

Special Report

Rising India and U.S. Policy Options in Asia

The South Asia program has recently concluded a year-long study entitled “Rising India and U.S. Policy Options in Asia” with a final conference that was held on October 15, 2001. The “Rising India” project seeks to analyze aspects of the U.S.-Indian relationship, examine the effectiveness of U.S. diplomatic tools in the context of different growth trends in India, and put U.S. policy toward India within a broader Asian context. This summary reflects the project study, amplified by presentations made at the conference.

India has completed a decade of economic growth at twice its pace in the last half-century and has emerged as a nuclear armed country. Although its future will depend on how it handles a host of domestic and international constraints, India may well emerge in the next two decades as a significant power in the broader Asian environment and on a global scale. For the United States, the “Rising India” study underlined the importance of two key building blocks for U.S.-Indian relations—India’s economic growth, and the new convergence between Indian and U.S. views of security in the Indian Ocean and in Asia. U.S. policymakers will need to integrate their views of South Asia, East Asia, and to some extent the Middle East in ways they have not normally done in the past. At least in the next 5–10 years, U.S. relations with China and India may well be complementary rather than conflicting. The unresolved problems between India and Pakistan, however, still stand as a complicating factor in India’s international posture and its relationship with the United States.

Since the September 11 attacks, the U.S. foreign policy and security agenda have focused on the war against terrorism, and in particular on Afghanistan. The war on terrorism has affected the dynamics of South Asia, with Pakistan emerging as a frontline U.S. ally, the potential of a destabilized Afghanistan descending into chaos, and bilateral items on the U.S.-Indian agenda prior to the attacks having been put on the back burner.

Although September 11 has influenced U.S. policy in the short to medium term, once the “Afghan dust” settles, in all likelihood the U.S. overall agenda in South Asia will return to something closer to what it was early in this administration. There will be some changes, however, principally a heightened U.S. interest in peacemaking and Kashmir, and in Pakistan’s stability. Moreover, the U.S. engagement in South Asia clearly is likely to last for a number of years, and it is therefore vital that the United States not limit its long-term

policy options in the region by operating exclusively in a crisis-management mode.

What Will Shape India’s Next Decade?

India’s economic, political, foreign policy, and security evolution in the next few years will determine its domestic and international policy agenda¹, as well as its relationship with the United States and the rest of the world. In trying to determine alternative growth patterns for India in the next decade, our study focused on certain key drivers of change.

Some aspects of India’s future can be predicted with reasonable confidence. Population growth has slowed dramatically in the past decade, and the Indian Census projects the population to be 1.18 billion in 2010. Literacy has increased rapidly in the past 10 years, and trends indicate that male literacy may be near universal by then. India’s urban population, today about one-fourth of its total, is projected to reach 32 percent by 2011. Other trends, however, could develop in different directions.

India is currently going through four major and concurrent transitions:

- **Political Transition:** Democratic elections are an entrenched tradition, but the once dominant Congress Party is in disarray and its moderate socialist and secular philosophy is no longer the knee-jerk popular choice. The ruling Bharatiya Janata Party (BJP) still does not have national reach, and the outlook is for coalition governments for at least the next several years, with state-based parties playing a greater role. Caste-based groups which had previously had a relatively passive political role are emerging as important social and political actors, and have also formed parties for whose support the major contenders now must compete. This environment may limit India’s decision makers’ margin for maneuver and increase the role of special sub regional interests in India’s relations with neighboring countries. Speaking at the ‘Rising India’ conference, Walter Andersen¹ said he expected the current governing coalition to last out its term, and probably win the next elections as well. Although the BJP under Prime Minister Atal Bihari Vajpayee currently has a compulsion to move toward the political center and drop parts of its “Hindutva” agenda, a change in leadership, coupled with economic developments, might change this trend. Citing Professor Ashutosh Varshney, Andersen argued

¹ Walter Andersen, U.S. Department of State. Views expressed in this paper are his own and do not reflect U.S. government policy.

that the economy would need to grow at 7 percent annually to enable the government to progress on social reforms and development.

The uneven growth of states has political implications, with heavily populated underdeveloped states like Bihar and Uttar Pradesh stalling reform and extracting a considerable political price on the nation's economic reform process. Meanwhile, economically successful states like Andhra Pradesh and Karnataka, are pushing for greater decentralization, and local pressures make them increasingly unwilling to share their wealth.

AIDS remains a demographic wild card, with wide-ranging social and economic impact in the next two decades. According to an estimate by the Indian National AIDS Control Program, there were close to 4 million reported AIDS cases in India in 2000, and an unofficial estimate of 10 million. Experts estimate that the number could reach 100 million by 2010. India's success in dealing with this issue depends critically on governance.

- **Economic Transition:** The Indian economy has become one of the fastest-growing in the world since 1991, when India began a structural adjustment program after a balance of payment crisis. It created accelerated growth and a new class of economic powerhouses. The dizzying rise of India's information technology industry, in particular raised great hopes for future sustained growth rates. High growth also fosters outward looking politics, and is particularly beneficial to U.S.-India ties. Low growth on the other hand leads to confrontational politics.

Joydeep Mukherji² argues that now that the first decade of reform in India is over, the outlook is less optimistic than earlier projected. He predicts that the trend rate of growth will be around 5 percent, led by the service sector. Although reforms are here to stay, progress on deregulation and liberalization will be slow. India's fiscal profile has also eroded in the past two years, which will have an impact on the budget, particularly on military expenditure. Foreign investment is likely to be subdued, even if reform policy improves. The "caste system" in industrial policy, where NRIs, foreign investors, and domestic industry each have to play by different rules, is a major impediment to growth. On a more positive note, the Green Revolution is spreading to additional states like Bihar and Assam. The other major growth area is the export-oriented service sector, which is a particularly good match for the United States, the largest service market in the world. The impulse for reform is now established, and needs to be managed. For India to start the next era of reform, it needs to let the "creative destruction of capitalism" work.

² Joydeep Mukherji, Standard and Poor's Ratings Group. Views expressed in this paper are his own and do not reflect those of his firm.

Rafiq Dossani³ analyzed the long-term growth prospects of certain sectors of the Indian economy—agriculture, energy, and telecom and information technology (IT)—comparing them unfavorably to growth trends in China. The power and telecom sectors both suffer from a lack of reform to ensure fair pricing. Although the IT sector is flourishing, problems in telecom and power are long-term constraints to growth.

Governance is key to India's future economic growth. India has already reached the limit of its growth from natural resources and needs good institutions to nurture its human capital. Sustained, accelerated growth cannot take place without a significant improvement in the integrity and effectiveness of the governmental, financial, and other institutions on which the economy depends. This includes the state governments, the interface between the center and the states (e.g., on investment and environmental regulation), the State Electricity Boards, and the full range of financial institutions (some of them still in the public sector). A successful reform program would leave India's institutions more flexible and the economy as well as the political system more decentralized. This kind of reform requires massive changes in the habits and expectations of millions of people around the country.

- **Foreign Policy Transition:** In the past few years, India's foreign policy has moved away from its ideologically grounded Nehruvian roots, and sought to broaden its ties with the rest of the world. Economic issues loom larger, reflecting India's faster growth and reliance on global, market-based economic linkages. Nonalignment has lost much of its original rationale; smaller and more selective fora for leadership in the developing world have increased in prominence. India pays greater heed to ties with the Middle East and the rest of Asia because of their contributions to its energy supply and international economic posture.

India's foreign policy rests on a strong consensus that India must remain an autonomous actor, and that it prefers a multipolar world political and security structure. Where leadership among the nonaligned once was the principal means of gaining international status, India now seeks a seat at the high table, the United Nations Security Council and the "nuclear club," with China illustrating the standing India wants. India's preoccupation with Pakistan remains, as does its desire for unchallenged dominance in South Asia. Far more than in earlier years, however, India finds South Asia too small a stage, and seeks a major role in a larger region.

The United States has emerged as India's key extraregional relationship. Economic ties—growing trade and investment, and especially the intricate linkages between the Indian and U.S. information technology industries—are the foundation of the relationship. A large and active community of nonresident Indians and Indian-Americans in the United States has given

³ Rafiq Dossani, Stanford University.

India a new prominence in U.S. life and an effective lobby in the U.S. Congress. Both countries acknowledge a growing overlap in their strategic interests in the Middle East, Central Asia, and increasingly Southeast Asia, although India has traditionally been at best ambivalent about the U.S. military presence in Asia. Since September 11, both countries also have a renewed interest in a stable Pakistan, and as C. Raja Mohan⁴ argued, diplomatic U.S. mediation could help to reduce violence across the Line of Control (LOC) and kick-start a bilateral process. Both oppose having a single power dominate Asia, and both are carefully watching a rising China.

Russia's Cold War role in the world is gone, and with it Russia's powerful hold on India's foreign policy. The India-Russia relationship remains important, however. Russia is still India's largest foreign source of military supply, and likely to remain so at least for the next decade. Russia is a significant trading partner, and if its domestic economy settles down, trade is also likely to grow. But perhaps its greatest importance for Indian policymakers, however, is as a potential power center in the multipolar world Indians would prefer to see develop in the next decade or two. A revived Russia is unlikely to passively accept continued U.S. dominance.

Indo-Chinese relations have changed less with the end of the Cold War. The two countries share the longest disputed border in the world and fought a war over it in 1962. India's loss in that war left a chronic sense of insecurity vis-à-vis China. More recently, Indians resent the discrepancy in the way the world regards India's and China's nuclear programs. Their rivalry has dominated a relationship that in theory was supposed to be based on the Panchsheel doctrine of peaceful coexistence enunciated by the two countries in 1965. Their position as two rising states next to one another is likely to sustain this rivalry despite both countries' efforts to manage their disputes peacefully. Venu Rajamony⁵ pointed out that there has been a major Chinese reassessment of India since 1998, and China recognizes that it needs to engage rather than isolate India. Indo-Chinese relations are much more sophisticated than in the past, and although significant areas of conflict will remain, the outlook is for the two to deal with these maturely.

The hardy perennial in India's foreign relations is its unresolved dispute with Pakistan over Kashmir. The "Pakistan Trap" is one of the principal impediments to India's fulfilling its ambitions for a higher profile international role. For both countries, Kashmir embodies basic questions of identity, symbolizing for Pakistan the Muslim majority area that did not join its Muslim homeland, and for India the demonstration of its secular character. Besides this central issue, the two countries dispute a laundry list of "normalization problems"—visas, trade problems, and the like. These specific problems

are magnified by Pakistan's and India's asymmetrical views of their place in the world. With nuclear weapons in both countries, the volatility of Indo-Pakistani relations takes on greater international importance. Escaping the "trap" will require strong leadership in both countries. The big danger for India remains the institutional weakness and threat of fragmentation in Pakistan. Ambassador Howard Schaffer⁶ argued that September 11 could be an opportunity for India and Pakistan. U.S. simultaneous relations with both countries are better than they have ever been, Musharraf is attempting a serious clampdown on "jihadi" elements, and international consensus is strongly against Pakistan supporting cross-border violence in Kashmir. The danger is that Musharraf might use Kashmir as a "safety valve" to show that his commitment to the cause to



Kashmiri is firm and unite public opinion behind him.

• **Security Transition:** India's emergence out of the nuclear closet in 1998 changed its strategic status in the region, and its role in the eyes of the world. At the same time, India's rapid economic growth and expanding military strength during the past decade point toward an increasingly prominent role for India in the overall Asian security scene. They also raise the possibility of increased regional interest in India's own security problems, of increasing Indian concern about energy supplies and the safety of its sea-lanes, and of heightened rivalry between India and China. These are major changes in the post-Cold War security picture, and will affect the political environment in which U.S. policy is made as well as U.S. diplomatic options for dealing with one of the world's most dangerous regions.

Border defense is likely to remain India's number one security imperative. One plausible strategic goal for India is to acquire the ability to prevail in a short conflict with Pakistan or China with the forces regularly in place on those borders. The importance of time is much greater than in the past, especially on the Pakistan front. The threshold of nuclear use for Pakistan will be set by its fears for its future integrity. An extended conflict fought on Pakistani territory increases the risk of a nuclear retaliation. If a war were fought on Indian territory, the political pressures on India to take decisive action of the sort that might risk nuclear retaliation would be immense. The restraint observed during the Kargil fighting in

⁴⁴ C. Raja Mohan, Strategic Affairs Editor, The Hindu.

⁵ Venu Rajamony, Indian Foreign Service officer and Visiting Fellow, CSIS.

Views expressed in this paper are his own and do not reflect Indian government policy.

⁶ Howard B. Schaffer, Georgetown University.

1999 will be harder to achieve in future crises, and the availability of other tools besides land invasion may be critical (e.g., air superiority).

Internal security will also remain a key priority. How much it weighs on the military will reflect in large part the political skill of the Indian government in dealing with insurgencies in Kashmir and the northeast. Successful political integration policies would also reduce the risk of terrorism, and would release military resources for the more conventional military tasks, with tremendous gains for India's military effectiveness. Problems like international organized crime and smuggling, on the other hand, are less responsive to political initiatives and more dependent on India's governance and law enforcement.

Indian strategic thinkers and political leaders are increasingly conscious of their need for increased and reliable energy supplies, and tend now to speak of energy as a major security issue. The principal energy issue for the next decade will be the management of the power and energy system; identifying new supplies will become more important in later years. The energy issue adds intensity to the discussion of a more robust Indian defense of its "security frontiers," which encompass virtually the entire Indian Ocean region. Both of these goals suggest an increasing focus on power projection capability in the future. Naval and air force capabilities are the key to this task. Commodore Uday Bhaskar⁷ noted that Indo-U.S. security cooperation is likely to focus on the Indian Ocean in the near future, and Indian Ocean security is receiving renewed attention since September 11 because the United States is now present in the Indian Ocean, and the use of merchant ships as instruments of terror is a cause of concern.

The effectiveness of India's defense will also depend on the management of India's military. Morale problems stemming from the focus on internal security and a shortage of officers are not in the first instance budget problems. Also important are the choices India makes with respect to training, exercises, and indeed the place of force in its overall security policy. In the short term, there is probably a tradeoff between economic growth and defense spending, given the importance of India's disciplining its aggregate budget deficit. In the medium and long term, economic growth will make defense spending easier to sustain.

A broad consensus favors expanding India's nuclear arsenal and its missile program. How far and how fast will depend in part on technical factors: the stock of fissile material and success in developing delivery systems. It will also depend on the scale of Chinese military modernization; on Pakistan's policy and the Chinese role in Pakistan's programs; on India's overall relations with Pakistan, China, and to a lesser extent the United States; and on whether India perceives that there is a serious payoff to restraint. It will also depend on funding and

on access to technology, especially from Russia, France, and perhaps Israel.

The future of India's nuclear program will also depend on changes within the international nonproliferation regime. The view on arms control has changed to a more pragmatic perspective in the last 10 years, and as Rakesh Sood⁸ pointed out, the very fact that the term "arms control" is now being used rather than "arms limitation" is an indication of this shift. A number of countries, both within the region and outside, now talk about security issues in a number of fora. September 11 will probably oblige the Bush administration to review the unilateralism of its security policy. George Perkovich⁹ talked about the recent lifting of the 1998 sanctions against India and Pakistan, and mentioned that although this will not hurt the nonproliferation regime per se, the sale of items like nuclear reactors to these countries will. He also argued that the need for cooperation to stop the spread of nuclear technology and materials has never been greater, while the nonproliferation regime itself is at a standstill. He suggested that the eight states that have nuclear weapons should create an informal forum to really talk about the stewardship of nuclear weapons.



These transitions reflect the driving forces behind the three scenarios this study has developed in its effort to think about India's potential futures. The three scenarios are:

- **"Well-Fed Tiger":** This scenario is characterized by high economic growth, averaging 7–8 percent; political continuity, with a hard-line BJP government staying in power and increased centralization; high defense expenditures, focusing on missile development and power projection; and a foreign policy that is nationalist in the neighborhood and pragmatic outside the region, with the Indo-U.S. economic and security relationship intensifying.

- **"Hungry Tiger":** This scenario is characterized by mediocre economic growth, averaging 4–5 percent; a change in the governing political party within the same party structure, with a weak Congress Party coming to power with a fractious coalition; high defense expenditures focusing on a few showy items; and a nationalist foreign policy. Relations with Pakistan deteriorate, and those with the United States atrophy.

- **"The Tiger Regroups":** This scenario is the most speculative of the three, and unlike the other two, is driven by changes in the political structure rather than economic growth. There is a realignment of political parties and the quality of

⁸ Rakesh Sood, Ambassador for Disarmament, Permanent Mission of India, Geneva. Views expressed in this paper are his own and do not reflect Indian government policy.

⁹ George Perkovich, W. Alton Jones Foundation.

⁷ Commodore Uday Bhaskar, IDSA.

the emerging leadership is key. This scenario, while turbulent in the short-term, could permit a breakthrough in Indo-Pakistani relations, greater decentralization of center-state relations, and a dialogue in Kashmir.

Rising India Game and Policy Conclusions:

These scenarios formed the basis of a two-day long simulation exercise focusing on a hypothetical India-Pakistan crisis set in 2009. The game was first played with the “Well-Fed Tiger” scenario, and participants were then asked to consider how the game results might have differed under the “Hungry Tiger” scenario, as well as under a set of external assumptions about China, Russia and the United States. Some of our findings follow.

The limitations of crisis diplomacy: The game illustrated the extreme difficulty of dealing with long-term issues in a crisis setting. This seemed to be particularly a problem for the United States, because it has complex objectives. In a crisis, its objectives were simplified: it wanted to stop the fighting. Once the crisis had passed, however, it had to deal with the full complexity of the situation. The countries that had limited, tightly focused agendas—in this exercise, Russia—were far more successful in achieving them, though they ultimately had little impact on shaping the geostrategic picture.

Best and worst outcomes: The best outcome for the United States was one in which India did well economically, conducted an outward-looking foreign policy, and sought to de-emphasize its problematic relations with Pakistan. Strong U.S.-Chinese relations and improving Indian relations with as many as possible of its neighbors to the east went along with this.

The worst outcome for the United States involved slow Indian economic growth (the “Hungry Tiger” scenario), weakening government coalitions, a sharply nationalistic foreign policy, difficult relations with the United States and China, and little opportunity for economic interaction with Southeast Asia. This is the setting most conducive to reckless behavior by Pakistan, which could easily overestimate its ability to advance its cause in Kashmir and risk a nuclear escalation. A disintegrating Pakistan would be a particularly dangerous addition to this mix, as it would decrease the ability of the Pakistani government to deliver on a more peaceful policy.

Trends in Indo-Pakistani relations: The exercise made clear—to no one’s surprise—how profoundly the Indo-Pakistani dispute imprisons those two countries in the past, and imprisons U.S. policy options as well.

Importance of extraregional relationships: Ties among the extraregional powers—China, Russia, and the United States—and their relations with the South Asian countries had a larger impact on the crisis than had been anticipated.

- Weak U.S.-Chinese relations make the United States unwilling and perhaps unable to enlist China in a constructive role. South Asia becomes an area where China can “punish” the United States for disagreements in other areas (e.g., national missile defense, Taiwan).
- Weak U.S.-Indian relations are likely to drive India back to the Cold War pattern of aligning itself with Russia.
- A reviving Russia would have huge opportunities for diplomatic action in South Asia. Whether it used them constructively would depend on the extent to which anti-U.S. resentment was driving Russia’s foreign policy.
- Sino-Indian relations are likely to be ambivalent under most scenarios. There is a natural rivalry, but neither country wants to spark a crisis. The issues most likely to drive China into an anti-India posture are Indian deployment of long-range missiles and trouble in Tibet. The issues most likely to harden India’s China policy are continued Chinese support for Pakistan’s nuclear programs and meddling in India’s northeast.
- Sino-Pakistani relations are likely to be fairly strong under most assumptions, but the factors most likely to drive them apart are the rise of Islamic fundamentalism in Xinjiang and reckless Pakistani behavior that risks nuclear war.

Who benefits from violence? The Kashmiris, who would be marginalized in an Indo-Pakistani crisis, would probably see violence as the only way to make their presence felt. Pakistan believes that violence also keeps its interests on the international radar screen, but our observation was that because of Pakistan’s track record, violence is more likely to benefit India’s interests.

Weak periphery of big states: For India, this principally means the northeast; for China, Xinjiang and Tibet. This means, among other things, that the continuing chaos in Afghanistan could have repercussions on Chinese relations with the Subcontinent.

Impact of economics: India’s economic development is a powerful driver of India’s overall situation. High growth encourages greater stability of its government and stronger relations with the United States, Southeast Asia, and perhaps the major Middle Eastern countries. Although they shape the environment, however, economic factors have little direct impact in the heat of a crisis.

Energy: Despite China and India being the two fastest-growing energy markets in the next decade or two, energy supply per se figured almost not at all in the pattern of relationships as we analyzed them. Rather, the big issue for both India and China is energy management, which has a huge impact on their respective economic growth. Within South Asia, energy trade has tremendous potential benefits, but our forecasts make clear that the political obstacles will be hard to overcome. Nonetheless, the benefits are great enough to make this a good issue to work on.

Terrorism: There was a great deal of talk about cooperation against terrorism. However, in viewing the dynamics of our projections, the troublesome issue was not really terrorism. In Indo-Pakistani relations, the problem was violence, whether directed against military or noncombatant targets. Within Pakistan, the problem was the weakness of the state and the challenge to its authority, regardless of whether the militants in question were engaged in terrorism.

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