians, planners, and policymakers are united in their conviction that all children should be in school. But India’s success in expanding access and extending the reach of education is creating new challenges, as standards struggle to keep up with rising expectations.

## *India's schools fall short*

As enrolment rises and more students complete more years of schooling, aspirations have risen across the board. Running through the many layers of Indian society is the deep faith that education will lead this generation out of poverty, providing better livelihoods and opportunities. But this faith is prompting new questions about the education system. Now that schooling targets have been achieved, and most children are enrolled in school, the question arises: are children learning? What “value is added” with each year that each child spends in school? Does an extra year in school give students more knowledge, skills, and – crucially – opportunities? What needs to be changed to bring outcomes into line with expectations?

Schools are not producing the expected results. New data shows that even after five years of school, only about half of India's children have attained the level in reading or arithmetic expected after two or three years.<sup>1</sup> (There are similar situations in countries such as Pakistan, and parts of East and West Africa.<sup>2</sup>)

The root causes of this shortfall in learning are embedded in families as well as schools. About 50 percent of rural school-going children in India have mothers with no or very little education, who can provide little active support for learning at home. Further, parents with a low educational level may not be able to see when a child is not progressing, and may lack confidence to communicate with teachers about this. They often assume that schooling will automatically lead to learning, without realising that extra effort may be needed. The rigid structure of India's schools allows children to fall behind – teachers are expected to stick to the curricula and textbooks for each grade, and cannot spare much time to help children who are below that level.

Until recently there was little assessment of students in early grades to identify those who had fallen behind. Nor were there organised or systematic remedial efforts within the school system (government or private) to help them. As a result, basic learning (reading and arithmetic) is generally low even after the completion of the primary school cycle. And, more worryingly, learning trajectories are flat – implying that if a child does not learn basic skills early, they are unlikely to acquire them in later school years. India's Right to Education

1 See Annual Status of Education Reports (ASER) from 2005 to 2014, available at [www.asercentre.org](http://www.asercentre.org). These reports are generated for every rural district in India and capture a snapshot of a representative sample of children (aged three to 16) across the country. On average, the annual ASER survey reaches over 560 districts each year, surveying an average of 650,000 children in more than 16,000 villages in India.

2 See [palnetwork.org](http://palnetwork.org) for details of the Uwezo reports from East Africa and similar citizen-led assessments from other parts of the world. ASER Pakistan provides similar information as the ASER reports from India.

Act guarantees eight years of schooling to each child. But, at the end of these eight years, the foundation on which future skills, further education, or indeed lives are built is still very weak.

India now faces the immense challenge of moving its education policy beyond infrastructure and inputs, enrolments and expenditures to address fundamental questions of vision and implementation. There are many choices to be made and alternatives to be weighed; for example, should India pursue excellence for some at the cost of equal opportunities for all? Should the education system be academically directed, and geared towards the few who will make it to college, or towards preparing the vast majority for their livelihoods? Where do technical and vocational skills fit in? How much space is there for innovation and enterprise in the delivery of this basic service? Should it be centralised or decentralised? How can relevant and affordable education be delivered today while laying the foundations for the education of tomorrow?

### *Educating the youth boom*

What does India want? What does India need? First, without building a strong foundation in the early years of school, students can make little progress later on. India has to ensure that by the time a child finishes five years of schooling they can read and understand basic texts, discuss what they have read, and express their views. They should be able to do basic calculations and tackle basic logic problems. Most importantly, children should be able to ask questions and have confidence in their ability to learn.

Second, if these are to be the top priorities of the education system, then there must be substantial reorganisation of the structure and functioning of schools.

Third, action must be fast and sustained. There is a lot of discussion in India about the potential of the “youth bulge” – the rapidly growing young population – and the opportunity to reap a “demographic dividend”. According to the last census, in 2011, there is a population of roughly 25 million in each single-year age group between five and 16. Today, there are almost 100 million children in grades between three and six. If India does not move fast to ensure that this group gains fundamental skills, they will not be able to contribute much to the economy or to society when they are young people entering the workforce, building families and taking part in their communities.

What India wants is for every child to have a better future and more opportunities than his or her parents. What India needs is the ability to build children's capabilities so that this dream becomes reality in the years ahead.

*The school bell can be heard throughout the village. The few stragglers who were still on the way to school begin to run. As children settle into their classrooms and get ready for the school day, we hope that each new lesson will lead them closer to a better life.*





# **INDIA'S ECONOMY AND SOCIETY**



*Bibek Debroy*

# What do India's citizens want?

5

If the general election of 2014 is anything to go by, development, governance, and corruption are the most important issues for Indian voters – though, in such a large and diverse country, there is huge variation. What India's citizens want therefore depends on where they happen to reside. Much of India remains outside the mainstream of growth and development. Out of its 676 districts, by any criterion, around 125 still remain deprived, and of 600,000 villages, around 100,000 remain deprived.

To understand this divide, the standard rural/urban lens is not sufficient. In the 2011 census, 72 percent of the population was classified as rural and 28 percent as urban. But this categorisation obscures the fact that, between 2001 and 2011, most urbanisation has occurred in what are known as “census towns” – that is, the part of India that is between rural and urban. These towns have transcended the rural governance structure of *panchayats* (village-level decision-making bodies), but are not yet municipalities.

Dividing India in terms of the neat administrative boundaries of states is also misleading for evaluating development or deprivation. Conventionally, some states have been regarded as backward – for instance, Bihar, Jharkhand, Chhattisgarh, Madhya Pradesh, Rajasthan, Uttar Pradesh, and Uttarakhand – and others as relatively advanced. But, since 2000, faster growth has occurred in some of these historically backward states, though the base levels of development remain low. In other words, they have caught up. State boundaries can also be misleading because there are intra-state differences.

Since economic liberalisation reforms started in 1991, the economic geography story has been one of increasing integration of districts and villages, as the radius of development expands. Many term this “inclusive development”, which emphasises equality in distribution of outcomes, including patterns of income. (For the record, subject to some data problems, India’s Gini coefficient of inequality in distribution of income is not inordinately high, at around 0.4.)

Yet while inequality is a relative concept, poverty is often considered to be absolute. If there is growth and development, poverty declines. Also, both poverty and inequality are dynamic concepts: they change over time. If there is growth and poverty declines, and if one thinks that one’s offspring will have a better life, there is less resentment about inequality.

### *The need for decentralisation and reform*

More important is the question of why some people are poor. Mostly it is because they lack access to physical infrastructure (transport, water, electricity), social infrastructure (education, skills, health), financial products, natural resources, technology, information technology, the judicial system, and markets. Around 100,000 villages in India have a population of less than 500, and it is difficult to deliver goods and services there because the cost per unit of delivery is much higher.

For any government, the priority should be to deliver these goods and services. This is a shared responsibility of sub-national governments as well as the central government. India is a federal country (though, for technical reasons, the word “federal” isn’t used in the constitution). In May 2014, a new central, or union, government was formed in New Delhi. However, many changes can only be implemented by states (under the constitution, most factor markets are in the State or Concurrent Lists – i.e. the states have the power to legislate on them) and most public goods and services are delivered by local bodies (villages and municipalities). Historically, India has been too centralised. Decentralisation and devolution to the state level, including fiscal devolution, are desirable, and this has started. For instance, land and labour legislation will primarily be reformed at state level. To the extent that central-government legislation is involved, any reform has to wind its way through the democratic processes of parliament.

More importantly, these goods and services have to be financed. There is a clear need to eliminate exemptions and reform subsidies – both on consumption and production. India has a pending agenda of both direct and indirect tax reform. Tax simplification is impossible, in both cases, without the elimination of exemptions. With both central and state governments included, the tax/GDP ratio is around 18 percent. Subsidies, both explicit and implicit, amount to 14 percent of GDP. This can't be sustainable. In addition, total tax exemptions amount to more than 5 percent of GDP. A lot has been written on the Goods and Services Tax (GST), expected to come into force from 1 April 2017. This is only the beginning of a process to reform indirect taxes, which will take more than 10 years to complete. However, governments at all levels lack the administrative and governance capacity to make the necessary reforms.

India should therefore do three things. First, where there are no clear instances of market failure, governments (at all three levels) need to liberalise entry and allow markets to flourish. This doesn't imply an absence of regulation, but regulation should not be an excuse for excessive government control. This liberalisation can be interpreted as reducing the malign role of government. Some initiatives of the new central government can be seen in this light, though some areas also fall under states' remit, so it will be necessary to devise means of incentivising states to act. This doesn't mean liberalisation for foreign direct investment (FDI) alone. Yes, FDI is important. But it is only a means to make efficiency gains and not an end in itself. There is much more to the broad canvas of reforming the Indian economy. Nor is liberalisation something to benefit the corporate manufacturing sector alone. Poverty reduction and employment generation are also a function of the form of growth, and, for both, reform of the rural economy is exceedingly important.

Second, the government should cut subsidies. Resources spent on subsidies can't be spent on public goods and services. India is often described as a young society, though this window of demographic transition won't remain open much beyond 2035. Among the young, and especially among villages that have become integrated into the mainstream and in urban and semi-urban India, there is recognition of the "dole versus development" trade-off. Although one shouldn't oversimplify, and there are pockets where mindsets haven't changed, the preference for economic development over handouts was responsible for part of the electoral success of the Indian People's Party (Bharatiya Janata Party, BJP) in 2014.

Third, the government can also play a benign role, because in the interim some poor people, suitably identified, will still require subsidies.

India must also deal with five other issues. First, it cannot prosper until its eastern and north-eastern regions develop, and there is the related issue of India's economic integration with neighbouring countries and the need to build transport networks. Second, shortfalls in the workforce's skill base place a significant constraint not only on wages but also on entrepreneurship. Third, female work-participation rates, which are low for a host of reasons, need to increase. Fourth, development must occur without endangering the environment, and ensuring environmental protection is often a function of setting appropriate prices and decentralising public property rights. Fifth, corruption is a key issue, as noted at the beginning of this chapter, and has several dimensions. Some types of corruption can be reduced by eliminating shortages, limiting the scope for discretion by officials, and using information technology to oversee interactions.

### *Choice drives efficiency*

I have not mentioned the obvious indicators like growth or inflation, because higher growth and lower inflation will follow directly from some of the reforms mentioned here. Irrespective of whether one uses the new or old GDP calculation method, the growth record has improved. Irrespective of which indicator one uses, inflation rates have declined. Other indicators have improved too, but expectations are disproportionately high. Since the legacy of more than six decades is being questioned, the delivery won't happen in the space of a year alone – it will take more than ten.

This government has launched a plan to carry out individual identification of the poor without intermediate layers of administration, and to ensure their inclusion in the financial system by giving them access to bank accounts and transferring subsidies directly to these accounts. That is, even when subsidies are necessary, they can be given through government financing, rather than government performing a service provider role. These three strands form part of the new government's philosophy, sometimes explicitly stated, sometimes less so. The idea is that choice should drive efficiency. Why must healthcare be delivered through primary health centres that don't function well? Why can't the poor obtain subsidised and cashless medical treatment at an institution of their choice, including private hospitals?

However, one must remember that there are political and economic factors driving resistance and that change often takes place at state level. It is therefore going to be a long haul, not an overnight wave of the magic wand. But the silver lining is that much of young India wants what the New Delhi government wants.



Gurcharan Das

## Can Modi deliver good governance?

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India's economic rise over the past decades has been a remarkable event, lifting tens of millions out of abject poverty and creating a solid middle class. But it is a story of private success and public failure. Prosperity has indeed been spreading across the country, but it has been doing so in the face of appalling governance. Indians despair over the state's inability to deliver the most basic public services – law and order, education, health, and clean water. India desperately needs honest police officers, diligent officials, judges who deliver swift justice, functioning schools, and effective primary healthcare centres. Where it is needed, the Indian state is near-absent; where it is not needed, it is hyperactive, tying people up in miles of red tape.

As I look back on our 68-year history as an independent nation, I can discern three great milestones: in August 1947, India won political freedom; in July 1991, it gained economic liberty; and with the election of Narendra Modi in May 2014, the emerging middle class attained dignity. The landslide victory of Modi, the self-made son of a *chaiwalla* (tea seller), invited us to broaden our conception of human dignity and question our prejudices. Modi's success affirmed, for the first time in India's history, the aspirations of millions who had pulled themselves up into the middle class through their own efforts in the post-reform decades after 1991. It forced us to challenge our bias against the petit bourgeois – *kiranawalla* (shopkeeper), *paanwalla* (betel-leaf maker), *auto-rickshawalla* (rickshaw driver) – and other occupants of the street. The idea that anyone can aspire to the middle class is the new master narrative of our society. It is also with this impatient class that the hope for governance reform lies.

## *India's bottom-up success*

I grew up in the idealistic days after independence when we passionately believed in Jawaharlal Nehru's dream of a modern, just India. We were all socialists then. But, as the years went by, we found that Nehru's "mixed economy" was leading to a dead end. Instead of socialism we had ended with statism, which we sardonically called the "licence raj". The reforms in 1991 finally ended that agony. Since then, India has risen relentlessly, enabled by two institutions of liberty – democracy and free markets. Nehru laid the foundations for our vibrant democracy, but prosperity only began to spread once Nehru's over-regulating state stepped out of the way.

No one quite understands how India's noisy, chaotic democracy of 1.25 billion people has become one of the world's fastest-growing economies. After all, some 60 countries implemented the same reforms as India did. Clearly, suppressed energy burst out after 1991. But no one imagined that Indian entrepreneurs would respond so well to the reforms, rapidly creating dozens of innovative, red-blooded firms that would compete brutally at home and rapidly stomp onto the global stage. The rise of India is also their story.

India is a "bottom-up" success. It has risen almost despite the state, unlike China's "top-down" triumph, orchestrated by the technocratic elite of an authoritarian state. The stubborn persistence of democracy over the past 68 years is even more bizarre. Time and again, India has shown itself to be resilient and enduring – giving the lie to the old prejudice that the poor are incapable of the kind of self-discipline and sobriety that make for self-government.

However, India's rise is still a work in progress. While it has become a middle-income economy, it will have to go beyond economic reform and fix its institutions of governance if it wants to truly become a "developed nation" and avoid what economists call the "middle-income trap". India will have to modernise its bureaucracy, police, and judiciary, and improve the quality of government services – in particular, it needs more diligent teachers and health workers – while creating a predictable and transparent environment for doing business.

Generally, leftists desire a large state and rightists a small one, but what India needs is an effective state, with a greater capacity to act. We seem to have forgotten that the state was created to act: it should not take eight years to build a road when it takes three elsewhere; it should not take 12 years to

get justice when it takes two elsewhere. At the centre, parliamentary gridlock prevails, and the courts routinely dictate action to the executive. An aggressive civil society and media have enhanced accountability, but at the expense of enfeebling an already feeble executive with limited capacity.

### *A weak state but a strong society*

However, it is a mistake to think that the Indian state was weakened in recent times by coalition politics, feckless leadership, and economic liberalisation. India historically had a weak state, though one counterbalanced by a strong society – the mirror image of China. India’s history is one of political disunity with constant struggles between kingdoms, unlike China’s history of strong empires. The type of despotic and intrusive governments that emerged in China and divested people of their property and their rights have never existed in India.

The king in Indian history was a distant figure and hardly touched the life of the ordinary person. The law, *dharma*, preceded the state and placed limits on the king’s power in pre-modern India. The king also did not interpret the law, unlike in China; the *Brahmin* of the priest-scholar class assumed that function. This division of powers may have contributed to a weak Indian state at birth, but it also prevented oppression.

The modern Indian state is a product of British rule, which, beginning in the mid-nineteenth century, imposed a rule of law with explicit codes and regulations. Though efficient, that state was not accountable to its citizens. That changed in 1947, as independent India took those institutions of governance and made them accountable by developing into a vibrant, if untidy, democracy. In the twenty-first century, true to its history, India is rising economically from the bottom up. But a modern liberal state must have a strong executive to get things done and a strong society to hold the state accountable.

### *Can Modi create a more effective state?*

Many Indians hope that, in Modi, they finally have someone who can enhance the state’s capacity to act. However, reforming state institutions is much tougher than reforming the economy. Modi recognised this problem when he promised “minimum government, maximum governance”.<sup>1</sup> He vowed to create an enabling environment that would allow people to do business without stifling red tape and the notorious “inspector raj”. So far, he has failed

1 Narendra Modi, “Minimum Government, Maximum Governance”, 14 May 2014, available at <http://www.narendramodi.in/minimum-government-maximum-governance-3162>.

to deliver on that pledge. His choice of incremental rather than radical change has disappointed many of his supporters. Continuing retrospective taxation, in particular, has undermined his image.

However, there has been some institutional change. Natural resources, such as mines and spectrum, are now being auctioned transparently online.<sup>2</sup> The campaign to improve the ease of doing business is reportedly slashing clearance times and creating healthy competition between the states. The process is being aided by digitising all data and posting it on public websites, making transparent which file is held where. The proposed official ranking of states on different aspects of doing business will soon expose the laggards. Modi has un-gummed the central bureaucracy and broken the paralysis at its core.

Reforming the institutions of governance is, however, a much tougher job – as Margaret Thatcher found while prime minister of Britain in the 1980s. More important than her market reforms was the institutional reform that made the British government more accountable. In India, both political will and savvy are needed to fight vested interests. The manner in which Modi quietly took control of his party suggests that he has the savvy. But he has not shown the willpower to rock the boat.

Since the demand for institutional reform is unlikely to come from within the state, the answer may lie with India's newly awakened middle class. This class now makes up almost a third of the Indian population; another quarter aspires to be a part of it – what Modi calls the “neo-middle class”. The latter will probably get there in the next decade once the economy gets back to an 8 percent growth trajectory. Clearly, India's centre of gravity is shifting and so is its politics. The anti-corruption movement (which spread across the country in 2011, led by activist Anna Hazare) showed that this class will no longer accept a civic life shaped by those who are powerful and corrupt, and it has demonstrated considerable ability to use social media to bring about change. In the event that Modi wins a second term, he may be able to mobilise middle-class anger against bad governance and reform institutions.

In the East, unlike the West, this is an age of rising expectations. Whether or not Modi succeeds in improving governance, the rise of India remains the defining event of my life. India's evolution into a middle-class nation is good not only for India but also for the rest of the world – including the West. At a time when the

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<sup>2</sup> “Spectrum” refers to the legal rights to broadcast signals over specifically defined ranges or bands of the electromagnetic spectrum.

West is filled with doubts about the capitalist system, a vast nation is rising in the East based on political and economic liberty. In doing so, it is proving once again that open societies, free trade, and multiplying connections to the global economy are pathways to lasting prosperity and national success.



In India, the poor and disadvantaged castes vote proportionally more than the rich and the upper castes, and often more than those in developed democracies. Similarly, voter turnout is generally higher in rural areas than in cities. Not all elected state governments have pro-poor policies, but the poor have higher expectations of the state than the rich. This faith of India's poor and marginalised in the democratic process stems from their expectations of the state, which is required by law to provide fair opportunities to every citizen irrespective of caste, creed, religion, and economic status, and to actively work to eliminate these barriers.

However, the state is also constrained both by the political process of governance and by economic and social institutions. Unlike political institutions, these reflect the existing inequalities and are dependent on the markets. The democratic system does imply some degree of equality in the form of universal franchise irrespective of economic position, giving the poor a space to make their voices heard. But this does not necessarily translate into a state committed to justice and equality. In fact, developing-country democracies do not have a good track record in reducing poverty, compared to non-democracies such as China.

Still, the nature of politics in India means that poverty alleviation is not just an economic imperative but a political necessity for elected politicians. To achieve this, the state needs to mediate between various institutions, ensure fair play through the efficient regulation of markets, and implement transfer and taxation policies to redistribute resources from rich to poor.

## *Poverty and inequality post-1991*

The economic policies India pursued after independence gave the state the role of allocating resources across sectors and federal states, and made it a major instrument of redistribution. However, since the onset of economic reforms in 1991 the state has been reduced to a merely political instrument, while the allocation of resources and even their redistribution are seen as the outcome of market-based policies. This withdrawal of the state from the essential function of shaping economic outcomes has eroded its role as an instrument of social inclusion. Recent years have seen a rise in allegations of crony capitalism, and the reduced role of the state in reducing barriers to equality of outcomes.

However, in the last decade, pro-poor democratic politics have been strengthened through the recognition of various rights, such as the right to education, to information, to food security (through the National Food Security Act), to employment (through the Mahatma Gandhi National Rural Employment Guarantee Act), and to land (through the Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act).<sup>1</sup> While the legal recognition of these rights demonstrates that the government is responsive to the needs of the poor, these developments must be seen in the context of India's increasingly free-market economic policies.

The fact that the two trends – increasing inequality, and gains to the poor in terms of legal rights – have occurred during the same period is a reflection of the strength of India's democratic processes. As in other developing countries, India's citizens are not equal before the market. The unequal nature of endowments and opportunities available to citizens and the subordination of markets to existing social and political institutions perpetuates inequality. However, the public debate engendered by democracy means that the state has remained responsive to the demands for redistribution.

## *The rise of populism*

Governments that have adopted pro-poor policies have been increasingly successful in India in recent years. Parties referred to as “populist” have competed to provide basic amenities to the poorer sections of the population,

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<sup>1</sup> The Right to Information and the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) were passed in 2005, immediately after the United Progressive Alliance (UPA) took over. The Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act (2013), the Right to Education Act (2009), and the National Food Security Act (2013) were passed in the second term of the UPA.

not only in central but also in state governments. However, while this has brought more people into the economic mainstream, particularly the disadvantaged, it is a political response to the symptoms of inequality rather than a solution. The fundamental nature of India's economic system, which perpetuates rather than reduces inequality, has not been questioned either by the state or by the political parties.

Redistributive policies are not enough. While inequalities based on differences in initial endowments are certainly responsible for the way the poor participate in the economy, inequality of opportunity is also governed by political, social, and cultural institutions such as gender, caste, and religion, which marginalise the poor and exclude them from economic processes. Of particular importance are inequalities in access to education and nutrition, and how they are shaped by social structures.<sup>2</sup> The lack of social mobility of disadvantaged Scheduled Caste and Scheduled Tribe households, along with Muslims, continues to pose problems for their inclusion in society. To address this, the government has to regulate the markets but also make a political commitment to secularism, gender empowerment, and affirmative action in education as well as public sector employment.

But it is here that the engagement of the poor and marginalised communities with the political process is a double-edged sword. The ascent of caste- and religion-based politics has not only given rise to aspirations and demands for inclusion by disadvantaged castes but also has allowed the political processes to be hijacked by vested interests.<sup>3</sup> In particular, the rise of backward caste movements, and their increased representation in political institutions, has not changed the basic structures of caste and class oppression, nor altered the way economic production is organised. At the same time, the disjuncture between the process of political empowerment and the process of economic empowerment has led to a weakening of the state as mediator and regulator of economic institutions.

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2 For example, in 2011–2012, the highest level of poverty (43 percent) in rural areas was among Schedule Tribes (STs) followed by Scheduled Castes (SCs) (29 percent) against 22 percent for all classes. This is also the case for religious minorities, as is evident from the report of the Prime Minister's High Level Committee on Socio-Economic Conditions of Muslims in India (Sachar Committee, PMHLC, 2006). Similarly, under-five mortality is the highest among the STs (96 per 1,000), followed by the SCs (88 per 1,000), the Other Backward Castes (OBCs) (73 per 1,000), and "Others" (59 per 1,000) in that order. This applies to the boy-girl differential, too, with under-five mortality among girls at 79 per 1,000, compared to 69 per 1,000 for boys.

3 An interesting case has been the demand for inclusion in reserved categories by various caste groups such as the *Gujjars*, the *Jats*, and the *Patels*. The response of the previous UPA government was the decision to include them as part of the OBC groups, which was later struck down by the Supreme Court. But this has not stopped the state from using the reserved quota status as a political bargaining tool to deal with issues of disparity among caste groups.

An unfortunate outcome of this is that the process of economic empowerment is not only seen as anti-free market but is increasingly classified as “populist” – implying that it is based on political opportunism.<sup>4</sup> In recent years, economic indicators on growth and inequality clearly indicate the eroding authority of the state either as a facilitator of economic growth or as the primary instrument of redistribution. This is not only because issues such as redistribution are seen as secondary objectives for central government, but also because neoliberal ideologies limit the ability of the state to intervene to ensure better social outcomes. While a large part of this is due to changes in domestic policies, the nature of financial flows in a globalised world also plays a part.

### *Reclaiming the state*

In India, as in Europe, the ability of national governments to provide subsidies to the marginalised and excluded is increasingly being determined by the extent of fiscal discipline it has imposed on its budget. In Europe, national governments have cut down on basic social-sector expenditure in order to bail out profligate and irresponsible financial institutions. The Indian government has used similar logic to bail out irresponsible private-sector companies such as Satyam (2009), Kingfisher (2012), and others at the expense of the public exchequer, while attempting to justify cuts in public spending on health and education. However, in both cases, since governments are still accountable to the people, rising levels of inequality have created a pressure on the government for redistribution.

In India, this reaction to rising inequality has come in both democratic forms (for example, the nationwide protest movement against corruption in 2011) and violent forms (the Naxalite communist guerrilla movement, which is active in most states). In turn, governments at national and state level respond to these protests in various ways. The recent move by the Indian state to guarantee the legal right to basic entitlements such as food, education, livelihood, and health may help reduce the inequalities that threaten political stability and the sustainable growth of the economy.

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4 A good example of this is the National Food Security Act, which was opposed on the grounds that it distorts agricultural markets. Similarly, in the case of MGNREGA, the argument has been that such attempts to provide employment from public funds would distort the labour market and lead to inefficient outcomes. Recent opposition to reservations for disadvantaged caste groups has been criticised for sacrificing merit in the name of social justice. Although these criticisms have not been successful in diluting these interventions, they do create an impression of the interventions as inefficient and as examples of political opportunism.

However, there is a growing middle-class constituency that sees the enforcement of these rights as handouts, or “doles”, and therefore as unsustainable. This is largely because civil society and political parties continue to treat these demands as part of a redistributive agenda and not as an issue of changing the structure of the economy itself. An unfortunate result of this is the growing polarisation and fragmentation of the society across caste, class, and religious lines.

For the poor and the marginalised, democracy is not only about universal franchise and participation in the electoral process, but about reclaiming the state. Their increased participation has strengthened the democratic process itself in India, though it is too early to say whether this will be successful in reducing inequality and addressing the bias in economic and social institutions. For the poor and the marginalised, democracy is presented as a Hobson’s choice – there is no other option but to take it up.



*Samir Saran & Vivan Sharan*

# The false debate on India's energy consumption

Despite having among the largest coal reserves in the world, India lags far behind in consumption, at less than a fifth of China's levels.<sup>1</sup> The average Indian's coal consumption is around 20 percent that of the average US citizen, and 34 percent that of the average OECD citizen. And yet, in international negotiations, India finds itself caught in a shrill and binary debate pitching growth against climate. This is a false debate, which stems from the inability of the current mercantilist system to grant all actors a fair share of the "carbon space" – the amount of carbon dioxide-equivalent emissions that can be released into the Earth's atmosphere without triggering dangerous climate change.

India's position in climate negotiations is based on the importance of access to energy for human development. This is supported by data, including the positive correlation between energy access and the Human Development Index (HDI).<sup>2</sup> Estimates vary on how much energy is needed to meet basic human needs (hereafter referred to as "lifeline energy"). The methodologies vary depending on whether these basic needs are considered through the prism of GDP growth targets, HDI levels, or calculations of the energy needed to meet a predetermined set of development goals.<sup>3</sup>

1 In 2014, China accounted for more than half the world's coal energy consumption, at around 3.9 billion tonnes of oil equivalent, while Organisation for Economic Cooperation and Development (OECD) countries consumed just over half this figure. China's target of capping coal consumption at 4.2 billion tonnes by 2020 was welcomed by OECD countries. See data from the BP Statistical Review of World Energy, June 2015, available at [http://www.bp.com/content/dam/bp-country/de\\_de/PDFs/brochures/bp-statistical-review-of-world-energy-2015-full-report.pdf](http://www.bp.com/content/dam/bp-country/de_de/PDFs/brochures/bp-statistical-review-of-world-energy-2015-full-report.pdf); "China seeks to cap coal use at 4.2 billion tonnes by 2020", *Agence France-Presse*, 19 November 2014, available at <http://economictimes.indiatimes.com/news/international/business/china-seeks-to-cap-coal-use-at-4-2-billion-tonnes-by-2020/articleshow/45205271.cms>.

2 UNDP, 2013; The World Bank, n.d.

3 Shripad Dharmadhikary and Rutuja Bhalerao, "How Much Energy Do We Need?", Prayas Energy Group, May 2015, available at <http://www.prayasgroup.org/peg/publications/item/298-how-much-energy-do-we-need-towards-end-use-based-estimation-for-decent-living.html> (hereafter, Dharmadhikary and Bhalerao, "How Much Energy Do We Need?")

This essay will argue that, if the climate debates have allowed even a nominally equitable level of coal consumption towards meeting lifeline energy needs, India currently has immense room for manoeuvre. The analysis relies on a benchmark metric: that 2,000 watts (W) per capita is a basic level of lifeline energy, covering housing, transport, food, consumption (of manufactured goods), and infrastructure. This is based on a study by Novatlantis, which demonstrates that this level of consumption could power daily life in Western Europe.<sup>4</sup> Therefore, lifeline energy is defined liberally in this study, as being high enough to cover the minimum lifestyle needs of citizens in developed countries.

### *Consumption after the financial crisis*

While developed countries such as OECD and EU member states have reduced per capita coal consumption since the financial crisis, developing countries such as India have increased consumption over the same period. This reduction by developed countries does not necessarily reflect a greater degree of climate “responsibility”, and, conversely, the increase in consumption by India does not reflect “irresponsibility”, as this analysis will demonstrate. Table 1 shows the total per capita consumption of key regions and countries that are shaping the climate change discourse.

**TABLE 1: TOTAL PER CAPITA COAL CONSUMPTION (W)**

| Countries/Regions | 2005    | 2009    | 2014    |
|-------------------|---------|---------|---------|
| US                | 2,580.8 | 2,147.5 | 1,887.6 |
| China             | 1,324.4 | 1,674.4 | 1,909.6 |
| Germany           | 1,308.9 | 1,162.7 | 1,269.7 |
| Japan             | 1,260.2 | 1,127.9 | 1,321.5 |
| India             | 217.2   | 279.3   | 377.3   |
| World             | 640.9   | 675.7   | 717.3   |
| of which: OECD    | 1,316.0 | 1,143.0 | 1,100.6 |
| Non-OECD          | 484.7   | 571.9   | 635.1   |
| EU                | 846.8   | 705.6   | 704.8   |

Source: BP Statistical Review of World Energy, 2015; The World Bank; author’s calculations

<sup>4</sup> Novatlantis, “The 2,000-Watt Society”, 2007.

Taking a closer look at coal consumption before and after the financial crisis, it is apparent that the trends are nuanced. Two key sub-trends are visible in Table 2, which tracks coal consumption against total primary energy consumption. The first is that, while developed countries have been cutting total energy consumption, developing countries have been increasing it, albeit at a gradually declining pace since the crisis. Second, while developed countries have cut coal consumption faster than total primary energy consumption, developing countries have increased coal consumption faster than total primary energy consumption. Clearly, then, coal consumption is very much part of the lifeline consumption matrix for developing countries since they require base load generation for industrial-driven economic growth (which is a prerequisite in countries such as India for improving the HDI and generating employment).

**TABLE 2: CHANGE IN COAL CONSUMPTION VS. TOTAL PRIMARY ENERGY CONSUMPTION**

| Regions  | Category | 2006 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|----------|----------|------|------|------|------|------|------|------|
| OECD     | TOTAL    | 0%   | -5%  | 3%   | -2%  | -1%  | 0%   | -2%  |
|          | COAL     | 0%   | -11% | 6%   | -2%  | -5%  | 0%   | -2%  |
| Non-OECD | TOTAL    | 4%   | 0%   | 4%   | 4%   | 2%   | 1%   | 1%   |
|          | COAL     | 6%   | 2%   | 2%   | 6%   | 1%   | 1%   | 0%   |
| EU       | TOTAL    | 0%   | -6%  | 4%   | -4%  | 0%   | -1%  | -4%  |
|          | COAL     | 3%   | -12% | 5%   | 2%   | 3%   | -3%  | -7%  |

Source: BP Statistical Review of World Energy, 2015; The World Bank; author's calculations

Finally, Table 3 shows that the average citizen of the US and of China both consume nearly the entire 2,000W lifeline energy benchmark in the form of coal. Conversely, in India's case, only about 19 percent of the 2,000W benchmark is consumed in the form of coal. In fact, citizens of OECD countries get a much larger proportion of their energy needs from coal than citizens of non-OECD countries. This is also a function of the disparity in per capita energy consumption as a whole between developed and developing countries – while coal consumption as a percentage of lifeline energy in developed countries is decreasing, the gap between the per capita coal consumption of developing and developed countries remains vast.

**TABLE 3: PERCENTAGE OF LIFELINE ENERGY DELIVERED BY COAL, WITH A PER CAPITA NEED OF 2,000W**

| Countries/Regions | 2005 | 2009 | 2014 |
|-------------------|------|------|------|
| US                | 129% | 107% | 94%  |
| China             | 67%  | 84%  | 95%  |
| Germany           | 65%  | 58%  | 63%  |
| Japan             | 63%  | 56%  | 66%  |
| India             | 11%  | 14%  | 19%  |
| World             | 32%  | 34%  | 36%  |
| of which: OECD    | 66%  | 57%  | 55%  |
| Non-OECD          | 24%  | 29%  | 32%  |
| EU                | 42%  | 35%  | 35%  |

Source: BP Statistical Review of World Energy, 2015; The World Bank; author's calculations

### *India's twin imperatives*

The World Bank's Special Envoy on Climate Change recently stated that "clean energy is the solution to poverty, not coal".<sup>5</sup> This is a view that resonates within a number of development-financing institutions based in OECD countries. For instance, the US Export-Import Bank stopped funding greenfield coal power generation projects worldwide in 2013. The World Bank also seems to be moving in this direction, even though coal consumption has been increasing in developing countries and coal-based energy remains the most practical option at a large scale.<sup>6</sup> This narrative isolates economic growth from lifeline energy and skirts over the role of growth in development.

The preceding analysis attempts to address some myths related to coal consumption. First, in per capita terms, developed countries in fact consume much more coal than developing countries: The average OECD citizen consumes about double the coal of the average non-OECD citizen. China is a notable exception. And if Chinese per capita coal consumption is a benchmark, the debate on India's consumption is clearly redundant.

5 Rachel Kyte, "World Bank: clean energy is the solution to poverty, not coal", the *Guardian*, 10 August 2015, available at <http://www.theguardian.com/sustainable-business/2015/aug/07/world-bank-clean-energy-is-the-solution-to-poverty-not-coal>.

6 Sunjoy Joshi and Vivan Sharan (eds), "The Future of Energy", Observer Research Foundation, 2015, available at <https://www.economic-policy-forum.org/wp-content/uploads/2015/02/ORF-EPF-Final-Report-The-Future-of-Energy.pdf>.

The per capita trends show that India will supply a larger proportion of its 2,000W benchmark through clean(er) fuels than developed countries. There is enough room for India to increase its coal consumption while continuing to accelerate its renewable-energy thrust. India has set a target renewable-energy capacity of 175 gigawatts by 2022. This means that it will be among a handful of countries to source a large proportion of its lifeline energy needs from non-conventional sources. The average Indian already spends much more on renewable energy (as a proportion of income) than counterparts in China and the US.<sup>7</sup> To spend even more, purchasing power will need to grow, and so, in turn, will lifeline consumption.

This has clear implications for India, and for other similarly placed developing countries. Unlike developed countries, which have already seen peaks in their energy consumption, India must respond to two imperatives. First, to increase its lifeline energy as well as clean energy. This means that the country will have to ensure financial flows towards lifeline energy, make coal consumption more efficient, and engage with the international financial system to ensure that regulations do not make clean energy investments more costly than they already are. Second, and at the same time, lifestyle emissions need to start adhering to or approximating the Swiss model, which shows that “daily life in Western Europe could be powered by less than one-third of the energy consumed today”.<sup>8</sup> The estimated 20 million people at the top of India’s socio-economic pyramid, and large companies that consume as much energy as counterparts in developed countries, must be included within the paradigm of “climate responsibility”.

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7 Samir Saran and Vivan Sharan, “Indian leadership on climate change: Punching above its weight”, Planet Policy blog, The Brookings Institution, 6 May 2015, available at <http://www.brookings.edu/blogs/planetpolicy/posts/2015/05/05-indian-leadership-climate-change-saran-sharan>.

8 Dharmadhikary, Shripad and Bhalerao, Rutuja, “How Much Energy Do We Need?”, Prayas (Energy Group), May 2015.



*Mohit Sharma & Arunabha Ghosh*  
Imagining smart cities in  
India

9

Growth in the majority of India's cities has been inherently unsustainable. Most lack core infrastructure: for instance, 18 percent of households in Delhi have no drinking water supply, 30 percent discharge wastewater into open drains or have no drainage at all, and 17 percent do not have toilets. Rapid urbanisation has led to haphazard management of resources such as land and water, with utter disregard for the environment. Uncontrolled expansion in the form of unauthorised constructions, without land-pooling policies to ensure coordinated development,<sup>1</sup> has left little space for urban commons. This creates densely built-up areas with little or no green space, intensifying the urban heat island effect.

There are now 53 cities in India with a population of over a million, and 468 with a population of over 100,000. Though only 31 percent of India's population is classified as urban, 70 percent of these urban-dwellers live in "hundred thousand-plus" cities, and 43 percent in "million-plus" cities.

In June 2015, Prime Minister Narendra Modi launched two programmes to direct urban growth: the Atal Mission for Rejuvenation and Urban Transformation (AMRUT), which covers 500 cities; and the Smart City Mission, which covers 100. This essay considers whether these schemes have the potential to create sustainable cities in India, and finds that they fall short on citizen participation and implementation mechanisms.

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<sup>1</sup> Under land-pooling schemes, multiple landowners pool their land and allow the government or another body to install infrastructure and services on it. This allows planned rather than haphazard development of new urban areas.

## *“Smart” planning*

The objective of the Smart City Mission is to harness technology and data to improve infrastructure and services in cities. It aims to create replicable models that can inspire other cities to become “smart”. The policies it promotes range from innovative ideas such as smart meters for energy and water, intelligent traffic-management systems, e-governance and citizen services, to more established solutions such as waste-to-compost or waste-to-energy, recycling, and reduction of waste.

Often, India’s cities fail to integrate environment and social sustainability into their planning and resource management. This is due in part to a lack of demand for environmentally friendly products and services, or a poor assessment of this demand on the part of the authorities. The Smart City Mission aims to bridge the gap by providing innovative (but as yet unspecified) means for increased interaction among citizens and local governments, among other groups. It calls for new greenfield projects around cities, for inclusive development, and for “area-based development”, which involves targeting specific areas of the city for transformation based on their specific needs, through redevelopment schemes or through retrofitting amenities that were not installed when the areas were first constructed.

Whereas the Smart City Mission seeks innovative means to enhance network efficiencies, the AMRUT mission is responsible for increasing penetration of city-wide services. Its focus is on water supply, sewage networks, storm-water drainage, transport, and green spaces. Previously, the Ministry of Urban Development (MoUD) had to give project-by-project approval to disburse funds, but now the MoUD approves State Annual Action Plans. This is intended to increase cooperation between the central government and the states. It remains to be seen whether bottom-up initiatives to enhance network efficiency will create conditions for better cooperation across departments and levels of government, or whether such cooperation is a prerequisite for enhancing these network efficiencies.

## *Poverty and participation*

Slum areas are a focal point for redevelopment plans, and greenfield projects feature inclusionary zoning, with a requirement for 15 percent of housing to be affordable. But urban poverty is complex. Many of the urban poor have migrated from rural areas and lack skills, often finding their way into menial

jobs. Smart cities will be judged for their ability to train and impart skills to the urban poor, as well as to provide affordable housing.

Municipal governments are required to prepare planning proposals in line with citizens' aspirations, the local context, and resource availability. However, it is not clear how area-based planning and development will overcome tensions between conflicting objectives – for example, aspirations for improved standards of living versus limited financial resources.

The Smart Cities Mission overplays the role of technology and underplays that of participatory governance. One of its goals is to increase the use of mobile or internet-based ways of connecting citizens to local government offices, eliminating the need to physically visit these offices. For instance, it proposes cyber-tours of worksites, which might increase transparency to some degree. But it does not specify how citizens can actively participate in decision-making as a continuous process. Citizen participation is as much about integrating citizens into decision-making processes as it is about including transparency in urban planning and management, and these systemic changes cannot be achieved through technology alone.

### *The limits of localised development*

Modi's urban development schemes fail to set out how the deep structural changes they call for would be introduced at city-level: who would be responsible, and through which institutions they would be implemented. Both AMRUT and the Smart City Mission focus on making cities more liveable by preserving open and green spaces, creating walkable communities, and encouraging non-motorised transport, as well as reducing average commuting times and recycling wastewater. These goals will require learning through experimentation and long-term research (with supporting data) – without this, localised, area-based development can only take cities so far. At best, this approach would expand the list of “islands of excellence” that sprout within India's otherwise unplanned urban spaces, rather than lifting cities as a whole.

### *Financial incentives*

State and municipal governments are equal partners in the Smart City Mission. This comes with financial responsibilities, and the creation of distinct legal entities, known as “special purpose vehicles” (SPV). The states and municipalities have an equal stake in these entities, which have to be financially sustainable. A central government grant of at least INR 1 billion (roughly €14 million) per city

per year for the initial five years forms part of the municipalities' share of equity capital, with an equal share coming from states. These grants are supposed to be leveraged by the SPV to attract funding through the state/municipality's own sources,<sup>2</sup> public-private partnerships, other central grants, and borrowing from financial institutions, including domestic and external sources.

The AMRUT mission aims to improve governance through incentives. Its budget is INR 500 million (roughly €7 million) for 500 cities over five years, so the budget per city per year is one-fifth that of the Smart City Mission. However, under the previous system, the release of project funds for subsequent phases was linked to performance; if targets were not met, disbursements would stop, and many projects were delayed. AMRUT has flipped this mechanism from penalties to incentives. If projects are completed on time and on specification, an additional 10 percent of the budget can be awarded to the city.

### *System-wide thinking: A new model*

Can India create cities that smartly manage their consumption without overburdening the environment? Cities are complex systems, which include ecosystems, physical infrastructure, and diverse social groups. Traditional approaches to planning and management of complex systems are based on reductionist methods of breaking down the system into smaller components using linear formulations of cause and effect. A system is considered as merely the sum of all individual elements.

This might be an appropriate way to model a simple system with low interconnectivity. But the patterns that emerge in a growing city over time are not just dependent on a central or top-down mechanism but are the result of interactions among different elements and sub-systems, which are highly interconnected, interdependent, and non-linear. For example, urban form,<sup>3</sup> which helps determine energy consumption in a city, is also a result of energy consumption through a trade-off between housing and transport costs. Cities are complex adaptive systems. Elements of urban ecosystems are capable of adapting their behaviour and can self-organise through interactions among themselves, eliminating the need for a central or top-down mechanism.<sup>4</sup>

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<sup>2</sup> These include the collection of user fees, beneficiary charges, impact fees, and land monetisation.

<sup>3</sup> The physical characteristics of an urban area, including the configuration, size, and shape of buildings, and their relationship to outdoor space.

<sup>4</sup> At the Council on Energy, Environment and Water (CEEW), we are studying how different agents of change may interact to induce shifting patterns of behaviour and participation, and transform cities. The CEEW (<http://ceew.in/>), based in New Delhi, is an independent, not-for-profit policy-research institution, and ranked as one of South Asia's leading think-tanks.

These new urban growth schemes are a step towards breaking this traditional paradigm through a more bottom-up approach (via area-based development and citizen participation). But more is needed in this direction, along with a better understanding of how local interactions could give rise to patterns that nudge a city to be more liveable and vibrant. We need to find the best mix of solutions for India's cities, where the competing goals of social and health benefits, economic growth, restoration of ecosystems, and minimisation of environmental degradation are met through a considered planning process.



# **INDIA'S FOREIGN POLICY**



# India's strategic opportunities

India's strategic and foreign-policy choices over the coming decades will require it to revisit its central principles. What is India today and what version of India should its policies serve? Should territorial limits alone define India's foreign policy, or should it include its hydrocarbon interests in Africa, Latin America, Russia, and the Middle East? Should it extend to the defence of the Indian diaspora (including its wealth and resources), and the transnational corporate empires of Indian oligarchs? Would India be prepared to leverage its hard power to protect and preserve these interests?

Who should India engage with in the world, given that it is not only nations that affect India's interests, but also non-state actors, rogue states, and private interests? Is it time to open either formal talks or backchannels with these actors – for instance, with the Afghan Taliban or with the Somali tribes that have elevated piracy to statecraft? A separate question is whether India should engage in full diplomatic relations with Taiwan, either within or outside the “One China” architecture. Another uncertainty is the relationship with Iran: until recently, the United States and its allies wanted India to reduce imports of Iranian oil to less than 10 percent of its total imports, but following the nuclear deal India may seek enhanced engagement with Iran to offset Chinese power in the region. Do its bridges with Iran still exist?

Does India have the institutional and intellectual nimbleness to adapt to these shifting sands of realpolitik? There are multiple answers to these dilemmas, and no “one-size-fits-all” response. Unfortunately, the Indian establishment has not even begun to ask itself these questions, and no substantive debate has begun, either inside or outside government.

At the same time, global debates filter into India's thinking on international affairs. These exchanges include (but are not restricted to): the efficacy of the neoliberal economic order in addressing poverty and deprivation, and the human impact of the doctrines of regime change and the responsibility to protect. They also include balancing the principle of climate justice with the impact of climate change around the world, restructuring the institutions of global governance to reflect the geopolitical realities of the twenty-first century, balancing the fight against terrorism with the preservation of civil liberties, and campaigning for defined rules of engagement in cyberspace.

Notwithstanding the challenges that need to be surmounted in the arena of strategic conceptual thinking, India has the capacity to play a key role on two issues of global import. The first is containing Chinese aggression in the South China Sea, and the second involves leveraging its unique experience to help the West respond to the spectre of radical Islamism.

### *Security cooperation*

There are medium-term strategic opportunities for India to both east and west. The first such prospect lies in the fallout from the China–Pakistan Economic Corridor (CPEC), which will affect Chinese territorial claims in the South China Sea. China funded a \$34 billion network of highways, railways, and pipelines across the length of Pakistan to transport oil and gas from the Pakistani port of Gwadar to the Chinese city of Kashgar, in order to resolve the “Malacca dilemma” – China's dependency on the Malacca Straits, which connect the Pacific and Indian Oceans, for oil and gas imports. Resolving this issue via the Pakistan corridor could diminish the ability of other states to use Malacca as leverage and lead to increased Chinese pugnacity in the South China Sea, as it would seek to act on its historical claims in the region. The question would then be: how to restrain China?

That is where India becomes relevant to the countries of east and even north Asia, as it sits on the head of the Indian Ocean straddling the sea lanes of commerce from the choke points of the Straits of Hormuz right up to the Malacca Straits. Its airbase in Campbell Bay (Nicobar Islands) is just 240km from the mouth of the Malacca Straits. Even with the Pakistan economic corridor in place, a bulk of the equity minerals and other resources extracted by the Chinese would still have to traverse the Indian Ocean, Andaman Sea, and the Bay of Bengal right below India's perch, providing it with a unique opportunity to act as a balancer against Chinese brazenness in the South China Sea.

Collective security cooperation could then provide the necessary thrust for India and the southeast, east, and north Asian countries to move towards a closer strategic embrace, notwithstanding their individual economic links with China. From the Indian perspective, it could transform the concept of the “Indo-Pacific” – a definition of the region that includes both oceans – into a strategic and economic reality. It may eventually pave the way for a loose coalition between India, the US, Indonesia, Malaysia, Vietnam, the Philippines, Taiwan, South Korea, Japan, and even Australia, which could ultimately be the only option for keeping the global commons open across the Indian and Pacific Oceans in the decades ahead.

Because the South China Sea is at the conjunction of these two oceans, keeping it stable and protected from Chinese belligerence would become India’s primary strategic task in the decades ahead. An obvious spin-off from closer security cooperation would be a further deepening of trade and commerce with these countries. Enhanced economic and cultural interaction would not only add to India’s prosperity, but also provide additional avenues for the exercise of soft power.

### *India and Islam*

As India turns its gaze west it sees the forces of religious bigotry and unabashed brutality galloping across the region, erasing territorial boundaries. The attempt to reorder the Middle East once again following the dismemberment of the Ottoman Empire has miscarried miserably as civil wars rage across the region. Europe, at the same time, is overwhelmed with the blowback of refugees as millions flee the war zones.

However, in this tragedy lies another opportunity for India. As al-Qaeda, Islamic State (IS), the Taliban, and numerous other militant Islamist groups prepare for the final push from Turkey to Pakistan in Asia, it would leave the countries of Europe and the few democracies of west Asia with no option but to cooperate more closely with each other.

Not only would closer security cooperation become an imperative, but also, at a syncretic level, India can offer its unique experience, having been for centuries the interface between an aggressive Islam and multi-religiosity. India is perhaps the only country which, from 1000 AD onwards, has synthesised Islamic influence by assimilating it into its culture without allowing it to fundamentally alter its social ethos. Despite the sword, India did not allow Islam to substantially alter the demographics or even the cultural moorings

of the subcontinent. It created, through assimilation as opposed to a clash of civilisations, an enlightened version of Indian Islam which has existed cheek-by-jowl alongside other faiths for hundreds of years.

India offered its experience to the US after 9/11 as a means to find an honourable accommodation with Islam in the long run, but the binary mindset of the Bush administration failed to grasp the lesson. The Pentagon's Office of Net Assessment and the then-Indian government's foreign-policy strategists engaged with each other, but the US officials did not have the patience to wade through the subtleties and complexities.<sup>1</sup>

Without learning from India's experience, the challenge of reining in revivalism and its brutal manifestations will continue to bedevil the liberal compact. On a different level, since the US remains the power balancer, despite its disastrous policies in the Middle East, and since Israel has an existential stake in the stability of the region, a trilateral axis between the three powers may become a necessity, despite India's position in favour of a Palestinian state. This again would translate into enhanced cooperation across a wide spectrum that could benefit India in more ways than one.

### *Internal challenges*

What are the internal constraints that inhibit India from taking on these issues and occupying its natural place in the global order? They include non-traditional security challenges. For example, on World Population Day – 16 July 2015 – India officially reached the 1.27 billion mark. The socio-economic data, as benchmarked by the deprivation index, tells an alarming tale: notwithstanding ten years of robust state intervention, large sections of the population remain very vulnerable. Providing quality education, generating 12 million jobs annually, and dealing with the growing frustration among large sections of overqualified young people doing below-par jobs remains a challenge.

Large areas of central and eastern India are still in the grip of leftwing extremism, while the Indian state has a limited footprint. The northeast as well as the northwest periphery continues to simmer. What India requires at the moment is two decades of “internal consolidation”, and for that it requires peace on its borders, which remains elusive.

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<sup>1</sup> Based on the author's conversations with the late RK Mishra, member of India's parliament and former editor of the Patriot. He was Prime Minister Vajpayee's backchannel to Prime Minister Nawaz Sharif in the early years of Vajpayee's administration.

India would have to develop its own version of “exceptionalism” to engage with the world as it consolidates internally. Therein lies the dilemma for the Indian policymaker. Strategic opportunities do not remain open indefinitely, but the Indian state lacks the institutional capacity to deal with the world and its country simultaneously.



# India's strategic diffidence

India has not had a truly strategic foreign policy since before its 1962 war with China – if “strategic” means focusing on major issues of international import that concern Asian equilibrium and global security. The military humiliation India suffered on that occasion sucked the self-confidence out of the country, turning it inwards.

Before the war, India’s “Third World” status had not prevented it striding like a giant on the world stage in the period 1947–1961, led by Jawaharlal Nehru. India advocated nuclear disarmament in the First Committee of the United Nations; led the charge in international forums against colonialism and racism, winning the gratitude of recently freed peoples of Asia and Africa; facilitated disengagement from the Korean conflict; participated in the Geneva talks to restore peace in Indochina; and established itself as the leader of the non-aligned group – the key balancer in the Cold War between the United States and the Soviet Union.

India viewed itself as so indispensable to the wellbeing of the world that Nehru (in a fit of startling self-abnegation for which the country continues to pay dearly) blithely rejected a permanent seat on the UN Security Council offered by Washington and Moscow to replace Chiang Kai-shek’s Chinese government.<sup>1</sup> Nehru believed such membership would continue to be India’s for the asking, and argued that the seat should go to the then-pariah communist China instead! It was a period of splendid gestures, grand pretensions, and matching hubris.

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<sup>1</sup> The issue is tackled in the author’s book, *Why India is Not a Great Power (Yet)* (Delhi: Oxford University Press, 2015), pp. 50–51. The source is K.P. Fabian, “Bitter truths”, *Frontline*, 19 September 2014, available at <http://www.frontline.in/books/bitter-truths/article6365018.ece>. Fabian, who served as India’s ambassador to Italy, sources this information to an official note to the Foreign Office written by Nehru after a June 1955 visit to the USSR.

However, it was also a time, and this is not widely appreciated, when Nehru planted the seeds for India's emergence as a great power – both in its nuclear weapons capability and in the conventional military field. For example, he imported the renowned designer Kurt Tank to design and produce the HF-24 Marut – the first supersonic combat aircraft to be built outside Europe and the US.

Some 50 years later, the situation is much improved, but the self-belief required for India to be a leader, to do big things, is still missing. Indian foreign policy has aimed low, and achieved still lower; intent only on “short-term value maximising”, in the words of former Prime Minister Manmohan Singh, used in another context. This is reflected in the absence of a national vision, and the confusion about means and ends, soft power and hard power, and about how to get where it wants to go. Most immediately, India is unsure of how to deal with China. Standing up to this behemoth and emerging as the other nodal power in Asia may define India as a great power in the twenty-first century.

However, this ambition is undermined by diffidence and skewed capabilities. India, paradoxically, is self-sufficient in strategic armaments – nuclear weapons and delivery systems, including advanced and accurate ballistic and cruise missiles, and nuclear-powered submarines. But in the 50-odd years since the HF-24 first flew, India has become the world's largest importer of conventional weaponry, leaving its foreign policy hostage to the whims and interests of vendor states.

### *A risk-averse mindset*

Attempts to take a bolder approach to foreign policy run into an institutional “mental block” and ideological debris from the past. The foreign ministry, for instance, equates military prowess with bellicosity, viewing power projection as “imperialistic” and foreign bases in India's extended neighbourhood as neo-colonial manifestations (India currently has, amongst others, Ainee in Tajikistan and Nha Trang in Vietnam; with promised access to Subic Bay and Clark Air Base in the Philippines, the Agaléga Islands in Mauritius, Chabahar in Iran, and a naval base in northern Mozambique). The Indian army that won an empire for Britain is reduced to border defence, and Indian foreign policy is left without strategic underpinnings. It follows that India does not prize distant defence, and that its leadership lacks what the pioneering geopolitical theorist Halford Mackinder called “the map-reading habit of mind”. By

focusing militarily on a measly Pakistan and ignoring China's challenge, India inspires little confidence about its judgment, resolve, and prospects as a consequential power and potential *gendarme* in the extended region.

A risk-averse mindset has spawned tremulous policies and led to a shrunken role for the country. Where Nehru contemplated an Asian Monroe Doctrine backed by Indian arms, New Delhi now seems content dallying with the proposal of a "security diamond" involving India, Japan, the US, and Australia, and gingerly working the India–Japan–US and India–Taiwan–Japan "trialogues". And despite China's provocation in claiming an Indian northeastern state, Arunachal Pradesh, New Delhi's desire to pacify Beijing keeps it from wielding the potent "Tibet card" and raising the issue of Tibetan independence as a counter-pressure.

### *A will to security*

Ironically, given India's lack of political will to realise its ambitions, the current climate in Asia and internationally is conducive to India's rise. The security situation is meta-stable, with conventional wars with China and Pakistan virtually eliminated due to the nuclear overhang. This has allowed India to proactively configure a security architecture native to Asia, with a generally unreliable US playing its stock role as an opportunistic extra-territorial balancer. A primarily maritime security scheme to India's east would require getting the rimland states of Southeast Asia and Japan and Taiwan together for "compound containment" of China. Beijing's belligerence in the South China Sea and over the Senkaku/Diaoyu islands has aggravated the sense of urgency around this policy. Consequently, India is fleshing out its regional security system through security cooperation; multilateral military exercises; and partner capacity-building such as transferring BrahMos supersonic cruise missiles to Vietnam, training crews for the six Kilo-class submarines Hanoi has acquired from Russia, and servicing Malaysian and Indonesian Su-27/Su-29 aircraft, and signing a security cooperation agreement with the Philippines.

This arrangement, with India and Japan anchoring each end of the security system, will stretch Chinese forces at the country's extremities in Asia, and keep Beijing distracted and uncertain about the outcome of any conflicts it may initiate. The India–Myanmar–Thailand highway agreement – the first stage of the long delayed east–west "Ganges–Mekong" belt mooted by New Delhi in the early 2000s to cut across China's north–south corridors (through Myanmar and

Indochina) – has just been inked. In addition, it helps that, notwithstanding its reliance on Beijing’s financial help, a wary Russia is taking measures to pre-empt a Chinese “demographic creep” into Siberia turning into a flood and the Chinese defence industry from easily reverse-engineering Russian military hardware. The “Look East” policy is complemented by India’s “Look West” policy, though this was slow to grow teeth due to New Delhi’s misplaced desire to please the US.<sup>2</sup> Investing in the development of the Chabahar port was neglected, along with the development of a south–north rail and road grid bypassing Pakistan to connect to Afghanistan and Central Asia, and to Russia’s Northern Distribution Network for Indian trade. The thaw in US–Iran relations should accelerate these outreach projects.

India can act to blunt the sharp edges of the Israel–Iran rivalry, on the one hand, and to mediate Saudi–Iranian differences, on the other. Its defence cooperation accord with Saudi Arabia and friendly relations with Iran straddle the Sunni–Shia schism. India has leverage because it has one of the largest Sunni Muslim populations in the world, and the second-largest Shia population, after Iran. New Delhi’s cultivation of both Riyadh and Tehran allows it to consolidate its energy supply sources, and gives it a potential role as stabiliser in a region rife with violence and turmoil. Israel’s alienation by the Washington–Tehran nuclear deal adds another mediator role to India’s policy toolbox. India is also reinvigorating security, trade, and economic partnerships with the Central Asian republics, which desire an Indian presence to balance spreading Chinese influence.

The Indian government under Modi has recognised the importance of Indian migrants in the West – the so-called Non-Resident Indians (NRIs), who are living abroad – in advancing India’s interests. NRIs contribute to local election campaigns, shape the thinking of local legislators, and take up senior positions in host-country governments. Not coincidentally, the US–India Political Action Committee has evolved into a lobbying force to be reckoned with in Washington. This development enhances India’s ample soft power along with its successes in the sectors of information technology and “frugal engineering” – producing less complex and cheaper versions of consumer goods for the Indian marketplace – and, more prominently, as a “brain bank” for the world to draw on.

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<sup>2</sup> India refrained from pushing forward cooperation with Iran in order to placate the US. Had New Delhi gone ahead at the time – as this author had advocated all along – India wouldn’t be in the straits it is now, with Tehran - post-nuclear accord with Washington and the opening of its relations with the West - displaying reluctance to sign a Chabahar deal, and to let India invest in its southern gas fields.

India is not lacking in foreign-policy ambition, or the means to realise it. In practice, however, it translates into a will to security but not a will to power. As a result, India ends up using its resources neither wisely nor well, like the proverbial whale with the impact of a minnow.

*Happymon Jacob*

12

## China, India, Pakistan and a stable regional order

Three powers – China, India, and Pakistan – hold the keys to the future of south Asia. As the West withdraws from Afghanistan and US influence in the region declines, this triangular strategic relationship will become more complicated unless China and India – the two major powers – can define the parameters of a new regional order.

The strategic landscape of the sub-region is defined by the complex interactions between these three: a rising “superpower” with a commercially defined unilateral approach to the region’s strategic fault lines; a reluctant emerging power unwilling to commit political or diplomatic resources to stabilise the region or even to preserve the status quo; and a deeply dissatisfied revisionist power intent on redrawing the regional order, with the not-so-explicit approval of the rising superpower.

China’s engagement with the region serves as a good template for speculation on how its rise will change the international order. Will it begin to engage from a more normative and conflict-resolution perspective, or will it continue to approach the region from its unilateral, self-seeking, commercial and strategic positions? By reaching out to the Taliban, Beijing has demonstrated that it is not averse to sponsoring conflict-resolution processes, though this may be mostly aimed at safeguarding its own commercial interests in mineral-rich Afghanistan. Will China follow the historical trajectory of rising powers by attempting to dominate its “near abroad”? If so, how will India and other stakeholders in the region respond?

## *India's (in)security perceptions*

For over three decades now, India's primary security concern has been Pakistan's attempts at destabilisation, be it in Kashmir, Punjab, or other parts of the country. Pakistan's inconclusive and unsatisfactory trial of the perpetrators of the 2008 Mumbai terror attack, and the intermittent ceasefire violations along the border, continue to dominate New Delhi's perception of its security situation.

Another of India's major security concerns is also linked to Pakistan – the issue of post-NATO Afghanistan, where Pakistan is attempting to control the Kabul regime through proxies, and where the Taliban is gaining ground. For New Delhi, the near-certain return of the Taliban to Kabul, in one form or another, brings back memories of the 1999 hijacking of Indian Airlines flight IC-814 by a Pakistani Islamist group, when the Indian People's Party (Bharatiya Janata Party, BJP) government was forced to release high-ranking terrorists in order to get its passengers released from Taliban-controlled Kandahar province. Another BJP government is in power today, led by the more resolute Narendra Modi, and it has stated more than once that New Delhi will deal with Pakistani aggression with far greater resolve.

Thirdly, India's disputed borders with Pakistan and China continue to generate insecurity for the country. No comprehensive agreement seems to be forthcoming, despite 18 rounds of border talks with China, and there have been occasional Chinese military incursions into Indian-controlled territory, increasing political tensions between the two capitals. The border with Pakistan is far more complicated because sovereignty over an entire state (Jammu and Kashmir, J&K) has been historically disputed. Pakistan's attempts to directly and indirectly wrest J&K from India have not been successful, but it is unclear whether the Pakistani army has completely given up on its aggressive Kashmir policy. Finally, Islamic State (IS) poses a potential threat to India because it has the ability to gain an ideological foothold in the country and provide a rallying call for disaffected, though disparate, elements. The jury is still out on whether Pakistan and Afghanistan would be a fertile breeding ground for the group, given the anti-IS stand taken by the Afghan Taliban and by the Pakistani government.

For many decades now, India has expressed concerns about the clandestine strategic engagement between China and Pakistan, through which Beijing has provided a great deal of assistance to Pakistan's nuclear weapon and missile programmes. In recent years, however, it appears as if New Delhi

has made peace with this, preferring to ignore the Sino-Pak partnership and strengthen its own strategic ties with the United States and various Western states, while improving its economic relationship with China.

What worries New Delhi today is the increasing Chinese presence in the Pakistani part of J&K, including Gilgit-Baltistan. However, on a positive note for India, China has been less supportive of Pakistan's Kashmir policy. Notably, it did not support its "all-weather friend" during the 1999 India–Pakistan Kargil conflict, either materially or politically.

The third aspect of contemporary Sino-Pak ties that bothers India is the strengthened three-way partnership between Pakistan, Afghanistan, and China. China is steadily increasing its influence in the region with its innovative "New Silk Road" strategy, and by offering economic and development assistance to Pakistan. Beijing is also increasingly engaged in regional "conflict management" initiatives, mediating between Kabul and the Taliban, and organising trilateral strategic engagements with Afghanistan and Pakistan. For example, in November 2014, representatives of the Taliban from its Doha-based office met in Beijing for talks. In February this year, China, Pakistan, and Afghanistan initiated a new trilateral strategic dialogue in Kabul. Then, in July, Pakistan hosted a meeting in Murree, as part of the "Murree Peace Process", between the Afghan government and representatives of Tehreek-e-Taliban Pakistan (TTP), the Pakistani branch of the Taliban, which was also attended by representatives of China and the US.

### *India's policy of limited engagement*

Indian responses to the above events and developments have been suboptimal and poorly thought-out. New Delhi is used to adopting a strategy of limited engagement when it comes to dealing with China – whether it is resolving border tensions or finalising an agreement on the disputed border. While on the one hand India seeks to engage China on the trade front, on the other hand it fights shy of engaging China on larger regional security issues. With Pakistan, New Delhi also shows a tendency to indefinitely postpone the resolution of the troublesome issue of Kashmir. Limited engagement, then, seems to be New Delhi's preferred policy option when it comes to dealing with complex issues.

New Delhi also avoids addressing various emerging threats, failing to recognise them politically. For instance, IS hardly figures on New Delhi's list of strategic priorities, and nor does the geopolitical transformation of Afghanistan. This

head-in-the-sand, inward-looking strategic posture is clearly not the exception but the rule in India's strategic thinking.

Policymakers in New Delhi also exhibit a tendency to deal with what they can, rather than with what they should. New Delhi's response, for instance, to the two-pronged problem that it faces with Pakistan and China has been to give disproportionate attention to Pakistan, attempting to shame and isolate the country rather than engaging in a sustained and high-level politico-strategic engagement with China to normalise the strategic triangle. A strategically wise leadership in New Delhi would have catered to Pakistani concerns in Kashmir and moved on to addressing bigger regional issues, rather than getting boxed into a never-ending action-reaction game of "*Tu Tu Main Main*" (a Hindi phrase for constant bickering) with Islamabad.

Finally, Indian diplomacy has failed to think beyond bilaterally engaging with its neighbours, or the great powers, for that matter. While India has engaged with Beijing on a variety of bilateral issues, it has not been able to join forces with China and other neighbours in fighting terror, stabilising Afghanistan, addressing the IS threat, or even bringing Iran into the mainstream. Modi's government has not yet brought pressing regional security issues to the table in its bilateral relationship with China.

### *A wider strategic perspective*

India is uncomfortably placed at the heart of a geopolitical landscape – the India–China–Pakistan strategic triangle – that is beset with multiple strategic challenges. Even if one were to interpret China's attempts to engage in the reconciliation process in Afghanistan as commercially driven but benign, the perceived Indo-Pak rivalry in Afghanistan and the Sino-Pak partnership would effectively keep India out of the Afghan reconciliation process, hampering New Delhi's regional aspirations.

The question, therefore, is whether the Chinese leadership can think beyond the false necessities imposed by its partnership with Pakistan to consider the region as a security complex (i.e. acknowledging that the security of each state cannot be considered separately from that of the others), and manage its relations with India in a cooperative manner. Beijing's tacit approval of Pakistan's revisionist agenda could prove costly for China and may even hamper its rise. The Chinese leadership cannot ignore the need to pacify the region and stabilise ties with India while it pursues its global ambitions.

India, for its part, must view the region from a wider, long-term strategic perspective and avoid getting tied down in petty fights with Pakistan – for its own sake and for the sake of promoting a stable regional order. Such an order could lead to peaceful coexistence between India and China and conciliatory management of the region’s problems. It could even produce the first signs of a peaceful Asian superpower on the rise.

Finally, Pakistan needs to adjust its strategic priorities, in light of its growing inability to act as a modern, functioning state. Its deep-seated obsession with India, and the use of non-state actors as a tool of statecraft, need to end if it wants to get back on its feet as a viable nation state and contribute to a stable regional order.



*Rahul Roy-Chaudhury*  
Modi's approach to  
China and Pakistan

13

Narendra Modi's government has placed India's neighbourhood as its top foreign policy priority. Modi's first official foreign trip was to neighbouring Bhutan, and in just over a year he visited all of India's immediate neighbours, with the exception of Pakistan and the Maldives (where a planned visit was suddenly cancelled due to political differences). In an unprecedented move, he invited the seven other leaders in the South Asia Association for Regional Cooperation (SAARC), along with Mauritius, to his swearing-in ceremony in May 2014, holding his first set of meetings with them – including Pakistani Prime Minister Nawaz Sharif – the following day. He is due to visit Pakistan in late 2016 for the SAARC summit, which will be the first Indian prime ministerial visit to the country in over a decade

The primacy of the neighbourhood for Modi is clear. Unlike previous leaders, he is eager to use foreign policy as a means to generate inward investment, business, and technology for domestic growth and development. As a pragmatist, he is aware that this will be facilitated by enhancing regional cooperation and stability in South Asia. But it will be a difficult and complex task, especially given India's two powerful nuclear-armed neighbours, Pakistan and China, whose relations with India are marked by tensions and political and military standoffs. Modi's policy towards both countries has undergone significant shifts during his first year in office.

## *A tougher position on Pakistan*

Since independence nearly 70 years ago, India and Pakistan have fought three wars over Kashmir and one over Bangladesh. Once both acquired nuclear weapons in 1998, these shifted to lower-intensity military confrontations. Modi inherited difficult relations with Pakistan, after bilateral peace talks were suspended by his predecessor due to a spurt in violence and firing by Pakistan across the Line of Control (LoC) dividing the disputed Kashmir region.

For the Indian security establishment, the principal threat from Pakistan is another spectacular terror attack like the 2008 Mumbai attack, which could be carried out by Pakistan-based militant groups such as Lashkar-e-Taiba (LeT) or Jaish-e-Mohammad (JeM). The Indian security establishment's view is that any such attack would likely be planned and coordinated by elements of the Pakistani security establishment, in particular its powerful intelligence organisation, the Inter-Services Intelligence (ISI), which the Indian government has publicly accused of complicity in past terror attacks. Any suggestion of a "rogue" element in the ISI responsible for these incidents, or a lack of authorisation by the ISI chief, is dismissed by New Delhi.

Modi has hardened India's position towards Pakistan. He cancelled scheduled foreign-secretary level talks in August 2014 over a meeting between the Pakistani high commissioner to India and the Kashmiri separatist Hurriyat group. There was a distinct chill between Modi and Sharif at the SAARC summit in Kathmandu in November 2014. Then, in August 2015, India made it clear that it would not be acceptable for the visiting Pakistani national security advisor to meet the Hurriyat leadership or discuss anything other than terrorism, leading to the cancellation of scheduled talks between the two countries' national security advisors hours before they were to begin. India also deliberately intensified its firing across the LoC and the international border.

This hardline approach has not yielded the dividends expected by the Indian government. In a sign of defiance, the Pakistani government refused to fast-track the trial of seven alleged co-conspirators in the 2008 Mumbai terror attack, a key Indian demand. In April 2015, a Pakistani court released on bail the man accused of masterminding the attacks, LeT operations chief Zakiur-Rehman Lakhvi, after six years in prison. The following month, the Pakistani corps commanders' conference for the first time formally accused India's external intelligence agency, the Research and Analysis Wing (R&AW), of "whipping

up terrorism” in Pakistan. This accusation was believed to refer to recurring allegations of Indian involvement in terrorism in Baluchistan, Karachi, and the tribal areas, which India has denied. Later that month, the Indian defence minister stated that “terrorists have to be neutralised only through terrorists”, leading his Pakistani counterpart to assert that this confirmed India’s involvement in terrorism within Pakistan.

Pakistan has demonstrated a renewed will to counter terrorism since a brutal attack by the Tehreek-e-Taliban Pakistan (TTP) – the Pakistani branch of the Taliban – killed 143 school children and nine others in Peshawar in December 2014. But this has not included anti-India terror groups. For example, banned militant outfit the JeM continues to operate, and to address public rallies. There has been no attempt to ban Jamaat-ud-Dawa (JuD), a group considered to be a front for the outlawed LeT and led by LeT chief Hafiz Saeed, on the basis that there is no evidence to link the group with terrorism or the LeT. A formal proposal to outlaw the Haqqani terror network is under consideration.

India has a dilemma: it deals with Pakistan’s civilian government but refuses to deal with the most powerful Pakistani institution in setting policy towards India – the army. No army-to-army talks between the two countries take place. There are questions over whether such talks would make sense for the Indian army, which has far less influence over policy than its counterpart, and whether the Pakistan army would even be inclined to talk to India, given that its *raison d’être* is a perceived existential threat from its neighbour.

Modi needs to think “outside the box” if he is to achieve regional cooperation with Pakistan in the build-up to the 2016 SAARC summit. Instead of simply seeking to strengthen Pakistan’s civilian government, he may need to engage with the Pakistan army, and ascertain what it wants from India. This could begin through initial exchanges between the R&AW and the ISI, both of whom – uniquely – participate in the annual International Institute for Strategic Studies’ (IISS) meetings on South Asia security in Oman and Bahrain.

### *A robust China policy*

For the Indian security establishment, China poses a strategic challenge rather than a threat. India is primarily concerned by China’s assertiveness in the border dispute, by its growing trade and defence relationships with India’s South Asian neighbours, and by the expansion of Chinese influence in the Indian Ocean, the latter of which India fears as possible encirclement. All this has hardened

New Delhi's perspective towards Beijing. But, at the same time, China is India's largest trading partner.

Although Modi seeks stronger trade and investment links with China, he has also been tough on his powerful neighbour. In his electoral campaign, he criticised China's "mindset of expansion". Indeed, Tibet's Prime Minister-in-exile Lobsang Sangay found himself in the official photograph at Modi's swearing-in ceremony. When Chinese forces crossed the Line of Actual Control (LAC) at Chumar during a September 2014 trip to India by President Xi Jinping, Modi's response was robust. He sent reinforcements to the area and ensured that Indian troops held their positions. He publicly expressed concern over the border dispute, and raised the issue of Beijing's policies in the neighbourhood with his guest.

The joint statement issued at the end of Modi's May 2015 visit to China did not reference maritime cooperation or Asia-Pacific security, unlike a similar statement eight months earlier. Nor did it refer to China's One Belt, One Road initiative or to its Maritime Silk Road, both of which India views with suspicion. In June 2015, India declared that the China–Pakistan Economic Corridor (CPEC) project was "not acceptable", as it would use infrastructure in disputed Kashmiri territory.

### *A combined front with the US*

In a significant departure from the previous government, Modi is willing to form a combined front with the United States on Asia-Pacific security to counter an assertive China. During President Barack Obama's visit to New Delhi in January 2015, the two governments issued a document that outlined their joint strategic vision for the Asia-Pacific and Indian Ocean regions. It included a paragraph affirming "the importance of safeguarding maritime security and ensuring freedom of navigation and over flight throughout the region, *especially in the South China Sea*" (italics added for emphasis).<sup>1</sup> This was understood to imply that the two parties had reached a consensus on the need to counter Beijing's assertive handling of conflicting regional territorial claims. A 10-year defence framework agreement has also been signed with the US, and trilateral cooperation between the US, Japan, and India has been raised to foreign-secretary level. The annual India–US Malabar naval exercise has been expanded to include Japan. India is also seeking to bolster defence and naval cooperation with Vietnam.

<sup>1</sup> "U.S.-India Joint Strategic Vision for the Asia-Pacific and Indian Ocean Region", The White House, Office of the Press Secretary, 25 January 2015, available at <https://www.whitehouse.gov/the-press-office/2015/01/25/us-india-joint-strategic-vision-asia-pacific-and-indian-ocean-region>.

The joint India–US vision recognises the complementary nature of India’s new “Act East” policy, focusing on Japan and Australia, and the Obama administration’s “pivot”, or “rebalancing”, towards Asia. However, there are limits as to how far the combined front between India, the US, and other democracies in the region such as Australia and Japan, can go. For example, the quadrilateral naval exercise between Australia, India, Japan, and the US has not been repeated in the last seven years after a stiff Chinese *démarche* followed the first one. The bottom line is that while there is an emerging bilateral consensus between India and the US on security in the Asia-Pacific, neither wants a confrontational relationship with China.



# The FTA: A strategic call for the EU and India?

A fresh impetus from both sides is urgently required to reinvigorate EU–India trade talks, which have been languishing for over seven years and have gone through 15 rounds. In September, the Indian commerce minister announced the government’s intention to revive talks.<sup>1</sup> However, this followed a blow to momentum in August, when the Indian government postponed a meeting between negotiators due to “disappointment following the EU’s legally binding ban on the sale of around 700 pharmaceutical products clinically tested in India”.<sup>2</sup> The Indian government questioned the European Union’s unilateral ban on Indian drugs, and expressed in no ambiguous terms that it was waiting for a response from the EU.

Fresh talks are expected to focus on industrial goods; agricultural tariffs and services; access to each other’s markets for goods and services, and to public procurement contracts; the framework for investment; rules on intellectual property and competition; and commitments on sustainable development issues such as environmental, social, and labour rights.

The proposed agreement is politically and economically crucial for both sides. In political terms, from the EU’s perspective the free trade agreement (FTA) with India will be its first with an emerging economy, will support the EU’s aim of employing FTAs to foster partner countries’ integration into the world economy, and will strengthen its role in global trade governance.<sup>3</sup> From India’s perspective, it will boost Prime Minister Narendra Modi’s “Make in India” campaign and his ambition to establish India as a regional leader and global

<sup>1</sup> “India is interested in reviving FTA talks with EU: Nirmala Sitharaman”, the *Economic Times*, 9 September 2015, available at <http://economictimes.indiatimes.com/news/economy/foreign-trade/india-is-interested-in-reviving-fta-talks-with-eu-nirmala-sitharaman/articleshow/48890728.cms>.

<sup>2</sup> Asit Ranjan Mishra, “India cancels EU trade talks over pharma ban”, *Live Mint*, 6 August 2015, available at <http://www.livemint.com/Politics/JtJwcvhXDZz4c01D9DGk51/Govt-cancels-trade-negotiatorlevel-meet-with-EU.html> (hereafter, Mishra, “India cancels EU trade talks over pharma ban”).

<sup>3</sup> Sangeeta Khorana and Maria Garcia, “Procurement Liberalisation Diffusion in EU Agreements: Signalling Stewardship?”, *Journal of World Trade*, Volume 48, Issue 3, 2014, pp. 481–500, available at <https://www.kluweronline.com/abstract.php?area=Journals&id=TRAD2014016>.

manufacturing centre. Furthermore, the FTA will strengthen India's attempts to harness its growing domestic economy and middle class to support its rise as a global economic power.

In economic terms, a well-negotiated agreement will boost trade and investment flows between the two regions. The EU is India's largest trading partner and investor as well as its main source of technology transfer. The value of EU–India trade stood at €72.5 billion in 2014, up from €28.6 billion in 2003. Similarly, the EU's investment stock in India increased from €0.78 billion in 2003 to €34.7 billion in 2013. Furthermore, trade in commercial services has increased since the FTA talks were launched – up fourfold from €5.2 billion in 2002 to €23.7 in 2013. For Europe, the economic rationale for the FTA is access for EU firms to a market of over a billion people, which could be a means to escape long-term economic malaise.

There are a host of studies analysing the economic effects of the proposed FTA.<sup>4</sup> The analysis by the Indian government suggests that India will be a net loser from the FTA in terms of the trade in goods, primarily as a result of the loss of revenues from lower or zero tariffs, although gains are expected from liberalisation of the services sector.<sup>5</sup> A report by Sussex University and an Indian NGO – CUTS International – also indicates that liberalisation of trade in goods would yield only ambiguous welfare effects.<sup>6</sup> There are also questions on the

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4 See, for example, Agence Europe, *Council's Green Light to Launch of Negotiations for Bilateral Free Trade Agreements with ASEAN, South Korea and India*, 2007; Yvan Decreux and Cristina Mitaritonna, "Economic Impact of a Potential Free Trade Agreement (FTA) between the European Union and India", report by CEPII/CEMIN to the DG Trade of the European Commission, Trade Specific Contract No: SI2.434.087, 2007, available at <http://trade.ec.europa.eu/doclib/html/134682.htm>; Thom Achterbosch, Marijke Kuiper, and Pim Roza, "EU–India Free Trade Agreement: A Quantitative Assessment", October 2008, Report No: 2008-059, Project code 20824, LEI Wageningen, The Hague, available at [http://www.researchgate.net/publication/40095078\\_EU-India\\_free\\_trade\\_agreement\\_a\\_quantitative\\_assessment](http://www.researchgate.net/publication/40095078_EU-India_free_trade_agreement_a_quantitative_assessment); Sangeeta Khorana and Maria Garcia, "European Union–India Trade Negotiations: One Step Forward, One Back?", *Journal of Common Market Studies*, Volume 51, Issue 4, July 2013, pp. 684–700 (hereafter, Khorana and Garcia, "One Step Forward, One Back?"); Sangeeta Khorana and A.N. Asthana, "EU's FTA Negotiations with India: The Question of Liberalisation of Public Procurement", *Asia Europe Journal*, Volume 12, Issue 3, 2014, pp. 251–263, DOI 10.1007/s10308-014-0369-7; Sangeeta Khorana and Nicholas Perdikiis, "EU–India Free Trade Agreement: Deal or No Deal", *South Asia Economic Journal*, Volume 11, Number 2, September 2010, pp. 182–206 (hereafter, Khorana and Perdikiis, "Deal or No Deal"); Sangeeta Khorana, Nicholas Perdikiis, William A. Kerr, and M. Yueng, *The Era of Bilateral Agreements: The EU and India in Search of a Partnership* (Cheltenham: Edward Elgar Publishing, 2010) (hereafter, Khorana et al., *The Era of Bilateral Agreements*); Sangeeta Khorana, William A. Kerr, and Nicholas Perdikiis, "Global economies of scale in the EU–India trade agreement: are they the key to a return to economic growth?", *Asia Europe Journal*, 13:41–55 (hereafter, Khorana et al., "Global economies of scale"); Sophie Powell, "The EU–FTA: initial observations from a development perspective", *Traidercraft*, September 2008, pp. 1–21, available at <http://www.indianet.nl/pdf/EU-IndiaFTAInitialObservations.pdf>.

5 Trade Agreements, Government of India, Ministry of Commerce and Industry, Department of Commerce, 2012, available at [http://commerce.nic.in/trade/international\\_ta.asp?id=2&trade=1](http://commerce.nic.in/trade/international_ta.asp?id=2&trade=1).

6 Michael Gasiorek et al., "Qualitative analysis of a potential Free Trade Agreement between the European Union and India", Executive Summary Report to DG Trade of the European Commission, Sussex, University of Sussex, Centre for the Analysis of Regional Integration at Sussex and CUTS International, Jaipur, available at <http://www.cuts-citec.org/pdf/EU-IndiaStudyAnnex1May01.pdf> (hereafter, Gasiorek et al., "Qualitative analysis of a potential Free Trade Agreement").

“deep” versus “shallow” effects of the proposed FTA<sup>7</sup> – i.e. whether it will cover only trade in goods, or cover deeper forms of integration such as investment and competition policy – while other analysts focus on the bargaining process and highlight how the different negotiating approaches of India and the EU could impede the progress of talks.<sup>8</sup>

### *Areas of disagreement*

European and Indian expectations diverge on issues such as tariffs on cars, wines, and dairy products imported from the EU, and on the liberalisation of the visa regime for Indian professionals entering the EU.<sup>9</sup> The EU and India have even had trade disputes at the World Trade Organization (WTO) on wine and spirits and on pharmaceuticals. When FTA negotiations began, India had high tariffs in areas of interest to the EU and restrictions on foreign direct investment (FDI) in several sectors, including insurance and trade. Rules on FDI in insurance and wholesale trade and on single-brand retail have since been changed, but tariffs on goods such as wines and cars remain at between 60 and 100 percent.

Both the EU and India have voiced concerns about restrictive measures that function as a barrier to their exporters. Recently, for instance, the EU expressed anxiety over the Indian government’s requirement that 15 categories of IT and consumer electronic products must be registered in the country. A similar issue is mandatory in-country testing and certification of telecom network elements.<sup>10</sup> India has also been affected by EU regulations and standards, especially on agricultural exports. For example, imports of Indian Alphonso mangoes were banned in May 2014 after “non-European fruit flies” were found in some consignments, though this was lifted in early 2015.<sup>11</sup>

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7 See Gasiorek et al., “Qualitative analysis of a potential Free Trade Agreement”; Ecorys et al., “Trade Sustainability Impact Assessment for the FTA between the EU and the Republic of India”, report for DG Trade in the European Commission, Reference no: TRADE07/C1/Co1 – Lot 1, Rotterdam, available at [http://trade.ec.europa.eu/doclib/docs/2009/june/tradoc\\_143372.pdf](http://trade.ec.europa.eu/doclib/docs/2009/june/tradoc_143372.pdf).

8 Khorana and Garcia, “One Step Forward, One Back?”; Khorana and Perdikis, “Deal or No Deal”.

9 Khorana and Perdikis, “Deal or No Deal”; Khorana and Garcia, “One Step Forward, One Back?”; Khorana et al., *The Era of Bilateral Agreements*; Khorana et al., “Global economies of scale”; Mishra, “India cancels EU trade talks over pharma ban”; Jan Wouters, Idesbald Goddeeris, Bregt Natens, and Filip Ciortuz, “Some Critical Issues in the EU–India Free Trade Agreement Negotiations”, *European Law Journal*, 20 (6): 848–69, 2013, available at [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2249788](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2249788).

10 *Trade and Investment Barriers Report 2015*, Report from the Commission to the European Council, Brussels, 17 March 2015, available at [http://trade.ec.europa.eu/doclib/docs/2015/march/tradoc\\_153259.pdf](http://trade.ec.europa.eu/doclib/docs/2015/march/tradoc_153259.pdf).

11 Antonia Molloy, “Alphonso mangoes: EU lifts ban on Indian mango imports”, the *Independent*, 20 January 2015, available at <http://www.independent.co.uk/news/business/news/alphonso-mangoes-eu-lifts-ban-on-indian-mango-imports-9990412.html>.

One of India's key objectives is to be recognised as a data-secure country. At present, India is not considered data-secure under EU legislation, despite India amending its Information Technology Act in 2000 and issuing new Information Technology Rules in 2011, in line with the "safe harbour" principles adopted by the United States. This hampers the flow of sensitive data such as information on patients, and means that Indian firms are unable to gain market access in the EU, increasing operating costs.

Another key Indian objective is reform to allow skilled Indian professionals to temporarily reside and work in EU member states. If rules on movement of professionals were liberalised, Indian businesses would benefit significantly from increased access to the EU services market. However, the EU says it is unable to intervene on this issue because work permits and visas are under the remit of individual member states. A related issue is the differentiated qualifications and professional standards between EU partners, which restrict Indian professionals' access to the EU markets.

For its part, the EU wants India to first liberalise its professional services sector, specifically accountancy and legal services. However, the Institute of Chartered Accountants of India and the Bar Council of India are vehemently opposed to such liberalisation as they fear competition from overseas accounting and law firms. Secondly, the EU has sought massive cuts in India's tariffs on automobiles and auto components. Fully assembled cars attract a 60 percent import duty, rising to 75 percent for cars with free on-board value over \$40,000 and engine capacity of 3,000 cc for petrol cars and 2,500 cc for diesel cars. The EU sees this as protectionism: by contrast, the tariff on Indian cars imported into the EU is 6.5 percent. However, Indian industry fears that tariff cuts would flood the domestic market with European cars, which could have an adverse impact on investment and on the "Make in India" campaign. There are also fears about auto components being imported into India at concessional rates.

Finally, the EU has sought deep tariff cuts for wines and spirits. India currently levies import duty of 60–100 percent, plus state taxes. Given that alcohol is a major source of revenue, it is not likely that Indian states will agree to cut taxes. The EU also seeks to strengthen intellectual property rights in India. Existing Indian laws do not allow evergreening of patents (extending patents when they are about to expire by making small changes to the product) or data exclusivity, preventing various drugs and chemicals from being sold in India. India argues that if it were to accede to the EU's demand, the Indian pharmaceutical industry would not be able to sell cheap generic drugs.

## *The way forward*

These problems notwithstanding, the proposed agreement is critical for both the EU and India. Three “mega-initiatives” will eventually dominate the global trade landscape: the Transatlantic Trade and Investment Partnership (TTIP), the Trans-Pacific Partnership (TPP), and the Regional Comprehensive Economic Partnership (RCEP).<sup>12</sup> The parallel negotiations on these mega-agreements have added pressure to raise the pace of the EU–India FTA talks. Should either TTIP or TPP be finalised in the absence of an EU–India FTA, Indian goods may face difficulties in accessing European markets. The mega-regional initiatives encourage the creation of global value chains in which production is split across countries to exploit each nation’s comparative advantage, driving down costs while raising standards. At present, India is hardly integrated into the value chains of European companies, and the mega-agreements could divert investment away from non-members, with potentially devastating effects for India.

The FTA is also important for India from the perspective of investment flows and technical cooperation. The EU’s assistance would enable European companies to help India in its plan to develop 100 “smart cities” in the near future, as well as helping other Indian initiatives.

To agree on the FTA despite the differences between the EU’s and India’s negotiating agendas in a tough economic climate, both partners will need to show the same determination as others have shown in negotiating mega-regional agreements. The challenges and constraints are not insurmountable. Given both sides’ reluctance to agree to the other’s demands, they should begin by negotiating less difficult sectors. This will demonstrate willingness to get back to the negotiating table and send a clear signal that both sides want to talk further. It is important for India to overcome its siege mentality, commit to institutional reform, and confront domestic vested interests. Reaching an agreement that will bring mutual benefit to both the EU and India will be a long journey, but, despite several missed deadlines, it is not out of reach.

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<sup>12</sup> The Regional Comprehensive Economic Partnership is a mega-regional trade and investment agreement between ASEAN and its regional partners – Australia, New Zealand, China, South Korea, Japan, and India. It proposes to create a 16-country integrated market in the Asia-Pacific region of around 3.35 billion people, with a combined GDP of \$21.4 trillion or 27 percent of global GDP. Negotiations are expected to be concluded by the end of 2015.



*Angela Stanzel & Christian Wagner*  
**Conclusion: A fresh start for  
Europe and India**

Europe has not made enough effort to understand what Indians think. As a result, it is missing out on India's bold attempt to transform itself. This essay collection aims to address this, and to suggest ways of moving the relationship forwards. The broad range of views it contains should not be surprising given the sheer size of India; its linguistic, religious, and societal heterogeneity; and the democratic tradition of the "argumentative Indian".<sup>1</sup>

The lack of understanding is mutual: both India and the European Union are multifaceted and difficult to grasp. Moreover, in both unions, the strategic community that could explain and interpret such complexity is small. There are few Indian officials who focus on Europe – and vice versa. On the Indian side, there is limited administrative capacity: the Ministry of External Affairs (MEA) employs a total of around 1,800 people (by comparison, the German foreign ministry has a staff of almost 6,000).<sup>2</sup>

The consequences of this lack of understanding are clear: the enthusiasm around the 2004 Strategic Partnership agreement and the 2005 Joint Action Plan has dissipated in recent years. The lack of an EU-India summit since 2012, the stalled trade talks that began in 2007 but have been frozen since 2013, and the lingering case of the Italian navy personnel arrested in India over the death of two fishermen illustrate some of the obstacles in the bilateral relationship.

Regional crises like those in Ukraine, Libya, and Syria have further estranged India and Europe. The two have a shared interest in stability in the Middle East, but pursue this through different strategies. The rise of Islamic State (IS) is a major

<sup>1</sup> Amartya Sen, *The Argumentative Indian: Writings on Indian History, Culture and Identity*. (London: Penguin Books, 2006)

<sup>2</sup> See Kabir Taneja, "MEA budget has risen 150 per cent over the decade, but it still takes months to free Indians jailed abroad", Scroll.in, 25 May 2014, available at <http://www.scroll.in/article/664264/mea-budget-has-risen-150-over-the-decade-but-it-still-takes-months-to-free-indians-jailed-abroad>; and the German Ministry of Foreign Affairs, available at [http://www.auswaertiges-amt.de/DE/AAmt/AuswDienst/Mitarbeiter\\_node.html](http://www.auswaertiges-amt.de/DE/AAmt/AuswDienst/Mitarbeiter_node.html).

challenge for Europe because of the return of fighters, whereas India is challenged by other brands of Islamic militancy, often emanating from Pakistan.

In Asia, India is much more directly affected than Europe by the political implications of China's economic rise because of its proximity to China, and an unresolved border conflict. In visits to Japan and meetings with US President Barack Obama, Prime Minister Narendra Modi has clearly signalled that India rejects China's territorial claims in the South and East China Seas. India will intensify its political, economic, and military relations with the United States even if Washington does not enter any formal alliance against China. But (neo-) realists in Washington and New Delhi know that the rise of India will be an important counterweight against China in the long term. Meanwhile, a coherent European strategy for Asia is still absent.

In the field of global governance, India and Europe have always found it difficult to cooperate effectively, whether negotiating over trade liberalisation or climate change. India's role in the failure of the World Trade Organization's Doha Round still rankles with Europe. The November 2015 Climate Change Conference in Paris will be an indication of the prospects for further cooperation between India and Europe.

Clashing foreign-policy perspectives have always hampered cooperation between India and the EU. The EU aims to strengthen multilateral institutions and to promote its political and human rights norms, while India also has a long tradition of multilateralism, but rejects outside intervention. It pursues a more classical foreign policy approach, aimed at promoting its great power ambitions in a difficult regional environment. Finding common ground between Europe and India will continue to be a challenge, especially on global affairs.

### *The search for common ground*

One area in which there does seem to be a consensus among the Indian thinkers in this collection is India's future international role. This consensus is rooted in a classical understanding of great power politics, which differs sharply from EU foreign policy but not necessarily from that of all its member states. As a result, the estrangement between India and the EU has not affected ties between European countries and India.

France is one of India's most important partners on defence and nuclear energy. It has a military presence in the Indian Ocean, based on the security

and economic interests of around a million French citizens on the islands of Réunion and Mayotte. Germany is India's most important European trading partner, and the two countries have expanded their links in science and technology. India is among the few countries with which the German government consults at cabinet level. Because of its influential Indian diaspora, the United Kingdom has maintained a special relationship with India – even if tinged with lingering postcolonial acrimony. After stops in France, Germany, and Ireland, Modi will visit the UK in November 2015 – the first Indian prime minister to do so since 2006. Hopes are high that the visit will boost trade between the two countries.

No doubt EU member states will be important partners for India as it carries out economic modernisation. Assuming Modi improves the governance structures to facilitate foreign business (as he did when he headed the state government in Gujarat), trade and investment between India and EU member states is set to increase. Concluding a Bilateral Trade and Investment Agreement (BTIA, aka the EU-India Free Trade Agreement or FTA) would facilitate increased trade and investment, but it may need a push by member states like Germany, France, or the UK to break the deadlock.

However, there seems to be a distinctive “disconnect between the three biggest member states”, as ECFR was told during our meetings in India. Thus, any upgrade must start with more coordination between the EU and its member states on what they want from India.

### *Whither India and Europe?*

EU member states need to agree among themselves that the FTA is in the European interest. “Decide to do it or not, but decide”, is what we heard in India. The EU should agree on an agenda for the next EU-India summit, which needs to cover issues besides the FTA. This should include areas where the EU can contribute to India's domestic flagship priorities (such as Clean India, Skill India, and Smart Cities), and new areas for international collaboration, for instance in the field of development cooperation. The EU should formulate a targeted India strategy, which goes beyond its traditional approach to address domestic changes in India, and the areas where Europeans have expertise to offer. A strategic initiative encompassing India's programmes on clean energy and sustainable cities would help to bridge the gap between their different starting points on energy and environmental policy.

Enhanced cooperation with India has to start from the political and institutional realities on the ground. In the course of our discussions, we heard that “India and New Delhi take a top-down approach – they don’t care about embassies, they just care about their own development and about China”. Thus, EU–India inter-bureaucracy dialogue and cooperation is no substitute for a real top-down political and strategic dialogue. A push from Brussels should take the form of a high-level visit to India by the high representative – the last such visit was in 2012.

Both the EU and India work to shore up fragile states, but they do so separately. Despite many commonalities, for instance in the fight against terrorism and the strengthening of democratic governance, they have not been able to cooperate in Afghanistan. Europeans should explore how far Indian involvement in Afghanistan can complement European efforts, and whether there may even be potential for joint EU-India efforts (which might go as far as holding a dialogue on third countries, such as Pakistan).

Some EU member states, in particular France and the UK, share interests with India on maritime security, starting with the Indian Ocean and freedom of navigation. China’s assertiveness has helped move India to a stronger stance on freedom of navigation, where it previously had reservations. Europe and India both have much at stake in protecting maritime trade routes. The EU already plays a role in counter-piracy efforts in the Western Indian Ocean, and could be more involved.

Europe and India can also cooperate through global and regional institutions: India is a founding member of the New Development Bank (NDB) in the context of BRICS; it is becoming a member of the Shanghai Cooperation Organisation (SCO), and is a founding member and the second-biggest shareholder of the newly established China-led Asian Infrastructure Investment Bank (AIIB), alongside 14 European states.

Reaching a new understanding between the EU and India will require effort on both sides. Think-tank-led dialogues and policy recommendations – so frequent in relations with the US, China, and even Russia – will help to foster a community of shared interests, where India and the EU can gradually find common ground on global issues. We hope that this collection will form part of the first step.



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**Philip Stephens, Financial Times**

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