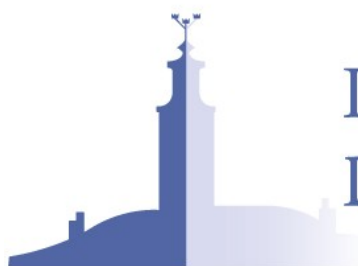


India and its Neighbors: Development Scenarios 2009–2029

Nicklas Norling

ASIA PAPER
September 2009



Institute for Security &
Development Policy

India and its Neighbors: Development Scenarios 2009–2029

Nicklas Norling

“India and Its Neighbors: Development Scenarios 2009–2029” is an *Asia Paper* published by the Institute for Security and Development Policy. The *Asia Papers Series* is the Occasional Paper series of the Institute’s Asia Program, and addresses topical and timely subjects. The Institute is based in Stockholm, Sweden, and cooperates closely with research centers worldwide. Through its Silk Road Studies Program, the Institute runs a joint Transatlantic Research and Policy Center with the Central Asia-Caucasus Institute of Johns Hopkins University’s School of Advanced International Studies. The Institute is firmly established as a leading research and policy center, serving a large and diverse community of analysts, scholars, policy-watchers, business leaders, and journalists. It is at the forefront of research on issues of conflict, security, and development. Through its applied research, publications, research cooperation, public lectures, and seminars, it functions as a focal point for academic, policy, and public discussion.

© Institute for Security and Development Policy, 2009

ISBN: 978-91-85937-63-9

Printed in Singapore

Distributed in Europe by:

Institute for Security and Development Policy
Västra Finnbodavägen 2, 131 30 Stockholm-Nacka, Sweden
Tel. +46-841056953; Fax. +46-86403370
Email: info@isd.eu

Distributed in North America by:

The Central Asia-Caucasus Institute
Paul H. Nitze School of Advanced International Studies
1619 Massachusetts Ave. NW, Washington, D.C. 20036
Tel. +1-202-663-7723; Fax. +1-202-663-7785
E-mail: caci2@jhuadig.admin.jhu.edu

Editorial correspondence should be addressed to Dr. Bert Edström at: bedstrom@isd.eu

This report is designed to give a greater understanding of the future and offers an overview of developments in India. It has taken a longer-term focus than most other studies, with projections ranging up to the year 2029. This of course impacts the degree to which anything can be said with certainty, and consequently some leaps of faith are inevitable. In thus doing, the book creates scenarios of development outcomes in key issues that range from the probable to the possible. Any conclusions drawn from this study are therefore tentative and are aimed at facilitating long-term thinking rather than providing cast-iron forecasts.

The studies were ordered by the Swedish Armed Forces HQ, Supreme Commanders Staff (Plans & Policy) to be used within the framework for the Armed Forces Long Term Strategic Trends Analysis. No views in this study can be attributed to the Swedish Armed Forces HQ or staff associated with it, as the authors are solely responsible for the analysis and content. On the contrary, ISDP was given full freedom in writing this report and the HQ was at no stage involved beyond that of being a generous and innovative sponsor.

Table of Contents

1. Introduction.....	7
1.1 Evolution since Partition in 1947	10
2. Domestic Developments and Trends	13
2.1 Economic and Demographic Development.....	13
2.2 Energy Security	16
2.3 Military Procurement.....	19
2.4 Political Violence and National Unity	21
2.5 Politics and Governance	23
2.6 Conclusions	25
3. The Changing Geopolitics of India's External Relations.....	27
3.1 The United States.....	28
3.2 China.....	30
3.3 Pakistan	31
3.4 Iran.....	32
3.5 Russia and Central Asia.....	34
3.6 Southeast Asia	35
3.7 Conclusions	36
4. Three Scenarios.....	37
4.1 Probable.....	37
4.2 Plausible	39
4.3 Possible.....	40
4.4 Implications for Sweden	41

1. Introduction

A snapshot of India in 2009 would undoubtedly portray a country grappling with many severe challenges. With a GDP per capita income barely above \$1000, India ranks among the 50 poorest countries in the world. Socialist policies and sluggish growth rates from 1947 to 1990 did much to impede India's potentials and the skills of its population. The end of the Cold War and toning down of ideology-driven policies combined with India's embrace of globalization broke this harmful pattern. In consequence, over the past two decades India's per capita GDP has more than doubled. Some optimistic assessments even predict that if India can maintain current growth levels, albeit unlikely, it will reach a living standard equaling that of the United States in only 50 years time. India's external policies have undergone a similar shift. The identity-based foreign policy that defined India at partition has gradually been replaced by one driven by economic concerns. Grasping these long-run changes is important in order to appreciate where India is heading. How did we reach this point? And what are the likely paths from here?

This report aims to provide an analysis of India's potential future trajectories during 2009-2029. It will base its arguments on both long-term evolutionary trends, the various strength of the driving forces, potential branching points shaping this region, as well as current domestic and international developments. Predicting developments two decades ahead is by its very nature arbitrary. In retrospect few would in the 1980s have predicted the collapse of the Soviet Union, the end of the bipolar world, and the vast implication this would have for India's foreign policy alignments and the ideology underpinning its domestic system of governance. Absent any straight lines to foresee India's future in the next decades, it is nonetheless safe to say that the shape of India today is the least likely shape of the country two decades ahead. Notwithstanding these uncertainties, this report identifies four fundamental drivers which are likely to affect this region throughout the next two decades.

1. The geopolitical importance of India's location. Few countries on earth could claim to share the three factors of being 1) ringed by nuclear powers, 2) situated in the world nexus for oil transport; and 3) bordered by three countries (Iran, Pakistan, and Afghanistan) under threat of state failure. The geopolitical importance of India's location is also set to increase exponentially within the next two decades as the worldwide demand growth in energy increasingly concentrates to Asia. Moreover, history tells that the three Islamic republics in its north are subject to wild swings and geopolitical competition – the stakes of which are heightened by the fact that one (or potentially two) of them are nuclear powers. A further destabilization of Pakistan, with a population five times larger than that of Afghanistan, is one potential branching point that could “reset” many of the positive developments in this region and return it to the geopolitical strife that defined it during the 1980s and 1990s.

2. Globalization and the end of the Cold War have attuned “strategic interests” with economic development. The insular socialist policies embraced by India, China, Iran and other regional powers during the Cold War have been gradually abandoned while the ideological element in both domestic and foreign policies largely has disappeared. Political survival is today dependent on economic development which, in turn, requires responsible demographic policies, reliable supplies of energy, a favorable investment climate, protection of economic interests beyond state borders, and the fostering of national unity in support of these efforts. Understanding the primacy of economic development in shaping “strategic interests” is therefore imperative. India's impressive growth rates in the past decade are today threatened by national disunity, a poorly performing energy sector, and a dilapidating infrastructure. Whether India is able to cope with these challenges is perceived to be one of the keys to its future trajectory in the next two decades.

3. South Asia will increasingly be integrated with surrounding regions in the next two decades. The South Asian subcontinent has throughout history been cut off from the rest of the continent by the mountain ranges of Pamir, Hindu Kush, Karakorum, Himalayas, and Rakhine, forming a half circle of natural barriers around South Asia from the Arabian Sea to the Bay

of Bengal. These millennia-old geographic obstacles are today being surmounted by modern transport technologies and expanding trading ties which are set to reshape the patterns of inter-state relations. India is building infrastructural and pipeline links with Iran, Southeast Asia, and has established a limited foothold in Central Asia. Whereas the post-Soviet Central Asian region used to be the exclusive domain of Russia, the Middle East dominated by the US, and Southeast Asia under Chinese tutelage, India is today asserting its presence in all three regions – albeit on an hitherto limited scale. China is driven by similar motives and has flooded the rest of the Inner Asian continent with energy equity investments, lavish spending on infrastructural links, and is increasingly pulling India's neighbors in "South Asia" into its orbit. Meanwhile, intra-regional trade in South Asia is among the world's lowest with only 5 percent of trade in South Asia being conducted intra-regionally. Thinking of South Asia as a coherent region and adjusting strategic planning thereafter is becoming increasingly misleading in view of the cross-regional dynamics in force.

4. The fate of India's secular state and societal harmony. India's fundamental national interest ever since independence has to a significant degree stemmed from within. Maintaining national unity among its religiously and linguistically diverse population has rightly been accorded priority in New Delhi. Its secular constitution has been the foremost tool in rallying the people's support. But this is now under threat from both Hindu nationalists and orthodox political Islam. That the secularist state can endure in face of these many pressures is by no means certain. The elections of 2004 confirmed that to sustain broad-based support, the secular Indian state and its political parties must heed the interests of vulnerable groups. This can only be accomplished by a clever foreign and domestic policy aimed at equitable economic development driven by foreign investments. Thus, the hitherto inward-looking character of India has, and will increasingly be, complemented by a more outward looking policy designed to preserve national unity.

1.1 Evolution since Partition in 1947

India's domestic transformation since independence can best be illustrated by four major shifts: 1) the social revolution, which displaced the upper castes with the lower castes in society and which has democratized the country; 2) the transformation from a one-party to a multiparty system; 3) introduction of economic reforms and market economy after 1991 which has led to high growth rates and integration with the global economy; and 4) India's secularism which has increasingly been challenged by Hindu nationalism, as manifested in the BJP party, as well as demands of Islamic Sharia law among some Muslim quarters. But despite recent flare-ups of extremism the strength of both currents has been mitigated on a national level by the greater support for centrist policies.¹ India certainly faces major challenges but its domestic trajectory since independence has arguably been overall positive, particularly from 1991 down to today.

The tectonic shift of India's domestic politics following the end of the Cold War is also reflected in shifting external relations. Whereas bipolarity was the ultimate arbiter of alignments prior to 1991, the post-Cold War world is defined by the upgrade of ties among the regional powers. Strategic partnerships are intentionally kept loose and open-ended to allow for contingencies but they are still a symbol of constructive bilateral links. India, for instance, has signed strategic partnerships with Russia, China, Japan, and the United States alike. Of these, however, the strategic partnership with the U.S. is probably more important than the rest combined.

If the collapse of the Soviet Union created a "grey zone" of geopolitical alignments and a flowering of interdependencies, September 11 triggered a common interest in fighting terrorism and extremism. Most notably, President Pervez Musharraf of Pakistan reversed the entire strategic doctrine of the Pakistani state – from one supporting radical and militant elements to one targeting them. India itself gradually realized that the Taliban's harboring of Al Qaeda in Afghanistan was a problem traceable to Pakistan and

¹ Lloyd Rudolph and Susanne Hoeber Rudolph, "Making Sense of India," *Global Asia*, Vol. 3, No. 1 (2008)

that the heart of the Pakistani problem, in turn, was traceable to the troublesome India-Pakistan relationship.²

India has thus gradually realized the potential costs of state failure in Pakistan and embarked upon a more constructive dialogue with Islamabad. Even if the road to a solution of the Kashmir conflict looks distant and likely will remain unresolved within the next decade, the emotionally-driven identity politics of the two has to some extent subsided. There are certainly many branching points which could derail this relationship in the next two decades, terminate the Composite Dialogue initiated in 2004, and, in the worst of cases, trigger a fifth war between them. But making the deterministic projection that the India-Pakistan relationship is bound to failure is to ignore that their ties overall are on their best footing since independence.

One explanatory factor for this positive evolution is that India and Pakistan in the 2000s have gone in the same direction. Both seek to promote economic growth, literacy, and absorption of modern technology. The middle classes of India and Pakistan have expanded in pace with the high growth rates of the 2000s which, in turn, has increased their stakes in the system and generated higher political participation. That India was under Muslim domination from the 11th to the 18th century will certainly continue to loom large in the long memories of the Indian people. So will the symbolism of that Pakistan was the world's first intentionally created Muslim state. But the opportunity cost of continued conflict has been gradually appreciated both in New Delhi and Islamabad, instilling hope that future tensions will be solved through peaceful means.

The victory of the Indian Congress Party and the United Progressive Alliance in the national parliamentary elections on May 14, 2009, secured a mandate for a continuation of the domestic and foreign policies pursued since 2004. The Congress Party's dependency on smaller left-wing and regional parties to form a majority will, however, continue to put breaks on the pace of economic liberalization and foreign policy alignments in the period up until the next elections in 2014. Thus, the outcome of the recent elec-

² See S. Frederick Starr, "A Regional Approach to Afghanistan and Its Neighbors," Silk Road Paper, Central Asia-Caucasus Institute, 2009.

tions suggests that India will continue to muddle through its economic reforms in the next five years albeit in a deeply unstable regional climate with many potential branching points. Having staked its incumbency on the U.S. nuclear agreement in its previous term, the re-election of the Congress Party has further consolidated the U.S.-India partnership and added additional momentum to it.

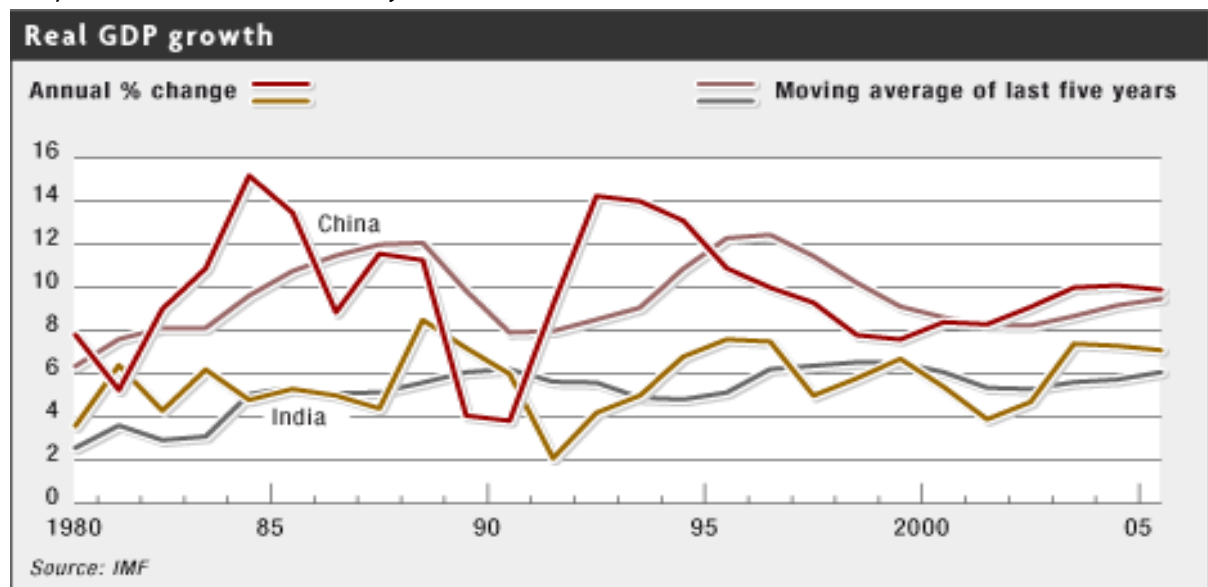
This report will begin with a discussion of domestic development and trends, focusing specifically on economic/demographic developments, energy security, military procurements, political violence, and domestic political developments. This will be followed by an analysis of India's external relations and potential future developments. Finally, the report will give three scenarios based on the preceding discussions and list some implications for Swedish strategic planning.

2. Domestic Developments and Trends

2.1 Economic and Demographic Development

Speaking of India as a rising great power today owe to the rapid growth rates the country has recorded in the past two decades. Maintaining high growth rates is the essential precondition determining whether India can assert a notable presence beyond its borders and preserve social stability. As illustrated in Graph 1 below, economic growth has recorded an incremental increase starting from the 1980s and up until the mid-2000s, with economic development seriously taking off in the early 1990s. During the late 2000s India's growth rates have averaged 7.5 percent even if the global financial crisis is forecasted to slump growth in 2009 to 5-6.5 percent.³ This is a significant break from the period 1940 to 1990 when India's poor economic performance led some observers to dub it the "Hindu rate of growth."

Graph 1: The GDP Growths of China and India, 1980-2005



³ Economist Intelligence Unit, India Database, www.eiu.com [accessed on May 14, 2009]

The USDA Economic Research Service projects India's economy to grow by 7.5 percent per year up until 2018.⁴ Goldman and Sachs predict that if India can sustain this growth, and foreign direct investment is improved, India's GDP per capita will quadruple from 2007 to 2020.⁵ There are four factors speaking in favor of that India will accomplish this feat.

First, India has escaped comparatively unscathed from the global financial crisis. This may act as a catapult for high growth rates in the next half-decade. Second, foreign direct investments have skyrocketed in the last four years. From 1990 to 2000 FDI averaged slightly over \$1.7 billion per annum. By 2002 these figures were raised to around \$5.6 billion to top \$6.5 billion in 2005. Between fiscal year 2006 and 2007, FDI tripled and amounted to close to \$20 billion in 2008.⁶ Third, India is undergoing a rapid and favorable demographic change with a strong labor pool and favorable dependency ratio. Already within the next decade, India will outnumber China's population of 1.3 billion.⁷ Fourth, the extent to which India can take advantage of its demographic dividend is dependent on both job creation and further liberalization of its foreign trade regime. Remarkable changes have also occurred in the latter respects. Until the early 1990s, India was a closed economy with extensive restrictions on trade. Since liberalization started in 1990 India's trade to GDP ratio has increased from 15 percent to reach 35 percent in 2005. While significant room for reforms remain, at least according to those still viewing India as a highly protectionist economy, this progress should be duly noted.

On the other hand, India's economic development is also contingent on whether New Delhi can meet its growing energy deficit, contain the sources

⁴ USDA Economic Research Service, "Agricultural Baseline Projections: Macroeconomic Assumptions, 2009-2018," available at [http://www.ers.usda.gov/Briefing/Base line/macro.htm](http://www.ers.usda.gov/Briefing/Base%20line/macro.htm) [accessed on May 29 2009]

⁵ Goldman and Sachs, "India's Rising Growth Potential," available at: <http://www2.goldmansachs.com/ideas/brics/book/BRIC-Chapter1.pdf> [accessed on May 29 2009]

⁶ "FDI Flows into India Cross \$20 Billion" *Rediff*, April 4 2008, <http://in.rediff.com/money/2008/apr/04fdi.htm> [accessed on May 29 2009]

⁷ India's population is expected to grow from around 1.2 billion in 2010 to roughly 1.4 billion in 2020 and to approach 1.6 billion by 2030.

of political violence, achieve political unity, implement further economic reforms, and invest in necessary infrastructure.

Why does India need to have all these components in place? Drawing parallels to China's development is useful. China's per capita GDP stood in 1989 at a little less than \$1000, measured in real terms, which approximate India's per capita GDP today. However, China has managed the feat of annual growth rates exceeding 9-10% in the past two decades by an aggressive pursuit of overseas energy assets to sustain this drive, a uniform political support behind economic policies, domestic stability, and large investments into infrastructural development.

Apart from domestic stability, India today has neither. The international performance of Indian energy companies are bleak and are not yet near China's assertiveness. Since 2000, China has invested more than \$40 billion overseas while India's investments, in comparison, are worth a mere \$3.5 billion.⁸ Violence continues to deter foreign investors while fragile coalition governments continue to be dependent on populist spending at the expense of meaningful economic reforms. Moreover, whereas China invests roughly 10 percent of GDP in infrastructure yearly, India has not invested more than 5 percent of GDP in recent years. Indian industry estimates that \$100-\$150 billion will be needed per year to sustain high growth rates or raise them.⁹

China has neither fought four wars with any of its neighbors. Some predictions in 2004 suggest that India and Pakistan could have achieved growth rates of around 10 percent and 7 percent respectively if there was no conflict between them, all other things being equal.¹⁰ For India, this would represent a GDP increase of close to three percent that year alone.

⁸ Jeremy Carl, Varun Rai, and David Victor, "Energy and India's Foreign Policy," Working Paper No. 75, Program on Energy and Sustainable Development, Stanford University, May 2008.

⁹ Teresita Schaffer, "Partnering With India," *NBR Analysis* (2009).

¹⁰ See Charu Lata Hogg, "India and Its Neighbors: Do Economic Interests have the Potential to Build Peace?" A Chatham House Report in Association with International Alert, October 2007.

India's economy has doubtlessly been performing at impressive levels the past half-decade. Yet the uncertainty surrounding the future development of the global economy coupled with the persistent domestic constraints on economic liberalization and the abovementioned factors suggest cautiousness as regards the growth rates of the coming decade. On balance, India's future economic performance is more likely to grow to a halt and remain at the 7 percent level in the next decade than accelerating further and reach the levels of China. Thus, Prime Minister Manmohan Singh's vision of Mumbai outperforming Shanghai as the Asian financial capital appears unlikely within the next two decades.

2.2 Energy Security

Obtaining reliable and cost-efficient sources of energy with well-functioning supply lines is a further precondition for India's economic progress. By 2029 India is projected to surpass both Japan and Russia's energy consumption, making it the third largest energy consumer in the world after the U.S. and China. If the Indian government is to meet its ambitious goal of retaining an average growth of 8 percent in the next quarter century, it will require a tripling of primary energy supply and quintupling of its electricity capacity.¹¹

That India will accomplish this looks increasingly unlikely given its hitherto poor results in covering the growing deficit. India's faltering domestic production, inadequate reforms of inefficient state-owned companies, and lack of competitiveness in acquiring equity stakes overseas all send warning signals. The failure to raise domestic production is best exemplified by the fact that in the past ten years, India's crude oil production has remained flat at around 36-38 MMT per year.¹²

In parallel, demand for oil has doubled to 2.9 million barrels per day in only a decade, and is estimated to reach approximately 7 mbd by 2030,

¹¹ Council on Foreign Relations, *India: Energy Backgrounder*, <http://www.cfr.org/region/282/india.html> [accessed on May 29 2009]

¹² Jeremy Carl, Varun Rai, and David Victor, "Energy and India's Foreign Policy," Working Paper No. 75, Program on Energy and Sustainable Development, Stanford University, May 2008.

representing an annual growth of 4 percent. Coal imports similarly are expected to increase by more than 200 percent up to 2019 while natural gas demand will increase more than two-fold up to 2020 and more than triple to 2030.¹³ Even if India's domestic natural gas production is expected to peak between 2020 and 2030, according to International Energy Agency forecasts,¹⁴ the import needs will make up almost 39 percent of total natural gas demand by 2020.¹⁵ This should be compared to the year of 2000 when India was self-sufficient in natural gas.

Attempts to attract foreign investors to India's domestic extraction have neither been successful. Political disunity behind these efforts, poor administrative capacity in government, and unattractive geological prospects deter foreign assistance in raising indigenous production. Difficulties have also been encountered by India's foreign policy apparatus whose commitments abroad look far from credible as a consequence of India's malfunctioning energy sector. As noted earlier, India's credentials look especially unattractive compared to the Chinese whose international equity investments dwarf those of India more than ten-fold. Added to this should be that the competition for energy supplies between India and China within the next twenty years is set to stiffen. From 2006 to 2029 worldwide energy consumption is estimated to increase by 45 percent, with half of this demand growth coming from India and China.

The stage for this competition will be global but the most intense maneuvering will occur in India's "near abroad", and particularly between China and India. The expansion of China into the almost untouched gas reserves of Burma, Turkmenistan, and Iran will intensify the geopolitical positioning in this region. It is highly unlikely that the vast fields of these countries will remain untouched in the next twenty years, both because of

¹³ Jeremy Carl, Varun Rai, and David Victor, "Energy and India's Foreign Policy," Working Paper No. 75, Program on Energy and Sustainable Development, Stanford University, May 2008.

¹⁴ U.S. Energy Information Administration, India; Country Analysis Briefs, March 2009, available at: <http://www.eia.doe.gov/emeu/cabs/India/pdf.pdf>

¹⁵ IAEE Estimates, see http://www.iaee.org/documents/washington/Peter_Kobos2.pdf

prospective political reforms in these countries as well as the global demand crunch. From a strictly geographical perspective, India seems to have the upper edge in the competition with China. In practice, however, Beijing is outmaneuvering New Delhi in all three countries. China's current construction of a 7000 kilometer pipeline, running from Turkmenistan via Xinjiang to terminate in Shanghai is perhaps the most palpable symbol of Beijing's determination. China's \$100 billion contract to explore Iran's Yadavaran oil field in 2004, and its recent acquisition of three giant offshore fields in Burma estimated to be worth \$37-\$52 billion, are further examples of its superiority.

Absent Beijing's fiscal wherewithal and political unity, New Delhi will be unable to present itself as an equally attractive long-term partner and will be further marginalized in the next decade. As Indian Prime Minister Manmohan Singh has acknowledged: "China is ahead of us in planning for its energy security - India can no longer be complacent."¹⁶ Continued instability in Pakistan and Afghanistan is also bound to obstruct New Delhi's plans to build pipelines to Turkmenistan and Iran, despite the potential transit gains and existing political support for both projects. If any of them is built, it will nonetheless act as a potential branching point which will install confidence in New Delhi to engage elsewhere.

But even if India is marginalized geopolitically across its land-frontiers, its two coasts give it opportunities to dominate the Indian Ocean and control the maritime energy corridors in the Arabian Sea and Bay of Bengal. The stakes, in terms of energy security, are also large. Seventy percent of the world's oil supplies currently transits the Indian Ocean. By 2020, this figure will be raised to 80 percent. The traffic will be particularly intense around India's shorelines since India will be responsible for a bulk of the global demand increase. Whereas around 50 oil tankers traversed Indian shores daily in 2008, this number is expected to range between 150 and 200

¹⁶ Chietigj Bajpae, "India, China locked in energy game" *Asia Times*, May 17, 2005, http://www.atimes.com/atimes/Asian_Economy/GC17Dk01.html

by 2020.¹⁷ Considering the stakes involved and the rapid development of blue-water navies in China, India, and other regional countries, the waterways around India will be of unprecedented strategic significance.¹⁸

2.3 Military Procurement

Ever since independence in 1947, India's attention has been primarily directed to protection of its land-frontier; this is today being complemented by an emphasis on naval capabilities. Unless India develops a strong navy in the next two decades it will be unable to protect its economic interests and energy corridors, and assert a primacy in the Indian Ocean. History also suggests that a country without a strong navy is unlikely to become a great power. This is even truer today when the share of sea-borne trade in energy and goods is larger than at any time in history. No less than 95 percent of India's trade is today sea-borne thus rendering defense of these interests of unprecedented importance. Protecting the oil flow from the Persian Gulf is an equally vital life-blood to sustain India's economy.

Partly because of this, India seeks to strengthen its sea power and to develop a blue-water navy. India's navy of 155 warships is already one of the world's largest and New Delhi expects to add three nuclear power submarines and three aircraft carriers to its arsenal by 2015. Moreover, India is predicted spend about \$40 billion on military modernization in the five-year period 2008-2013, of which the bulk will be allocated to the Indian Navy.¹⁹

Even if domination in the Indian Ocean is a rising priority, India's half-decade long conflict with Pakistan will continue to loom large in the think-

¹⁷ Ramtanu Maitra, "All At Sea in the Indian Ocean," *Asia Times Online*, January 22, 2004, http://www.atimes.com/atimes/South_Asia/FA22Df03.html [accessed on May 29, 2009]

¹⁸ For a recent assessment of these developments see, Robert D. Kaplan, "Center Stage for the 21st Century: Power Plays in the Indian Ocean," *Foreign Affairs*, Vol. 88, No. 2 (March/April 2009).

¹⁹ Anand Giridharadas, "India is Projecting its Military Power," *New York Times*, September 22 2008, http://www.nytimes.com/2008/09/22/world/asia/22iht-power.1.16364183.html?_r=1 [accessed on May 29, 2009]

ing of Indian defense planners. India currently enjoys a substantial military dominance over Pakistan, both conventional and in the nuclear balance, and India will seek to maintain this edge. Some warning signals have lately surfaced of an escalating nuclear arms race on the sub-continent. India is on its way to test a new thermonuclear warhead as the country continues to add an increasing number of aircrafts, missiles, and submarines that launch them. It is designing cruise-missiles to carry nuclear warheads and is seeking to equip its Agni ballistic missile with warheads and to deploy them on submarines. Meanwhile, its missile-defense capability is also slated for an upgrade in 2010.²⁰ That India will acquire a capacity of global reach for these weapons in the short term looks unlikely. India's failure to develop an intercontinental missile (Agni 5) in the past decade suggests that India's global capacity will be restrained in the foreseeable future.

These growing defense needs are today generating unprecedented budgetary pressures. India's current defense budget of around \$33 billion (which is a conservative estimate) has grown year-on-year since 2002, and is set to rise by 35 percent from 2009-2010, in spite of a slowdown in economic growth. If India is to achieve its great power ambitions it will have to keep up this pace. More specifically, India must sustain growth rates of at least 7-9 percent per annum in the next two decades to foot the bill incurred by the Army, Navy, and Air Force.²¹ Even if the lower figure appears realistic, anything beyond that should be considered less likely. Indeed, even if India will manage this feat it will be far from reaching China's spending levels of \$70 billion yearly. Additional resources will also need to be devoted to military intelligence and India's counter-terrorism capacities, especially considering the domestic turmoil which has spiked in the past two years.²²

²⁰ "Nuclear Aims by Pakistan, India Prompt U.S. Concern," *Washington Post*, May 28, 2009.

²¹ Ashley Tellis, "Future Fire: Challenges facing Indian defense policy in the new century". Transcript of a speech made at the India Today Conclave, new Delhi, March 13 2004.

²² Sumit Ganguly, "India in 2008: Domestic Turmoil and External Hopes," *Asian Survey*, Vol. 49, No. 1 (2009).

2.4 Political Violence and National Unity

The prospect of a sharp reduction in political violence looks unlikely given India's history. Few changes were seen in the pattern of violence during the first half-century of independence and any rapid change in this trend looks improbable in a short-term perspective. If anything, the rural insurgencies emerging in the 1970s only added an additional dimension to India's ubiquitous communal violence between primarily Hindus, Muslims, and Sikhs. The political violence, which spiked in the period 1972-1977 with the emergence of militant left-wing movements (e.g. the Naxalites) also persist down to today and is India's most serious security problem which keeps more than half of its military force constantly busy.

Since both of these violent currents only have grown stronger in the past couple of decades, in spite of rapid economic growth, they are unlikely to disappear any time soon. The sheer magnitude of the Naxalite insurgency, affecting almost a third of the country, (or about 172 of India's nearly 600 districts), has even led Prime Minister Manmohan Singh to identify it as "India's gravest internal security threat".²³ To quell this problem, India has pursued a two-pronged tactic consisting of both counterinsurgency measures and economic development. But the deep-rooted nature of these grievances, suggest that even more equitable economic distribution policies cannot alleviate this problem.

Poverty and alienation is everywhere in India's big cities and worsening. Kolkata and Mumbai are probably worst, but the entire west-central part is affected, and also the country-side - in spite of a generally improving economy, no improvement is being noticed by the poorest, and they are still very numerous. The violence in Jammu and Kashmir, which still is killing several persons every day, has made the line-of-armistice unsafe for decades and been the main cause for the Indian-Pakistani nuclear controversy, once almost bringing the two countries into armed conflict. Still this year some Indian politicians argue that the risk for war was imminent again, after the terror acts in Mumbai.

²³ "Militant Mire – Battling Insurgency in Northeast India," *Jane's Intelligence Review*, February 1, 2008.

On the other hand, the fact that India's problems so far mostly are internal in nature gives New Delhi potential to solve them by its own means. In contrast to its Muslim neighbors in the Gulf or in the north, Indian Muslims have been comparatively unreceptive to Islamist ideologies and external sources of fundamentalism.²⁴ Only rarely have they been involved in overseas radical movements and very few Indian Muslims are believed to have joined radical terrorist groups in the Gulf. They took no part in the Afghan mujahideen fighting the Soviet occupation while Kashmiri separatists never have sympathized with fundamentalist forces such as the Taliban movement. A recent trend is, however, that several important mullahs in central mosques recently have begun preaching radical Islam. That is an indication that discontent is having its effect among the Muslims also outside Jammu and Kashmir.

Still, the fact that the vast majority of India's Muslims supports secularism – and have found protection in secularism from being dominated in a Hindu-majority state – is a factor which deserves to be noted. Added to this should be that the rising middle classes accompanying rapid economic growth may, to lesser extent, put a break on violence. As more and more people perceive themselves to have a stake in the system, they will refrain from sympathizing with forces seeking to remove these privileges. At the same time, a failure of India's government to lower poverty rates may only exacerbate the gulf between a growing middle class and the restiveness of the poor. Poverty is felt worse, when being compared with richer people, and when jealousy is added to discontent, violence comes naturally. That is why Naxalism is enjoying such momentum.

Several branching points with potential to further fan political violence, in spite of high economic growth rates, also exist. A revitalization of Hindu nationalism is one such factor. The violence in Gujarat in 2002 proved how a local conflict can spur religious communalism on the national stage. A rise of Islamic radicalism in Bangladesh spilling over into the West Bengal or a Saudi patronage of Indian Madrasahs is another variable. Muslims ter-

²⁴ "India's Evolving Muslim Community," *Jane's Islamic Affairs Analyst*, December 1, 2007.

rorist cells have today established a foothold in Mumbai, Kerala, and the West Bengal while demands of Sharia are being voiced among some quarters. India's secularism which has defined it since independence is now under severe challenges. The shape of political violence in the next two decades will depend on how well the Indian government can meet this challenge. In particular, failure of the Indian government to integrate Muslims into elite structures²⁵ may further fan Hindu-Muslim strife. The recent national elections of 2009 gave the Congress Party a relatively strong position in parliament. Whether it takes opportunity of this mandate to integrate Muslims and pool resources to insurgent-prone areas will fundamentally shape India's future in the next decade.

2.5 Politics and Governance

India has since 1989 been ruled by weak coalition governments which have fractured the political system and prevented incumbent governments from implementing efficient policies. Simultaneously, the collective vote of the BJP party and the Congress Party has fallen. To capture a greater share of the votes both the Congress party and the BJP has both been moving towards the center, even if the former has been significantly more successful in these endeavors than the latter.

A second trend is the introduction of a tone of realism into India's domestic politics and external relations. Much of the Nehruvian idealism and ideological element that once defined India's politics have today subsided. This overhaul of the domestic system became particularly pronounced during the BJP-led government between 1999 and 2004. The Congress Party, which has been in power since then, has upheld this policy.

The Congress Party also learnt valuable lessons from BJP's defeat in the 2004 elections. Despite a favorable economic growth and slogans of a "Shining India", BJP did not manage to secure another term. Thus, BJP's defeat is

²⁵ Even if Muslims comprise 13.9 percent of the Indian population they continue to be grossly underrepresented in government and the national elite. Even compared to Dalits they are marginalized. For example, only 3.8 percent of Muslims possess university degrees compared to 4.3 percent among Dalits.

evidence of that economic development alone does not suffice to Indian voters but that more equitable policies also appeal.²⁶ The Congress Party noted these developments and has sought to appeal to the poor and put more emphasis on redistributive policies. Simultaneously, the BJP party has experienced a crisis since 2004 and scored poorly in the elections of 2009 as well.

Of all the problems facing India, the fractured and at times chaotic nature of its domestic politics is often singled out as one of the main impediment to economic and foreign policy change. In contrast to China which has been able to use its political unity behind its modernization effort, each successive Indian government has focused on battling domestic opponents rather than concentrating on meaningful policy change. This begs the fundamental question of whether democracy is an impediment to India's great power ambitions. Though this argument has some merits, it ignores the longer term aspects involved.

Indeed the fact that India's policies are adopted through the democratic process gives them greater legitimacy than in China, and provides them with the necessary robustness to buffer short-term disapproval. Whereas the Chinese leadership will have trouble withstanding popular discontent if the economy goes bust, India can use the legitimacy of its democratic system to weather such pressures. Moreover, even if India's coalition governments have had severe difficulties in getting economic policies through, once changes have been implemented and received parliamentary approval they tend to be more firmly anchored than in authoritarian states. From a longer term perspective then, one may argue that India possesses a far greater resilience in its great power ambitions than China.

Comparisons with the United States are useful in these respects. National unity grounded in a strong legitimacy of the constitution and the democratic system was a key explanatory factor for the U.S. rise to superpower status. The continued faith in the capitalist and democratic system, despite economic downturns or severe recessions, is what gave the country the

²⁶ For this argument see Baldev Raj nayar, "India in 2004," *Asian Survey*, Vol. 45, No. 1, (2005).

long-term mandate to develop a strong and unified state. Even if India is unlikely to even approach the position of the United States within this century, it nonetheless puts India on a track similar to that of Japan and other Asian democracies. Two decades after the end of the Cold War it is also gradually being realized that India's rise to great power status is dependent on national unity, pooling of resources to undeveloped areas, and in maintaining strong growth. Indian policy-makers have gradually realized that greater political unity is necessary if they are to achieve these goals. A bipartisan consensus today exists on many issues where none previously existed, for example in signing the strategic partnership with the United States.

2.6 Conclusions

The discussions above suggest six main conclusions:

- India is unlikely to achieve double-digit growth rates in the next decade. A dilapidating domestic infrastructure, chronic energy shortages, and failure to develop underdeveloped provinces of the country will put breaks on India's growth. The conflict with Pakistan also impedes growth with at least 1-2 percent per annum.
- India has failed to assert itself internationally in the acquisition of energy equity stakes. China has taken advantage of this and is about to monopolize much of the energy resources surrounding India and elsewhere.
- India's military is facing unprecedented defense needs. Not only will the Indian Ocean be the center-stage for naval competition globally in the next few decades but Pakistan and Afghanistan are today on the brink of state failure. Added to this should be a rise in domestic political violence and the need for the military to devote attention to internal problems. Unless India raises growth rates to 9 percent annually, it will not afford all these challenges and meet this unprecedented cost burden.
- Political violence will remain and there is no short-term remedy to this problem. Economic growth together with more equitable distri-

bution policies will mitigate grievances but not eliminate them. India's secularism is a bulwark against fundamentalism but radical currents may proliferate if Hindu-Muslim strife intensifies or if radical Islamic proselytizers get a stronger foothold in the country.

- In line with developments elsewhere in the democratic world, India's domestic political system is gravitating towards the center-field. Likewise, governments are no longer re-elected by upholding promises of economic growth alone but must heed the concerns of vulnerable groups. The anchoring of policies to the democratic process gives India the long-term legitimacy necessary to "rise" in the next century. Among the many assets required to become a great power, this is probably the least acknowledged but among the most important.

3. The Changing Geopolitics of India's External Relations

Throughout its history as a nation-state, India has strived to maintain strategic autonomy in its foreign policy while seeking to preserve a large role for itself in international affairs. These dual goals have been supported across the entire political spectrum, from left to right. Developments in the past two decades suggest that these goals are no longer reconcilable. While the capabilities of India to accomplish these goals certainly have increased, it cannot achieve great-power status without a strong ally. True, India today possesses nuclear arms, is one of the fastest growing economies in the world, and has a population which will be the world's largest within the next decade. But these capacities will not suffice when stronger forces in the region actively strive to prevent India from widening its presence, most notably China. The strategic partnership signed with the United States in 2005 served, in many ways, to fill this gap and as a balance to China's expansion. While India undoubtedly secured a larger role for itself internationally, it was forced to surrender sovereignty and foreign policy autonomy in other areas.

The assumption of this paper is that the actions of the United States, China, and Pakistan will act as the primary external forces affecting India's geopolitics in the next two decades. Why? Because the United States is the main partner which can assist India in its "rise" to great power status; China and Pakistan, in contrast, are the primary countries which can limit India's options and influence most. Conceived as such, the factors affecting the geopolitics of India can fairly be divided into "constants" (i.e. forces which are likely to be persistent) and "variables". Among the "constants" are the partnership with the United States as well as China's further expansion into the continent and India's vicinity. Events in Pakistan, Afghanistan, and Iran are significantly more uncertain and should be conceived as the main "variables" which could prevent India's engagement in the territories

to its north. This section will expound upon these arguments and begin by laying out the “constants” and then turn to the “variables”.

3.1 The United States

The resilience of the U.S.-India partnership is one of the main “external” branching points determining India’s future course. Both the U.S. and India are interested in containing China, keeping the Indian Ocean safe and secure, and to give the Central Asian states additional options than those presented by Russia and China. To balance the Chinese expansion, tackle Russia’s reemergence in post-Soviet space, and isolate Iran – the United States has since 2005 pursued a geopolitics aimed at integrating India with its northern neighbors in Central Asia, Pakistan, and Afghanistan and thereby reorient their allegiance to democratic India. The reorganization of the U.S. State Department in 2005 into a bureau of South and Central Asia is the primary manifestation of this.

There are many factors speaking in favor of that the U.S.-India strategic partnership will remain solid. On the U.S. side, there exists a bipartisan consensus among both Democrats and Republicans on the value of the U.S.-Indian alliance.²⁷ The U.S. has also staked a lot on this partnership. As stated by Undersecretary Nicolas Burns, “The U.S. goal is to help India become a major world power in the 21st century. We understand fully the implications, including military implications of that statement”.²⁸ Moreover, that the U.S. would surrender India as a primary strategic partner in Asia seems unlikely given the history of U.S. geopolitics in the wider Asian region. Maintaining a balance of power on this continent has formed an indispensable component of U.S. thinking for centuries -- from MacKinder through Kissinger. The lack of viable alternatives is a further reason why India is a paramount partner. The authoritarian slide of Russia combined with its rapidly shrinking power makes it an unlikely option for the United States in the next two decades. The U.S. is equally unlikely to afford China

²⁷ See in particular, R. Nicholas Burns, “America’s Strategic Opportunity with India,” *Foreign Affairs*, Vol. 86, No. 6 (2007).

²⁸ Baldev Raj Nayar, “India in 2005,” *Asian Survey*, Vol. 46, No. 1 (2006).

the opportunity to speed up the closing gap between them and will seek to balance it. India, in contrast, provides the unique combination of being democratic, a rising great power, and the primary country which can assist the U.S. in putting breaks on China's rise to super power status.

A similar consensus exists on the Indian side. Both the Congress Party and the BJP Party support the U.S.-Indian alliance. India's options are also fairly straightforward. It could either seek to pursue its great-power ambitions itself, strive for geopolitical influence alone, and counter China independently. Or, it could try to offset China's expansion and acquire a greater potential to becoming a notable force in the region by cooperating with the U.S. The latter option also includes the additional benefit of decreasing reliance on Russian arms supplies as well as bringing other actors on board in support of India's efforts. Former Japanese Prime Minister Mori Yoshiro, for example, has been quoted as saying that the U.S.-India partnership was imperative in shifting Japanese perceptions of India, that it is a key factor in explaining the growing relationship between India and Japan, and that it forms part of an emerging new security architecture of Asia.²⁹ That India would risk all these benefits appears increasingly unlikely. Bluntly, no partner on earth could help India achieve as many of its geopolitical, military, and economic ambitions as the United States.

The major potential branching point which could offset this partnership is a potential U.S. intervention in Iran.³⁰ Even this scenario is, however, not necessarily to the disadvantage of India's interests if the U.S. manages to install a U.S. friendly government in Tehran. Such a government would likely put breaks on China's engagements there in a similar way as Prime Minister Nouri-al Maliki's government has done in Iraq. This would also open for a stronger Indian engagement in Iran's many untouched gas and oil fields where it so far has played "second fiddle" to China.

²⁹ Madhuchanda Ghosh, "India and Japan's Growing Synergy" *Asian Survey*, Vol. 48, No. 2 (2008)

³⁰ Teresita Schaffer, "Partnering With India," *NBR Analysis* (2009), p. 201.

3.2 China

China is the most important country affecting the geopolitics of India next to the United States. On the one hand, China has emerged as an indispensable partner for India. Since the early 2000s the total trade volume between China and India has increased more than five-fold, making China the largest and most important trading partner of India. The countries have also increased political dialogue, opened trade border posts, and resumed talks on border disputes. On the other hand, China also represents the gravest military security threat to the country, next to a destabilization of Pakistan. China's geopolitical ambitions throughout the continent are also marginalizing and encircling India.

In only the past few years, China has invested billions of dollars into the Karakorum highway and the Gwadar port in Pakistan, built a \$7 billion pipeline from Kazakhstan to Xinjiang, and emerged as the Central Asian states perhaps most important economic partner. Most recently, China won a \$4 billion tender to develop the vast Aynak copper field, making it the far largest investments in the history of Afghanistan, while a gas pipeline from Turkmenistan also is well underway. Last year China became Iran's largest trading partner with a total trade volume valued at \$25 billion.

Likewise China has emerged as the most important trading partner of Bangladesh, surpassing India's economic ties with the country. The burgeoning Sino-Bangladeshi ties are also seen elsewhere. In return for the sale of 16 F-7 Chinese aircraft to Dhaka in 2006, Beijing was offered access to airfields and naval access to its Chitagong port – a port India has long sought itself. China has made similar multi-billion dollar investments into the Pakistani port of Sittwe near the Bangladesh border, Mergil on the Thai border, as well as Hainghyi Island in the Bay of Bengal. China does neither shroud its intentions behind these investments. Indeed, The Major General of PLA's Navy has explicitly iterated that: "they would extend operations into Indian Ocean to prevent India from dominating these waters".³¹

³¹ Lt Cdr, JM Gosalves, "The Indian Navy-A Perspective up to 2020", Unpublished Paper available at <http://www.bharat-rakshak.com/NAVY/History/2000s/Gosalves.pdf> Accessed on May 29 2009.

As a result of all of these investments, Chinese-sponsored highways and railroads along various routes are effectively “hemming in India” from all sides, including Central Asia, Southwest Asia, and Southeast Asia.³² In consequence, Indian military officials today perceive China to be a graver threat than Pakistan.³³ In the event of another Sino-Indian war these railways, roads, and ports will serve a Chinese military deployment well. Thus, even if China’s intentions with these investments and infrastructural expansion are purely “developmental”, they still present a strategic threat to India since they can be used in whatever way Beijing considers to be in its national interests. To prevent this erosion of influence, India has invested in naval staging points and listening stations in Madagascar and Mauritius. Indian-sponsored road and railroad links to Myanmar, Nepal, Iran, and Afghanistan have also been constructed or refurbished. Most notable among these is perhaps the Zaranj-Delaram highway connecting the Iranian border with Herat in Afghanistan. So far, however, China is horse-lengths ahead of India and will remain so as long as Pakistan blocks India’s access to the continental interiors.

3.3 Pakistan

Pakistan is the common denominator of most of India’s problems. The conflict with Pakistan does not only reduce growth rates but also prevents India from accessing a bulk of the world’s unexploited energy and mineral reserves in the Caspian Sea region and Central Asia. Worse, the India-Pakistan conflict is to a significant extent responsible for the explosive situation in Pakistan and Afghanistan today which risks spreading to India.

Most Indian policymakers have gradually appreciated this reality and strived to improve ties with Islamabad. Even if many gloomy scenarios tend to see the conflict between India and Pakistan as static, a number of factors are today speaking in favor of gradual improvement in this relation-

³² For the best assessment of this to date see, John Garver, “China’s Infrastructural Investments to Central Asia, South Asia, and Southeast Asia,” *China Quarterly* (2007).

³³ “India: China is Greater Threat than Pakistan,” Stratfor Situation Report, May 24, 2009 available at www.stratfor.com [accessed on May 29, 2009]

ship. Despite recent flare-ups, violence in Kashmir has overall subsided from the high levels of the 1990s. While a breakthrough in the composite dialogue initiated in 2004 is yet to be seen, this is partly related to the domestic constraints facing the leaders of each country rather than a genuine obstructionism preventing all forms of engagement. Confidence building measures between India and Pakistan across the Line of Control in Jammu and Kashmir have also increased, even though a serious stalemate has existed in the wake of the Mumbai train bombings in 2006 as well as the most recent terrorist attack in the same city. Most importantly, Pakistan is today targeting Taliban and Al Qaeda associated militants rather than appeasing them. The recent offensive in the Swat Valley is perhaps the best example of this policy shift which stands as the most surprising, and indeed positive development, over the past decade.

Moreover, whereas the primary driver of this conflict used to be identity-driven, this has changed in pace with the growing concerns of promoting economic growth.³⁴ Even if economics and the costs associated with the conflict so far have not played a major role in the dynamics of this conflict, this is becoming increasingly so. Trade between India and Pakistan has increased from \$161 million in 2001 to \$1 billion in 2006, and topped \$2.2 billion in 2008. The countries have also jointly reactivated the bilateral Joint Economic Commission and Joint Business Councils. The potential gains of a solution to this conflict are also becoming readily apparent to both partners, and especially to India.

3.4 Iran

The bilateral relations between Iran and India were strained throughout the Cold War period. In pace with growing energy consumption in India and Iran's need for partners to overcome its international isolation, the post-Cold War interests of Iran and India have gradually converged. Both also have an interest in limiting the influence of Pakistan in Afghanistan and

³⁴ See for example, Stephen Cohen "India and Pakistan: 'If You Don't Know Where You are Going, Any Road Will Take You There,'" in FOI Report FOIR-2683—SE, Swedish Dense Research Agency.

countering the Taliban. Moreover, despite their geographical proximity to post-Soviet Central Asia, both are still marginal players in this region and seek to cooperate to tackle the regional influence of Russia and China.

As a consequence of the conflict with Pakistan, India has used the alternative route via Iran to project influence in its north. Thus, India has assisted in developing the Iranian port of Chah Bahar by the Gulf of Oman as a competitor to the Gwadar Port in Pakistan. From Chah Bahar India can access Afghanistan and Central Asia via the Zaranj-Delaram road built by India, connecting the Iranian-Afghan border with the Afghan ring road.

Having the second largest natural gas reserves worldwide, Iran is increasingly being eyed as India's principal source of gas imports. The Iran-India natural gas pipeline, which has been on the drawing board for years, has also been accorded major importance for both countries. This is best exemplified by the large delegations accompanying their bilateral heads of states visits. In 2003, for example, a dazzling delegation of 70 Iranian officials visited India in conjunction with President Khatami's visit. India's trade with the Persian and Arab worlds is also booming with trade figures between Iran and India reaching as high as \$13 billion in 2007, up 80 percent from the previous year. Furthermore, the countries of the Persian Gulf today supplies more than 64 percent of India's oil imports while 4-5 million Indian expatriates are employed there.³⁵

The burgeoning ties between Iran and India have evoked significant concern in Washington. Recent trends suggest, however, that India will continue to pursue its interests in Iran in spite of the U.S. opposition and that they can continue to pursue the Iranian track with impunity. According to one observer, for instance, "New Delhi may have concluded that U.S. interest in India is sufficiently strong and that India is adequately important to Washington's Asia strategy that India can continue in this fashion without consequence."³⁶

³⁵ Teresita Schaffer, "Partnering With India," *NBR Analysis* (2009), 211.

³⁶ C. Christine Fair, "India and Iran: New Delhi's Balancing Act," *Washington Quarterly*, Vol. 30, No. 3 (2007).

3.5 Russia and Central Asia

The Soviet Union was India's primary partner during the Cold War and these firm ties have persisted since then. India is Russia's second largest export market for arms while India imports as much as 70 percent of its military hardware from there. India and Russia also signed a strategic partnership after Vladimir Putin came to power and Moscow will remain one of India's most important partners in the foreseeable future. However, India's ties with Russia are today diminishing – partly as a consequence of the lack of a direct transportation route from Russia to the Indian market. Russian arms sales remain important for India but increasing sales from alternative partners, such as Israel, and most importantly – the United States – will lower the importance of Russia in India's geopolitical calculus over the next two decades.

Influence in Central Asia is an additional factor in this equation. Geography alone suggests that resource-rich Central Asia is an attractive new frontier for India. New Delhi is only 3 hours away by plane from Almaty, Kazakhstan, while the distance to Moscow and Beijing is more than six hours. As the six additional nuclear power plants India currently is building are being finalized, Kazakhstan will emerge as the most proximate and strategic source of uranium.

Whether Russia will consent to an increasing Indian presence in Central Asia will unavoidably impact relations between the two. Russia has vigorously strived to reassert influence in Central Asia since Putin came to power which, in practice, has implied an ambition to limit the presence of all other powers there – including India. China has been able to encroach on Russia's "near abroad" by virtue of its economic strength, geographical proximity, and as a Russian "concession" in the overall Russo-Chinese rapprochement. As regards India, however, Russia today sees few reasons to allow a larger Indian presence there. This is especially so since India, in many ways, is the launching pad for the United States ambitions to "demonopolize" Russian primacy.

This said, India is by virtue of its cultural and historical ties as well as geographical proximity bound to be a persistent force in Central Asia. Indeed, India has even established a limited foothold in Tajikistan at the Aini

airbase of late and has pursued notable military exchanges with the very same country. In 2004, for instance, more Tajik military cadets were studying in India than Russia.³⁷ But so far India has been unable to exert an influence beyond Tajikistan and remains an overall peripheral player in this region. India's influence may certainly increase in the next decade as the Central Asian states develop more independent foreign policies and can use its non-Russian options as a bargaining chip against Moscow. But China as well as Russia have vested interests in preserving this space as its exclusive dominion, and will exert a significant pressure for things to remain this way.

3.6 Southeast Asia

Further south, India's "look east" policy has stressed development of relations with countries from Southeast Asia to Japan along the Rimland. The prospects for India's geopolitical influence here are in the short-term greater than the ones in the north. Pakistan does not block India's access to Southeast Asia while China does not enjoy the benefits of a Russian partner here with which it can strive for a condominium. Moreover, as in Central Asia, India provides a welcome balance for the regional countries against Chinese domination. At the same time, India has become increasingly frustrated in its efforts to assert influence even in a neighboring country like Burma. The India-Burma pipeline has, for instance, been languishing for a decade (like its equivalent to Turkmenistan). Sino-Burmese economic ties also remain significantly stronger than India-Burma ties. As India increasingly pursued the twin aims of stemming the insurgency in the northeast and pool resources to the region, it is nonetheless likely to pursue its interests in Burma more vigorously than it has in the past.³⁸

³⁷ Scott Moore, "Peril and Promise: A Survey of India's Strategic Relationship with Central Asia," *Central Asian Survey*, Vol. 26, No. 2, (June 2007), 282.

³⁸ For an exploration of this, see Renaud Egretau, "India's Ambitions in Burma," *Asian Survey*, Vol. 48, No. 6, (2008).

3.7 Conclusions

Four main conclusions can be derived from the above:

- The United States and China will be the “constants” which will define the geopolitics of the region in the next decades. Their activities will depend upon the variables – i.e. primarily developments in Iran, Pakistan, and post-Soviet Central Asia.
- Negative assessments of the India-Pakistan relationship continue to dominate thinking on this region. Only rarely is it acknowledged, however, that India-Pakistan relations are on their best footing since independence. Thus, an evolutionary perspective on this relationship portrays a radically different picture than what a snapshot would suggest. The fact that India and Pakistan today both fear a spread of Islamic radicalism – and are both targeting militants – is a major overlapping interest.
- Iran will remain an important partner for India and the U.S. will have difficulties preventing the complementarities that exist between these economies. Iran’s geography also renders it of major importance to India given that it currently presents the only route to the north by-passing Pakistani or Chinese territory.
- India’s ties with Russia will decrease over the next two decades as New Delhi diversifies arms imports to Israel and the United States. The extent of India’s ties with Central Asia is contingent upon the India-Pakistan relationship and how this will unfold.

4. Three Scenarios

4.1 Probable

Any discussion of India's domestic and external developments in the next two decades must ground this upon likely developments in the next decade. From there, further lines could be drawn in to the subsequent decade 2019-2029. The main assumption of all scenarios is that Pakistan will remain the key to India's development in the next decade. Based upon the arguments presented in this paper, the most probable scenario is a gradual improvement in India-Pakistan relations in the next decade. The new Army Chief in Pakistan, General Kayani, has proven to be a highly pragmatic force in the country – supportive of both Pakistan's democracy and of targeting militants by force. That Pakistan will splinter and "balkanize" and that the military will collapse in front of the Jihadist insurgency is a less likely scenario (see last year's report on Southwest Asia for some arguments qualifying this claim) given the cohesive nature of the Pakistani military. If this assumption will prove correct, and Pakistan will not spiral down into further violence, this paper expects India to continue "muddling through" in the next decade.

As regards domestic developments, India's economy is likely to demonstrate continually high growth rates of around 7 percent per annum. The main engine of this growth will be the foreign direct investments which currently are booming. Despite this factor, India is very unlikely to reach China's per capita GDP and export-driven growth levels in the next decade and unlikely to be there even within the next two decades. Moreover, given India's hitherto poor record in asserting itself internationally in competing for energy equity stakes, China will further "monopolize" many of the fields in India's vicinity; most notably so in Turkmenistan where it currently even is outmaneuvering Gazprom with demonstrable success.

Given the nature of the defense sector, and considering that the investments India currently is making will not come into effect in at least 5-10 years, India's priorities will evolve accordingly. The Navy will be given in-

creasing priority even if this will evolve with the nature of the threats posed. Political violence will remain a severe threat to India's domestic stability in spite of economic development and further resources will be pooled here. The Naxalite insurgency will be present the most severe threat, even if Islamic radicalism probably will root in India during the next five years as an effect of the current destabilization in Afghanistan and Pakistan.

The domestic political system is in a crucial phase of development, both with regards to external and internal policies. The Congress Party received a mandate for a continuation of its reform-oriented policies in the recent elections. It will therefore continue along this path. Notwithstanding, fragile coalition governments will continue to define India after 2014 considering how this, in many ways, is in-built in the pluralistic democratic system of the country. Further gravitation towards the centre-field is expected while reform of party organization also is anticipated. As India's middle-class grows, it will press for demands on a democratization of the still feudalistic traits of the Indian democracy. Rajiv Gandhi of the Congress Party has already demonstrated intent to challenge the heritage of his party by pushing for inclusion of previously marginalized forces. Indeed, he even made this a central element of the electoral platform in the recent elections of 2009. India's leadership is also likely to emulate China's pooling of resources to underdeveloped areas to a much greater extent than previously, primarily in the restive Northeast.

Drawing the lines for domestic developments from 2019 and forward is bound to be significantly more uncertain given the wild discontinues of history. Building on the abovementioned scenario, one may nonetheless expect India to follow in China's footsteps as regards economic policies. This will entail a stronger promotion of export-oriented growth, a more determined effort to assert itself in its vicinity through infrastructural connections, and a push to establish buffers along its borders. This will primarily be accomplished through a more assertive geopolitics and higher risk averseness.

Indeed, India's desire to expand its presence in the regions surrounding it, coupled with low-level of intraregional trade and burgeoning cross-regional dynamics, suggest that the South Asian box is becoming increasingly irrelevant as a concept for strategic thinking in the next two decades.

The natural boundaries protecting this continent are today slowly “collapsing” as a consequence of modern pipeline and transport technologies. The best indicator to how India’s neighborhood is being transformed, and how Indian policy-makers think about it, is perhaps to look at how the Indian Foreign Ministry has organized its own bureaus after the end of the Cold War. India’s Foreign Ministry no longer has a bureau defined along “South Asia” lines but a PAI bureau handling relations with Pakistan, Afghanistan, and Iran. Pakistan, similarly, has a bureau including Afghanistan, Iran, and the five post-Soviet Central Asian countries. In the next decade, an entirely new geopolitical region is about to form heeding little concern for Soviet-era boundaries. This region, which fairly could be dubbed “Inner Asia” will consist, in particular, of the five post-Soviet Central Asian republics, Pakistan, and Iran.

China, India, the United States, Russia, and to a lesser extent Europe, will vie for influence in this wider region. The alliance patterns will, if the hypothesis of this paper is correct, largely remain what they are today. The India-U.S. partnership is set to form a “north-south axis” to counter China’s and Russia’s designs for the region. India will continue to upgrade ties in various forms of partnerships with Russia as well as China -- and primarily as a consequence of economic interests -- although these will remain far more superficial than the U.S.-India alliance. Given that the world will remain unipolar for at least 50 more years, these alliance patterns will remain relatively firm – at least for the next decade or two. The dynamics of this new “geopolitics” will be manifested in two parallel developments. On the one hand, growing interdependencies in the form of trade, pipelines, investments etc will be seen. On the other hand, this will be accompanied by a more pernicious guarding of sovereignty with expanding militaries as a consequence.

4.2 Plausible

Further destabilization of Pakistan could, however, reset many of the abovementioned developments. The Taliban have already created a “corridor of insurgency” from southern Afghanistan into Pakistan’s Northwest Frontier Province and tribal areas. A further spread of this phenomenon coupled

with a pull-out of U.S. troops from Afghanistan would increasingly also put northern India as well as Muslim Central Asia at risk. In case this is happening within the next five years, the scenario above would effectively be nullified. Instead of expanding infrastructural links etc into Inner Asia, China, India, Iran, Russia and others would revert to protecting its borders rather than pursuing pro-active policies in the region. This could either evolve into the geopolitical strife that defined Afghanistan in the 1990s, albeit in a far-wider scale and now including Pakistan and the Ferghana Valley in Central Asia. Or, alternatively, it could spur a common concern of containing the threat. Of these developments, the former appears more likely given the history of this region. Domestic developments in India would suffer accordingly with a slowdown in economic growth and massive capital flight. The positive trajectory of India's domestic politics would also be offset with a return to ideology-driven policies and protectionism.

4.3 Possible

If, in contrast, U.S. and NATO succeed in Afghanistan and the Pakistani military manages to contain violence in the next five years, a radically different scenario presents itself. If these are coupled with improvement in India-Pakistan relations and, perhaps, even an acceptable "solution" to the conflict over Kashmir, an "accelerated version" of the geopolitics outlined in the first scenario is more likely. The only difference being that the struggle for the allegiance of "Inner Asia" will intensify as India will become a more present force. The synergy of the U.S.-India partnership and their "north-south geopolitics" would strengthen. This "peaceful" scenario is also guaranteed to spill over into a positive domestic development. The benefits of the U.S. partnership will become more apparent while growth levels likely would reach two-digits. If this scenario would hold for two decades, India will increasingly catch up with China although it is unlikely to reach its living standards – even with a significant Chinese economic slowdown. The many subjunctives of this scenario, i.e. the many *if's*, make it, however, a less likely development than any of the others.

4.4 Implications for Sweden

The most significant implication for Sweden is to recognize the emerging geopolitical reality of this region and India's role in shaping it. Like most other Western countries, Sweden still organizes its ministries dealing with external affairs along the former Soviet border. Despite the fact that nearly two decades have passed since the collapse of the USSR, the southern border of the Soviet Union still stands firm in much of the organizational thinking on this region. In all of the scenarios noted above, the integration of South and Central Asia (as well as Iran) is considered to be an inevitable phenomenon. The United States reorganized its State Department in 2005 to reflect this emerging reality. China's overland activities in this region heed equally little concern for the Soviet border. India is increasingly looking to Central Asia and is striving to improve ties with Islamabad to pursue these aims.

Sweden has troops in Afghanistan and has therefore a vested interest in improving India-Pakistan relations and the positive "north-south dynamics" into Central Asia that they may generate. A stronger influence of democratic India throughout the region would also have a far more positive influence on these countries than Russia and China and would, as such, accord with Swedish ambitions to promote democracy in the region. Judging by the rapidity with which the Soviet border has crumbled in the past two decades, it is unlikely to be of much relevance two decades from now. The Swedish defense would do well in recognizing this emerging reality, especially since the Swedish troops in northern Afghanistan are in the epicenter of these dynamics. At minimum, the Swedish Defense Ministry and Military Intelligence should create divisions monitoring these developments. A proactive decision of Sweden could also set a positive example for the European Union to reorganize its bureaus and organizational entities likewise.