

# India's Path to Power: Strategy in a World Adrift

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# Preface

*India's Path to Power: Strategy in a World Adrift* is the product of collective deliberation, debate and report writing involving a diverse and independent group of analysts and policymakers, namely: Yamini Aiyar, Sunil Khilnani, Prakash Menon, Shivshankar Menon, Nitin Pai, Srinath Raghavan, Ajit Ranade, and Shyam Saran. The group was convened in May 2020 and met at regular intervals for over a year, until September 2021. Several members of this group were involved in a similar exercise in 2012 that produced Non Alignment 2.0. Like the discussions that led to the publication of Non Alignment 2.0, these meetings were lively and full of argument and constructive critique. The report therefore, should not be seen as one with whose every line all members of the group would agree but as a document that we hope will prompt further discussion and elaboration. All members of the group fully endorse the basic principles and perspectives embodied in *India's Path to Power: Strategy in a World Adrift*. Indeed, we collectively wish to bring these principles to the attention of our fellow-citizens and to our political leaders, policymakers and opinion shapers, in order that we might arrive at a basic national consensus about India's strategic priorities and opportunities.

For the purposes of dissemination, this report will be hosted on the websites of Centre for Policy Research and The Takshashila Institution.

# Introduction:

## Aims and Purposes

It is often said that countries have no permanent friends or enemies, only permanent interests. Equally, it can be said that while countries have enduring objectives—the protection of their sovereignty and the well-being of their citizens—the strategies for achieving them need periodic rethinking and reformulation. The guiding premise of this report is that India's external and internal environments are now being shaped by tectonic shifts—incipient trends that require thinking afresh and calibrating India's strategy on a broad front. A new world needs new ideas. This report is an effort to focus our attentions on the need for concentrated strategic thought and debate about the hard choices that confront India in the decade ahead.

Some of the authors of this report were involved in a previous exercise—almost a decade ago—that produced *Non Alignment 2.0*. While many of the objectives and strategies presented in that document served India well, we believe that the changes in the world in the past few years require revisiting some of the assumptions and analysis in that document. The core strategic principles outlined in there remain relevant to India's continuing engagement with the world: the need to make independent judgments in international affairs while not being unduly influenced by ideas and policies emanating from elsewhere; the need to develop the capacity for independently securing India's interests without being excessively dependent on, or restrained by, the capabilities of other powers; and the need to create an equitable international order that not only reflects the shifting balance of aspiration and power, but also affords maximum space for India's development. Yet, the circumstances under which these objectives of strategic autonomy are being pursued undeniably have changed.

The guiding assumption of India's strategic thinking has been a distinctive conception of power. The foundational source of India's influence in the world is the power of its example. This rests on four pillars: domestic economic growth, social inclusion, political

democracy, and a broadly liberal constitutional order. If these integral pillars remain strong, there is no stopping India. At the turn of the 21st century, we took it for granted that India was progressing on all these fronts. The most significant change in the last decade or so is that we cannot take for granted the success of India's development model. India still has considerable strengths and often compares well with some of its peers. But the fundamental sources of India's development and international influence look increasingly precarious. We must confront this changed outlook fully and frankly. Nourishing the foundations of India's success requires a conscious political effort, and is a strategic imperative of the first order.

In the late 1990s, India's growth began to take off. This was in part, a result of economic reforms, and in part because of India's integration into the global economy. In the decade preceding the global financial crisis, India experienced an average annual growth rate of almost seven percent. This growth began to provide the building blocks for a more inclusive society. While India's record on social inclusion remained patchy, head-count poverty ratios dramatically declined in this decade. India started to make great strides in building infrastructure, leveraging technology at scale, and developing the sinews of the state.

Since the global financial crisis, however, the trend growth rate has been considerably lower and there has been a question mark on India's growth potential. Even on an optimistic reading, it is unclear if economic growth will be socially inclusive. To be sure, India is registering progress on several measures: falling fertility rates, decreased infant mortality, greater access to a range of services and goods such as sanitation and water, electricity and mobile phones. And yet, there are serious doubts about social mobility and inclusivity. Even in the heady days of eight percent growth, India's ability to invest in human capital and create enough good jobs was in question. While high growth had improved the state's ability to cater to the welfare needs of its citizens, it had not much

enhanced the capability of citizens to participate in economic growth via improved well being and quality employment. Over the past decade, this situation has worsened. Economic inequality has increased. Chronic challenges of health and education bulk larger. In the aftermath of the COVID-19 pandemic, these challenges are likely to exacerbate.

These questions about growth and social inclusion are also creating intellectual and policy uncertainty about India's development model. In particular, how should India conceive of its ties with the global economy? What does self-reliance mean in the third decade of the 21st century? Some of this discussion is warranted by the changing global economic order, by large-scale technological shifts, and by India's own evolving needs. Yet, it is important that we do not settle for facile, off-the-shelf solutions. This document aims at clarifying the underlying global trends and the choices India needs to make in this decade.

Even if issues related to growth and inclusion can be fixed, there is greater uncertainty about the state of the other two pillars: political democracy and a liberal constitutional order. The electoral success of the BJP has not only meant a change in the party system and the nature of political power, but has also brought about a transformation in India's constitutional order. There is concern that Indian democracy is moving steadily towards ethnic majoritarianism, polarization and divisiveness. India's vibrant electoral democracy appears to be morphing into a no-holds-barred contest for power, fuelled by a notoriously opaque system of election financing. Indian democracy seems less inclusive today than at any point in its history.

Then too, India's democracy is being dis-embedded from its founding constitutional norms. The majoritarian vision of democracy is increasingly accompanied by an autocratic conception of power. Institutional checks and balances enshrined in the constitution are largely inoperative. The parliament barely performs its deliberative functions; the judiciary is increasingly coy about protecting individual rights and freedoms; independent agencies bend to the whim of the executive; and the powers of the states in the federal polity are draining towards the central government. India risks bearing out the old adage

that the forms of free government can all too easily be combined with the ends of arbitrary government.

The cumulative consequences of these developments could be grim. The combination of low growth, limited inclusion, ethnic majoritarianism and political centralization will enmesh India in internal conflicts that would, at once sap its resources, and also undermine its international aspirations. At this crossroad, India has a choice. It can ignore the writing on the wall as so many scribbles from a bygone age. Or, it can take a sober and more analytical look at the deep, historical sources of prosperity, power and influence. In any event, we must understand that what can hold India back in the coming decade is India itself.

Meanwhile, the world around us is changing at remarkable speed. The two greatest powers, the United States and China are locked in a structural rivalry that will persist beyond this decade. It is tempting but profoundly misleading to see this as another Cold War. For one thing, China looms larger in the global economy than an autarkic Soviet Union ever did and the US-China economic relationship remains deep. For another, unlike the Cold War, the competition between the United States and China goes beyond geopolitics and military security, to encompass a host of arenas: global trade, investment and finance; manufacturing and supply chains; technological innovation and standards; global governance; and fundamental political values. Finally, and perhaps most importantly, we are not in a bipolar international order, where the role, interests and concerns of other significant powers is subordinated to the competition between the two great powers. Nor are we as yet in a classic multipolar order. Understanding the nature of this interregnum as well as the challenges and opportunities it holds will be crucial for India.

Globalization too is undergoing far-reaching changes. If the global financial crisis arrested the momentum of financial engineering and cross-border financial flows, the eventual response to the crisis in the West led to a surge in global liquidity and a restless search for better yields in world markets. It also cast into stark relief the extraordinary and growing inequality in the developed world, so thus triggering a political backlash against globalization. There was an upsurge

in narrow nationalism and parochial sentiments across the world and India has not been an exception. This trend was accelerated by technological changes such as in robotics and cloud computing, 3-D printing and artificial intelligence, that made manufacturing less dependent on cheap labour in the developing world and on-shoring a viable option in some industries. The upshot of it all was that the major developed economies sought to move away from global economic arrangements to regional ones of varying size and ambition.

One dimension of globalization that has actually deepened over the past decade is the cross-border flow of information and the rapid expansion of the use of digital platforms that span across national and regional borders as a consequence of the pandemic. Yet, as the major powers come to recognize the centrality of data and its analysis for their security and prosperity, the world wide web looks set to fragment. Globalization has been central to India's growth in the past and, whatever the pull of insularity, it is imperative to get the correct measure of the fundamental reconfiguration that it is currently undergoing.

These trends in geopolitics, globalization and technology predate the pandemic. Yet, in the post-pandemic world, these will not only persist but accelerate—alongside others that will be unleashed in the wake of COVID-19. The pandemic itself is a sombre warning of the ecological crises that lurk in the Anthropocene. Given the scale of the challenge that climate change poses for India, returning to business as usual is not an option. The latest 6th report of the Inter-governmental Panel on Climate Change has underscored the scale of the global climate emergency that confronts us but whose impact will be much more adverse for tropical countries like India. In the post-pandemic context, India will have to rethink some fundamental aspects of its development model. Paradoxically, the current trough in our growth story may provide an opportune moment for such reflection. The pandemic has also underscored the importance of international cooperation, if only by its absence, in gearing up for the epochal challenges ahead.

This report analyses these interlocking challenges and suggests a broad reorientation of India's external and internal policies over the next decade. The pursuit of strategic autonomy under these conditions will be ever more challenging. But we believe that it is ever more necessary. If India exercises sober political and strategic judgement, it can emerge more prosperous and influential in the years ahead. In this pursuit, however, India should not lose sight of its historic strengths—in fact, it must capitalize on them.

It is claimed that India now needs a new international identity—one that affirms itself as a unitary civilization and a state that is determined to draw on what it believes to be its own indigenous cultural and intellectual resources to cast off the lingering effects of the long encounter with colonialism. Such claims are doubly misplaced. For one thing, the conception of Indian civilization that informs this quest is deeply tintured with colonialist readings of the Indian past. For another, the Indian nationalist movement not only had a much more sophisticated grasp of the resources offered by India's past, but also the confidence to aver that India must be the site of an alternative universality. It is for us to realize that powerful inheritance, through the choices we make in the years ahead.

Rather than offering a pale imitation of China's claims to being a civilizational state, traumatized by colonialism, India should affirm the strength and resilience of its historic national identity. Indian nationalism sought not to flatten out diversity, but to find an enduring national strength through the creative articulation of myriad local identities as sites of deeply connected differences. It was also confidently internationalist. The ambition to stand for an alternative universality stemmed not from an airy idealism, but a clear-eyed reading of Indian history over the *longue durée*, and from a profound understanding of the importance of legitimacy as well as power. Hence, too, the emphasis on the hard-won power of India's example. That example could speak more powerfully to the world than the strenuous avowals of an authoritarian model of development. But, first, India will have to stand true to its own foundational values.

# Chapter 1

## The Global Context

The coronavirus pandemic is an inflection point in global politics. It will accelerate and intensify major changes that are already evident, while also unleashing new forces, and shuffling power equations. All of this is transforming the setting in which India strives to find its place in the emerging geopolitical landscape. The ongoing effort at mass vaccination is a welcome development, but it is unlikely to alter these trends. Despite the pervasive uncertainty, this period of geopolitical change holds opportunities for an emerging and aspiring country like India to advance its interests and enlarge its strategic footprint. There will be heightened risks that must be managed; there will be expanded opportunities that must be leveraged.

The pandemic is likely to impart further momentum to the ongoing shift of global economic and military power from the North America and Europe, to East Asia, South-East Asia, and South Asia. Despite recent setbacks countries in Asia have been relatively more successful in dealing with the pandemic, and its economic fallout, as compared to the United States and Europe. Asia will therefore remain the most dynamic part of the world economy. At the same time, the pandemic has heightened geopolitical sensitivities within Asia, thereby ensuring that the region will also remain the cockpit of geopolitical rivalries in the coming decade. Indeed, this decade may well determine which countries in the region take the pole position in the emerging constellation of power. The United States remains the most formidable economic and military power as well as the knowledge and innovation centre of the world, yet its relative power vis-a-vis other emerging nations is inexorably declining. This is accentuated by growing nativism in popular attitudes at home, which favours drawing down American international commitments. This is unlikely to be reversed—notwithstanding the Biden administration's avowals of American leadership. The chaotic withdrawal of U.S. and other international forces from Afghanistan following an unexpectedly rapid take-over of the country by the Taliban has dealt a severe blow to U.S. credibility which may, by default, benefit the interests of Pakistan, China and Russia. The

pursuit of Indian interests in Central Asia will become more challenging as Indian presence in Afghanistan is severely constrained if not eliminated altogether at least for the time being.

China, having successfully controlled the pandemic and demonstrating early signs of economic recovery, is likely to accumulate even greater economic and military power in the ensuing decade. Beijing's current posture suggests that it perceives, in the wake of the pandemic and now the U.S. withdrawal from Afghanistan, a window of opportunity to advance its regional and global power position. Then again, it is also facing a push-back—not only from the West but also from developing countries in Asia and Africa—owing to a widespread perception of its culpability in the outbreak of COVID-19, and its crude and aggressive posture in some international dealings. Be that as it may, China is likely to emerge as the leading economic power in this decade. Beijing will also reduce its military asymmetry with the United States, but is unlikely to close the gap in a significant fashion. In consequence, its room for manoeuvre, especially in the maritime space along its eastern seaboard, will remain constrained.

The confrontation between the United States and China is structural and will persist during the Biden presidency and beyond. The United States has explicitly marked China as the key competitor and challenger to its primacy. To that extent, India will be valued as a significant partner in maintaining a measure of balance in Asia—particularly in the maritime theatres. This strategic confrontation between the two most powerful countries does not, however, preclude phases of détente and cooperation on some global issues such as climate change. This will impinge on India's ability to leverage U.S.-China tensions, and the prospects of external balancing, to resist Chinese pressures.

While the prospects of Chinese hegemony in Asia appear slim, there is little doubt that its security profile in India's own neighbourhood will expand—unless New Delhi takes effective counter-measures. China's stakes in Pakistan have multiplied. The latter



is no longer just a low-risk, low-cost proxy for the containment of India. It has become an important component in China's global strategy. This is reflected in its flagship role in Beijing's ambitious Belt and Road Initiative (BRI). China's enhanced commitment to Pakistan through the China-Pakistan Economic Corridor (CPEC) raises the costs to India in confronting Pakistani hostility. So does the Taliban take-over of Afghanistan which at least for the foreseeable future, enhances the influence of Pakistan and China in India's neighbourhood. This is likely to worsen during this decade. We are witnessing a similar trend in India's other neighbours. Nepal's recent claim to a significant tract of India territory and other associated moves is related to a growing perception in the neighbourhood of a significantly altered balance of power in favour of China. We will need to anticipate similar trends in other smaller neighbours, whom China will embrace more tightly as India-China relations worsen. India's policy towards its sub-continental neighbourhood will need much greater focus and commitment to deal with this adverse trend.

The relative decline of the United States is not just because of the emergence of China as a great power, but also because there is a cluster of significant emerging powers in Asia and elsewhere. These include India, South Korea, Indonesia, and Vietnam in Asia; Nigeria and South Africa in Africa; and Brazil in Latin America. Besides, there are existing centres of power which continue to wield significant economic and military power. These include Japan and Australia in Asia, and Germany and France in Europe. Russia remains a powerful military power despite its diminishing economic profile. Even in its current state of fragmentation, the European Union is an influential international actor—one that has defied predictions of its obsolescence and even its demise. All this points to a secular diffusion of power in its different metrics, resulting in a less structured and ordered international system that is continually shifting its shape. This may best be understood as a world between orders: neither unipolar, as it was after the end of the Cold War, nor yet multipolar, though tending in that direction.

India will have to find its place in this world, where power is more distributed, as well as less structured. Strengthening and consolidating the incipient

tendency towards multipolarity should be a prime objective for India's foreign policy in this decade. This offers the best prospects for expanding India's strategic autonomy.

Two other pre-existing trends are being reinforced by the pandemic. Although it is a classic transnational crisis with a global dimension, States have responded to COVID-19 primarily through domestic policies. There has been little coordinated and collaborative international action, though it would have been the most logical and effective way of coping with the pandemic. Institutions of international governance, such as the World Health Organization and the United Nations, have been weak and under-resourced during the crisis. If COVID-19 is a harbinger of the looming crises of the Anthropocene, then existing institutions of global governance have shown themselves to be utterly unprepared for what lies ahead. Glaringly absent is international leadership that enjoys a measure of respect and credibility in coordinating response to a global crisis. This tension between the growing salience of transnational challenges, and continued resistance to multilateral solutions will be a key feature of the post-pandemic world.

India has a record of international activism and leadership in multilateral institutions despite its deficits in economic and military power. Will it be able to overcome the nationalist urgings that currently afflict it (as much as other major powers) and aspire to such a leadership role on the international stage? Can it create a coalition of other powers that may collectively provide such leadership? This will require a different narrative about India's international role from what is currently in vogue. However, India could fill a major gap in the emerging geopolitical landscape if it decides to embark on this road—while simultaneously enlarging its own space for manoeuvre.

As has been observed earlier the pandemic has also reinforced the widespread sentiment against globalisation—one that rose in the backwash of the global financial crisis of 2008. The current crisis has not only disrupted global supply chains but also underscored the acute vulnerabilities that stem from excessive dependence on particular sources for critical goods and intermediates. In so doing,

the pandemic has intensified the slowing—in some domains the reversal—of globalisation. At the same time, another dimension of globalisation is being reinforced: the digital domain, with cross-border interaction and exchanges growing in quantum leaps. The coming decade will see some on-shoring of strategic and critical production units or the putting in place of shorter, regional supply chains closer home with trusted partners. The just-in-time production processes, which globalisation spawned, may give way to the maintenance of minimal inventories and spare capacity. The risk premium will be set off against the loss of efficiency. India could benefit at the margins from the unscrambling and relocation of existing supply chains in Asia, but its ability to do so will depend on addressing long-standing challenges that have made it a less attractive destination for foreign investment in manufacturing as compared to other Asian countries such as Vietnam or Bangladesh.

Nevertheless, it would be incorrect and counterproductive for India to turn its back on globalisation and lock itself into an insular and protectionist economy. The quest for self-reliance and strategic autonomy should be equated not with autarky but with prosperity in a global economy. Countries that recognise the logic of globalisation and seek to stay ahead of the curve, despite current trends, will be better positioned to advance to the front ranks in the next decade and beyond.

We also need to underline that a more active regional and international role for India is incompatible with a position on the margins of the world economy. In particular, India will not play a credible political and security role in Asia while opting out of the Regional Comprehensive Economic Partnership. Not only should it rejoin the RCEP but also continue its longstanding quest for membership in the Asia-Pacific Economic Conference (APEC). India's own history demonstrates that integration with the global economy has at once enabled it to grow at a fast clip and enhanced its strategic options and diplomatic space. Instead of shrinking its economic footprint owing to concerns

about sectoral interests at home, India must strive for strategic autonomy stemming from competitiveness within a global economy.

Countries in Asia and elsewhere have a stake in India's emergence as a front ranking power. For this to endure, it will be critical to maintain a stable and sustainable multi-polar world order—an international system that will enable the peaceful emergence of other major powers. The United States may wish to maintain its erstwhile global primacy, but this appears unlikely. China may wish to succeed to similar dominance in Asia and thence to become a truly global superpower, but this too is unlikely in the increasingly congested and contested geopolitical arena that lies ahead. If there is one country which in terms of its size, population, economic potential, scientific and technological capabilities can match or even surpass China, it is India. It has a sense of itself as a civilisational entity just as China does, but is more cosmopolitan in its outlook than China is. Its success as a pluralist democracy has been a tremendous asset in gaining international legitimacy, with the influence and respect that follow.

A key challenge in this decade will be India's ability to retain its credibility as a significant countervailing power to China, and leveraging this to mobilise international support for its emergence as a major power. India's ability to sustain a liberal democratic polity at home will impact significantly on its external prospects. Even in a world dominated by geopolitical contestation, democratic values and human rights will retain their salience and significance—as evident from the current framing of the US-China competition. It is important that we acknowledge the perverse impact of domestic political and ideological factors that are driving our foreign policy. We have seen this in our relations with Pakistan and, to some extent, with Nepal and Bangladesh. This trend needs to be arrested and reversed. Political polarization and majoritarianism will lead to a more diminished India—one that may struggle to meet the challenges and opportunities that lie in the decade ahead.

# Chapter 2

## Between Orders

India faces difficult strategic choices in the post-pandemic world. Yet, the world matters ever more to India, as does India to the world. New Delhi has previously been adroit in the face of change. If non-alignment was a strategy to harness both sides of a bipolar Cold War world to India's advantage, then the embrace of globalisation and transformed relationships with the United States and China were its answer to the post-Cold War unipolar moment. The confused international order that followed the global financial crisis saw an omnidirectional Indian foreign policy.

But this is no longer as effective in the current conjuncture, which is marked by rapid geopolitical shifts, by evident Chinese assertiveness and ambition, by the United States' diminished international engagement and unwillingness to provide global public goods, by the weaponisation of economic interdependence, and by the diffusion, though asymmetrical, of economic and technological power. In consequence, hotspots and disputes are alive again, most of them near India: from the East China Sea to Taiwan, the South China Sea to the India-China border, Yemen and Syria to Afghanistan and Ukraine.

India will have no choice but to engage with this uncertain and more volatile world. The manner of its engagement is the key challenge for India's policy makers. Where should India position itself in this world between orders?

### GENERAL FRAMEWORK

In a time of high strategic uncertainty and in the absence of a recognizable global order, the contention and cooperation, though limited, between the two greatest powers will be one of the most significant drivers of international relations. Yet this will not be a bipolar world—either in an antagonistic Cold War sense or in terms of a G-2 condominium. Even if China and the United States agree, issues such as North Korea's nuclear weapons or China's maritime claims cannot be solved by them alone, without other regional and rising powers. Further, while the US and

China are economically dependent on each other, they are also strategic rivals and competitors. The balance between cooperation and contention in Sino-US relations is likely to keep shifting, not just with changes in their leaderships but with changes in their relative power.

For India, this cloudy and uncertain prospect, where change is the only certainty, makes *strategic autonomy* all the more essential. This entails keeping decision making on major issues in our own hands while also working with all other powers on our concerns. The ideal position for India in the India-US-China triangle would be to have better bilateral relations individually with both the US and China, than they have with each other. But India will not in the foreseeable future match their importance to each other, and should therefore also seek to build as broad a set of other relationships as possible on the issues that matter to its future.

India's overall set of interests may be unique to it, but each of these is shared with other countries—in large measure when it comes to transnational issues and less so when it comes to particular interests such as India's territorial integrity. On broader issues such as climate change, counter-terrorism and maritime security, therefore, it should be possible for India to create larger issue-based coalitions—working with numerous other countries who feel insecure or threatened by the overwhelming preponderance of the two great powers and who fear their own increasing marginalization in a geopolitical world of contention and strife. With almost half of India's GDP dependent on foreign trade, a very high priority would be to work with others to ensure the safety and security of the sea-lanes that carry that trade, first in the Indian Ocean and then across the Indo-Pacific. A functioning rules-based multilateral trading regime is also in India's interest and should be an objective of its multilateral economic diplomacy.

What such an approach would mean in terms of relations with some of India's major partners is examined below.

## THE UNITED STATES

The United States is a critical partner in India's internal transformation and in each of the efforts mentioned above. Remarkable progress has been achieved in the overall relationship in the first two decades of this century. In the recent past, defence and security relations between the two countries have flourished owing to increasing security congruence, shared concerns about Asian developments, and China's behaviour. The signing of foundational defence agreements has been accompanied by a broader commitment and increasing reliance on US weapons systems, intelligence and military doctrines, especially in the maritime domain. This has occasioned some pushback from traditional partners like Russia who have lost their status as privileged suppliers and now doubt whether they operate on a level playing field.

The more serious questions are whether such dependence opens new vulnerabilities and whether they actually fit India's strategic imperatives. The latter includes the continental as well as the maritime domain, as the events on the LAC with China in spring 2020 reminded us. While these shifts may be necessary to countervail the rather more assertive stance that a much more powerful China has adopted towards India, it is in New Delhi's interest to find its own solutions and to ensure that, until it can provide for its own equipment and intelligence needs, it builds safeguards by retaining competition in defence markets and by much stronger counter-intelligence capabilities. Decision-making in national security related issues and in defence procurement need to be open and transparent.

Politically, it is in India's interest that the US remains engaged in the Indo-Pacific and continental Asia, and for India to work with the US to keep the area open, plural and free of single-power domination. The Quad, with the U.S., Australia and Japan is here to stay. It now needs to expand its remit beyond a security dialogue to encompass maritime security through the Indo-Pacific. The Quad has signalled wider ambitions by agreeing to cooperate on COVID-19 vaccines. It could possibly acquire an economic dimension too. To be effective, however, it should include other states such as Singapore, Indonesia and Vietnam, forming a

Quad-plus in practice, if not necessarily as full-fledged members unless they wish it. On the whole, India-US political and security congruence is growing, based on a common goal of a secure and prosperous Indo-Pacific and a negative assessment of China's recent behaviour. This is only likely to increase in the coming decade.

That said, the prospects of India-US cooperation in the coming decade could be limited by the increasing turn inwards in both countries' societies and economies, especially in the adoption of more mercantilist policies and practices aimed at self-reliance. India and the US are absent from regional trading arrangements in the Asia-Pacific such as RCEP and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). India chose to leave the RCEP negotiations at their end, and has raised tariffs steadily for four years. Even small bilateral steps like a US\$10 billion mini-trade deal with the U.S. could not be concluded and the list of economic demands by each side is growing, as is protectionism in both countries.

At the same time, there is considerable and growing potential for bilateral cooperation in fields significant to India's transformation: energy, trade, investment, education and health. In energy and climate change, in particular, there is an immediate need for the two sides to work together on technological solutions and renewable energy. The scale of domestic investment planned by the Biden administration on this front opens up a range of possibilities for cooperation. Digital cooperation, beyond multi-stakeholder internet governance, to cyber security would also benefit both countries. In a world that has been brought to a standstill by the pandemic, it would be logical for India and the US to cooperate in treating COVID medicines and vaccinations as a global public good, waiving IPRs and making them cheaply and widely available—as they had done for HIV-AIDS treatments.

## CHINA

In stark contrast to India-US ties, India-China relations have seen growing distance and friction since around 2012. As China has acquired power, it has responded negatively to India's rise, to India's increasing closeness to the United States, and to India's independent view of the BRI. China has increased its presence

and interference in the subcontinent and the Indian Ocean, and has stepped up its commitment to Pakistan's security, and even strengthened its hold on portions of Jammu & Kashmir. A Taliban ruled Afghanistan supported and sustained by Pakistan and China will heighten India's vulnerability to cross-border terrorism and threaten Jammu and Kashmir with greater instability.

Amidst multiple signs of an increasingly strained relationship, the scale and scope of border incidents has risen steadily since 2013. In spring of 2020, the Chinese People's Liberation Army (PLA) occupied fresh territory on the Indian side of the Line of Actual Control and prevented Indian troops from patrolling where they have for several years, resulting in the deaths of soldiers on the border for the first time in 45 years. India now has a live border with China—militarised and disputed—undoing the work of several years.

India's China policy must now be reset to the reality of a live border and of antagonistic political relations. This has naturally resulted in an attempt by India both to lessen its economic dependence on China in critical sectors, while also attempting to find external balancers that can check unacceptable Chinese behaviour. China operates on the basis of its perception of relative power. The self-strengthening in India and the balancing politics in Asia that this requires will neither be easy nor smooth. So long as India sees a China-dominated Asian security and economic order as inimical to its interests, we must expect continued points of friction in the relationship which can at best only be managed. This task is independent of China's internal trajectory and the course of China-US relations, both of which are outside India's control but which will considerably shape the future international order in which India will be exercising its options.

The China challenge is likely to be the most significant issue in India's external security policies in the coming decade. It is primarily a continental challenge in Asia, requiring responses beyond an Indo-Pacific strategy or a Quad of any size and composition. The China challenge makes working with regional Asian powers like Iran, Turkey and Russia ever more important. If crafting a continental geopolitical strategy implies setting aside some of our erstwhile concerns—say,

Turkey's relations with Pakistan—then we must be prepared to do so. It will also be imperative to remain closely engaged with Iran despite its perceived shift towards China. This is a critical relationship for India and today even more so in the wake of the latest developments in Afghanistan. It must not be influenced by the interests of third parties.

At the same time, India must not allow an obsession with China to distract it from the main goal of its national strategy: the transformation of India. We will have to live with China as a powerful neighbour with whom we share our periphery; as an economic actor of considerable heft who will influence India's external environment politically, economically and infrastructurally. In the decade ahead, as China persists with its increasingly assertive and nationalist course and as India seeks counterbalancing partners and capabilities, there is no feasible alternative to a combination of engagement and competition with China.

## MIDDLE POWERS

In dealing with this assertive China, the middle powers—Japan, Australia, Indonesia, Korea, Vietnam and others—are natural partners in the broader coalitions that are now in order. Many of them share India's disquiet at the growing economic and political uncertainty around China's rise, as well as its recent behaviour. Each of them brings to the table significant capabilities and a willingness to exercise them. Yet they are unsure how to do so in an Asia marked by security dilemmas, declining American engagement, and fractured domestic politics. India's ability to forge coalitions of the interested and willing among these middle powers will be critical to meeting the challenges that lie ahead.

## EUROPE

Europe too could choose to be a part of this broader effort, though how the EU will proceed is still uncertain. The signs are mixed, ranging from the December 2020 EU investment agreement with China, to technology denial policies and attempts to set standards in cyberspace and governance, that will rub up against Europe's commercial interests in the US and China.

While the EU is unlikely to be a significant factor in Asia's politics or the balance of military power, it has the potential to contribute to the emergence of an open economic order in Asia. India should encourage the EU countries to do so, hastening the conclusion of even a less ambitious India-EU trade and investment agreement, and working to ensure that standards and norms in new domains like cyberspace remain just and open, thereby providing a level playing field for all. India's partnerships with the U.S., Japan and the EU have a dimension going beyond security. They will remain important as significant sources of capital, technology and knowledge resources that could contribute to India's development. Shared political values of democracy facilitate such partnerships.

### DEVELOPING WORLD

Over the last few years, India's relations with developing countries have atrophied. South Asia, which is the core of India's security and a potential contributor to its prosperity, is dealt with in the next chapter. But the fraying of ties within the subcontinent is also reflected in India's relationships in Africa, Latin America and elsewhere. Fortunately, there have been signs of attempts at repairing these ties after the pandemic struck.

Today these ties are even more important than ever. The great powers are facing internal stresses and challenges, having been diminished by the pandemic and the economic crash of 2020. China, which is perhaps an exception, has turned increasingly adversarial and is attempting to mould the multilateral system to its own purposes. We believe that a discombobulated world requires flexibility and broad coalitions, both to produce acceptable outcomes and to avoid conflict. This requires a new outreach by India to our traditional partners in the developing world. They are significant today as the locus of economic opportunities, as sources of support and commodities essential for India, and as necessary allies in reviving those parts of the multilateral system as would be useful in the decade ahead.

A world between orders is also one where new orders are being imagined—new standards and norms are set, especially in new domains. It is essential that

India actively participate in international processes of standard and norm setting. Here, too, numbers count. Only if we are successful in bringing together the broadest range of partners can India hope to meaningfully impact this process and ensure that it is not just left to the great powers, with their outsized capabilities and particular interests.

### INTERNATIONAL GOVERNANCE

India's engagement with international institutions and its consistent advocacy of, and active participation in, multilateralism has been an enduring feature of its foreign policy. The country has seen its interests best served through a rules and norms-based international order, even if these are often observed in the breach. Multilateral institutions serve as platforms for mobilising international opinion on issues of interest to India. In turn, India's multilateral diplomacy has enabled it to punch above its weight on the international stage. Despite this history, India's contemporary foreign policy has tended to lay greater emphasis on bilateral relations with major countries, rather than look upon international institutions such as the U.N. as fora where India may define and pursue its interests in association with like-minded constituencies. As domestic political developments in India face greater international scrutiny, there is an incipient tendency to slip into an adversarial relationship with the U.N. and some of its agencies, such as the Human Rights Council. The more pronounced nationalistic turn domestically means less enthusiasm in projecting internationalism as a key component in India's external posture.

To be sure, this turn in India's policy has followed a broader devaluation of the role of the U.N. and its specialised agencies dealing with global issues. There has been a steady decline in resources available to these institutions from assessed contributions leading to a greater reliance on project-based funding from its members and from philanthropic institutions floated by large multinational corporations. Thus, the U.N.'s agenda is influenced more by the evolving pattern of funding than by the real and pressing issues of our times. These trends are likely to continue. We also expect no further movement towards the reform of the U.N. and its associated agencies and

institutions. Despite being increasingly out of line with the current distribution of power, the existing permanent members of the U.N. Security Council, for example, are unlikely to accept the inclusion of new members in the same category. While India must maintain its claim to permanent membership, it must do so without expecting this to be conceded in the coming decade.

Despite major changes in India's external environment and its own power and capabilities, a rules and norms based international order is still in its best interests. Multilateral processes still offer opportunities to better safeguard and promote India's security and economic interests rather than bilateral or plurilateral processes. They also offer India the opportunity to influence norm-setting exercises. It is imperative for India to participate in these processes or risk either having to conform to new norms negotiated by others, or being pushed to the margins of the emerging global order. The global pandemic will likely lead to a significant change in the current rules of the game in trade and investment, intellectual property, procurement policies, and global financial markets. The renewed focus on Climate Change requires a greater effort towards achieving a global regime which enhances rather than limits India's developmental prospects. India must also participate actively in norm setting in newer domains such as Cyber security and the security of Space based assets. It is only through its active participation that India will be in a position to readjust existing and influence the emerging global regimes and contribute to an international environment that enables it to face the more difficult challenges of the next decade.

It is instructive that despite China's preference for addressing key issues through the bilateral frame (for example, its insistence on formulating a Code of Conduct in the South China Seas as a network of bilateral undertakings), it has assiduously built up its influence in the U.N. and its specialised agencies: currently Chinese nationals head five of these agencies. This is rooted in Beijing's understanding that despite its weaknesses, the U.N. system still provides international legitimacy to its national aspirations, for example, the endorsement, in U.N. documents, of its Belt and Road Initiative. A strong

and influential presence also enables deflection of inconvenient questions on domestic issues such as treatment of Uighurs in Xinjiang. While India has been active and even successful in fending off Chinese and Pakistani pressures on issues such as Jammu & Kashmir at the U.N., its role has diminished and become more transactional. India has more to gain than lose in adopting a higher profile at the U.N. and its agencies, playing an active and even leadership role on several pressing issues such as climate change, non-proliferation of weapons of mass destruction, maritime security, cyber and space security—all of which also have an impact on India's own security interests. Today there are no well thought out policy declarations on these issues. In the coming decade, this ought to rank high on the foreign policy agenda.

India has recently become a non-permanent member of the Security Council for two years. This is a good opportunity to set both the tone and direction of its engagement with the U.N. India also chairs the WHO Executive Council and has the opportunity to demonstrate leadership in managing the pandemic and its aftermath as well as in the setting of norms that will enable the international community to be better prepared for future health emergencies. In a polarized international environment, India could contribute to practical solutions if it projects a non-partisan and a positive approach and is able to mobilise a large constituency in support of its initiatives. In the past, Indian diplomacy was held in high regard for its ability to mobilize impressive constituencies and for its drafting skills. These need to be revived.

A good place to start is in the implementation of the 17 Sustainable Development Goals (SDG), which cut across domains of policy and which have the potential for creating an enabling environment for India's own economic development over the coming decade. For each set of SDGs, India could assemble cross-disciplinary teams with technical and diplomatic representation to advance these goals.

The U.N. is not the only stage for India's multilateral diplomacy. There are other fora such as the G-20 where India could play a prominent role. India will host the G-20 summit in 2022. This provides an opportunity to shape the international agenda in the post-pandemic

world. On many key international issues—treatment of subsidies, taxation of multinationals, international finance and banking, money laundering, global trade and investment—the setting of norms and evolution of standards takes place in the various working groups and committees of the G-20. Instead of focusing on the pageantry of the summit and the articulation of a theme, New Delhi should undertake considerable preparatory work to craft a substantial agenda and a sustained diplomatic campaign to engage and influence the members of the G-20.

Going forward too, it is imperative for India to be represented in the working groups of the G-20 to safeguard Indian interests and shape emerging norms to its advantage. This requires assembling qualified personnel who are familiar with the intricate

negotiations that take place in such fora. It appears that India usually passes on these smaller working groups or sends personnel who are neither well versed in the subjects under consideration, nor possess the diplomatic skills required in such negotiations. This glaring weakness must be addressed as we prepare to navigate a much more complex and unfamiliar world.

More broadly, India's G-20 membership should be seen as giving voice to those who lack one in an international system characterized by great power rivalry, rather than as a ticket for New Delhi to seek status goals and the ego satisfaction of a seat on the high table. A renewed engagement with multilateral institutions and partners in the developing world will be of far more substantive interest to India in the decade ahead.



# Chapter 3

## The Strategic Neighbourhood

### THE SUB-CONTINENT

The sub-continent is the most proximate and vital geopolitical space for India. India's ability to craft a credible trajectory towards great power status hinges upon its success in managing its immediate neighbourhood (in which we include Myanmar). South Asia could remain a significant constraint on India's engagement with the larger Asian theatre. Alternatively, it could become a dynamic platform for economic integration and negotiating the challenges of globalization with a greater confidence. The starting point has to be the pursuit of regional economic integration. And India, as the largest economy in the sub-continent, must take the lead.

India is part of a deeply fractured sub-continent—a region divided against itself politically, economically, and strategically. Despite the affinities of culture, ethnicity, language and religion, across all state boundaries, the modern processes of nation building have created sharply-etched national identities in contradistinction with one another, rather than exploring the commonalities for mutual benefit. In consequence, politics within and between South Asian countries has been fractious. Less than 7 percent of overall trade and just 3 percent of investment comes from within the region. On the most critical challenges confronting these countries—climate change; water, energy and food security; loss of biodiversity; public health crises such as the COVID-19 pandemic—regional collaboration is all but absent. As the largest country in the region, India has to take the initiative in crafting institutions and processes that will ensure credible and effective responses to these epochal challenges. Accomplishing this must be the front and centre of India's 'Neighbourhood First' policy.

During the next decade the sub-continent is likely to become a greater security pre-occupation for India owing to two inter-related factors. Firstly, unlike in the Cold War, the sub-continent is now closer to the primary locus of contention between United States

and China: the Indo-Pacific. China perceives India as having gone on to the "other side of the fence". It is therefore committed to a strategy of expanding its political, economic and military presence in each of the South Asian countries at the expense of India and in order to forestall American influence. The second is China's willingness to intervene in the domestic politics of India's neighbours to ensure it has the political agency to shape their external policies. This was long the case with Pakistan and is now evident in Sri Lanka, the Maldives, and Nepal. The uncomfortable reality is that India is simply unable to match the resources deployed by China in the region. India has had to cede ground to countries like the United States and Japan to help countervail Chinese penetration, but this too has fallen short.

India's Neighbourhood First policy has been rendered more complex by several recent developments at home. In the first place, foreign policy towards neighbours is increasingly being overlaid by domestic political and ideological considerations. This is most evident in the policy towards Pakistan, which has become a potent and increasingly toxic brush with which to tar the political opposition. A painstakingly bipartisan engagement with Bangladesh, which yielded rich dividends on security and sub-regional integration, is now undermined by domestic political stances on migration and the Rohingya crisis. On Nepal, the expectation that a shared Hindu heritage would help overcome its potent anxieties over Indian domination, have been thoroughly belied. If this trend of subordinating foreign policy to domestic political compulsions continues, India will find itself more isolated and challenged than at any time since Independence.

Secondly, the Neighbourhood First policy was closely linked to India's embrace—since the first NDA government—of the South Asian Association for Regional Cooperation (SAARC), as a key instrument of promoting regional economic integration. This was a change from an earlier posture of disinterest and scepticism about SAARC, stemming from

anxieties about it becoming a platform for anti-India posturing and “ganging up” by our neighbours. With India's emergence as a rapidly growing, large economy, and its rising regional and global profile, the earlier inhibitions about SAARC were replaced by a willingness to use it as an instrument to promote India's engagement with its neighbours. To be sure, there were setbacks and attempts at recalibration. Yet, over the past few years India has signalled that it has turned its back on SAARC. Instead, the focus is on sub-regional cooperation under the BBIN initiative and BIMSTEC. This approach is spurred by a desire to isolate Pakistan and pursue regional cooperation without its participation. While BBIN has yielded some concrete results, BIMSTEC is yet to translate its potential into outcomes.

If New Delhi continues to spurn SAARC, there is a distinct danger that other countries may remain committed to it and move ahead without India. This could open the door for China being invited to join a SAARC without the presence of India—a development that will reinforce Chinese penetration of the sub-continent. The Belt and Road Initiative (BRI) may well become the key instrument for weaving the region into a Chinese web of transport and communication links, a sub-regional trading arrangement led by China, and the adoption of Chinese standards and specifications in a host of existing and emerging domains in the region. This scenario must be factored into our sub-continental policy for the coming decade. A review of our SAARC policy is therefore urgently needed.

Thirdly, India's Neighbourhood First policy is hamstrung by excessive concerns about national security, especially border security. Notable progress has been made over the past decade in improving cross-border connectivity: highways, railways, digital links, the revival of riverine and coastal shipping. But this has not been matched by the improvement of behind-the-border procedures and institutions to facilitate cross-border movement of goods, people and services. Security considerations continue to hamper such movement through frequent and time-consuming checks of both cargo and persons. These could be addressed by adopting widely available electronic tracking and monitoring technologies, installing fixed scanners at borders and resorting to random checks. The establishment of banking and exchange facilities, convenient testing laboratories for

food and perishable items, and immigration checks linked to a central data-base, would go a long way in addressing these issues. These measures can easily be put in place.

Fourthly, cross-border trade and security are undermined by policies that make a sharp distinction between border trade and regular trade through the border. The former category should apply to exchange of local goods of limited quantity (such as a head-load) on which no duty is charged; the latter should be consignments that are typically a truck-load or more on which MFN treatment is applicable. However, at major border points—such as on the India-Myanmar and the India-Nepal border—MFN trade is not permitted, while large consignments of goods continue to be imported clandestinely without any revenue for the Indian State. This contraband trade is in the hands of powerful and well-connected mafias, resulting in corruption, smuggling of arms and drugs, and the entry of terrorists and hostile elements.

The large-scale entry of Chinese goods into the North-East via this route has effectively destroyed local industries such as cane furniture and handloom. This situation could easily be redressed by permitting MFN trade. It should not matter whether Chinese goods come through a border trade point or through the port of Kolkata. In turn, the State would earn revenue and eliminate a key source of corruption in sensitive border areas. Both economic and security interests would therefore be better served. This should top the agenda of our neighbourhood policy for the next decade.

The four challenges listed above also underline the opportunities for a more effective Neighbourhood First policy. India can take the lead in reinvigorating regional institutions, integrating the economies, opening up free movement of goods and people, and leading climate change mitigation and adaptation. No other power is comparably well positioned to provide regional leadership on such a broad range of issues.

Rather than competing with China on its terms—constructing physical infrastructure or undertaking mega-projects—India should do what China simply cannot: build regional links; open its markets, schools and services to the neighbours; and become a source of economic and political stability in the sub-continent. If

India is to strive for self-reliance—defined as competing for prosperity in a global economy—then it will have to conceive of an Atmanirbhar South Asia rather than an Atmanirbhar Bharat. For starters, this means not extending all the prohibitions and restrictions currently aimed at China to “all countries with which India shares a land border.” On the contrary, India should extend to its neighbours “national treatment” for the use of its transport and other infrastructure, especially its fast-growing digital infrastructure.

India could share its expertise in universal identity system with its neighbours, as well as, assisting them with cyber security and data privacy. It could also become a net security provider by quietly sharing its advanced maritime domain awareness data and satellite imagery. In so doing, India will have to eschew the temptation of seeking public credit or gratitude. Trust can only be built through efforts that are relatively invisible, alert to the sensitivities of other governments, and responsive to their concerns.

India's sub-continental orientation should ensure that it remains the primary source of security and prosperity for its neighbours. This calls for policies that are not subordinated to domestic political and ideological considerations, but built on a broad political consensus and pragmatic calculations of our external interests. While it may be unrealistic to expect an early turnaround on these lines, we hope that some of the practical measures suggested here may help mitigate the challenges to our Neighbourhood First policy in the decade ahead.

## PAKISTAN

This broad approach to sub-continental leadership is inconsistent with a protracted and hostile impasse with Pakistan. For one thing, no policy of regional integration will be credible without encompassing Pakistan. For another, in confronting both China and Pakistan as the main threats to Indian security, the logical Indian response should be to prevent a two-front challenge, let alone a two-front war. If China is the main security threat for India then Pakistan, as a lesser threat, ought to be neutralized as far as possible. Since India-Pakistan relations are likely to remain adversarial for the foreseeable future, its effective management should be the main objective.

This will require continued engagement and dialogue, the promotion of economic and cultural links, and resumption of a process of confidence building. The recent declaration of ceasefire along the Line of Control is a welcome start.

Such a course might also be attractive to the Pakistani elite, including its powerful military, who would be uncomfortable about their increasing all-round dependence on a powerful China and the consequent limitation of their own agency. A limited engagement and improvement of relations with India may suit their interests too. Therefore, as long as our objectives of policy towards Pakistan are modest, resumption of dialogue and a gradual revival of trade, transport and other links are worth pursuing.

Such an approach, however limited in scope, would be impossible to sustain if Pakistan remains a domestic factor in India—entwined with the growing salience of majoritarian, communal politics. The political leadership will have to make a conscious and deliberate effort not to succumb to the temptation of using ties with Pakistan for domestic political purposes.

While cross-border terrorism from Pakistan is unlikely to entirely cease, it can be managed—if not eliminated—by effective counter-terrorism efforts, including covert measures. Our objective should be to make cross-border terrorism a costly and risky activity for Pakistan—and there are enough vulnerabilities within Pakistan to make this threat credible. It also bears emphasizing that cross-border terrorism from Pakistan has not derailed India's economic progress, nor has it undermined its political stability, including in Jammu & Kashmir. It is not, therefore, an over-arching threat. In any case, avoiding engagement with Pakistan has not helped manage the threat of terrorism.

In promoting such engagement, India could begin by dropping its objection to Pakistan wanting to convene the SAARC summit. It could also use the Shanghai Cooperation Organization, where both countries are members, as another platform where bilateral dialogue may be conducted. Cooperation on dealing with the pandemic is another useful starting point; likewise, managing climate change is another urgent area of overlapping concern. Engagement with Pakistan through a graduated and measured revival

of relations, including through various confidence building measures, will expand India's foreign policy options. A continuing freeze in relations will only enhance India's external vulnerability to other actors, in particular China.

## AFGHANISTAN

This overall strategy related to India's sub-continental neighbourhood remains valid despite the recent political changes in Afghanistan. Since Afghanistan is a member of SAARC one should explore how this status could be utilized to engage with a new political dispensation in Kabul and to use it as a platform for continued involvement in the country's economic and social development and contributing to strengthening what is India's greatest asset in that country, the pervasive goodwill for India among the people of Afghanistan. The situation in that country is still politically fluid and the likely policies that the Taliban may adopt towards its neighbours including India remain uncertain. Therefore, it may be prudent to await greater clarity in this respect before deciding upon India's Afghan policy. Even though countries like Iran and Russia may have adopted a more positive posture towards the Taliban, there concerns over Afghanistan becoming a source of terrorism and drug trafficking in particular remain. India should remain engaged with these countries and its other Central Asian neighbours on managing the evolving situation in that country.

## WEST ASIA

Politics in West Asia has evolved rapidly in response to the energy revolution that has made the US self-sufficient in oil and gas and reduced its reliance on the region. The Arab Spring and the subsequent resurgence of internal political fractures and instability in long-lasting authoritarian regimes has led to rising instability, civil conflict and terrorism, involving both State and non-state actors and sponsors. The traditional regional powers—Iran, Iraq, Turkey and Egypt—have each been weakened by their internal fragility. Egypt is inwardly preoccupied; Iran is defending its influence in a regional arc stretching to Lebanon; Turkey is refashioning its polity while working with the Muslim Brotherhood to gain regional influence; and Iraq is now a battlefield for competing

influences including Syria, Lebanon and Yemen. Shrinking earnings from energy exports have reduced the leverage that Saudi Arabia and the Gulf wielded in the international system and with the West. The upshot has been a series of running crises, civil wars and rebellions, from the Levant to the Persian Gulf, in which regional powers have used proxies, and outside powers like Russia have found a role.

The increasing instability in the region; the rise of terrorist groups like Al Qaeda, the Islamic State and others; the polarization between Iran and the Gulf monarchies—all present difficult choices for India. New Delhi has tried to keep relations on an even keel, while identifying itself more closely with Israel, Saudi Arabia and the UAE. This has yielded benefits in counter-terrorism and energy security. Looking ahead, it is hard to see a reduction in regional instability, though the decade of low oil prices may be behind us.

India's interests in the region are in fact wide-ranging. Almost 8 million Indians live and work in Saudi Arabia and the Gulf. They account for the major share of remittances received by India—a share that has actually grown after the pandemic, in the form of bank deposits. The region accounts for the bulk of India's crude oil and gas imports, which are critical for the health of the Indian economy. India thus has an economic interest in the political stability of the region. India's security calculus there also includes the risks of radicalization of the diaspora, the links between extremist groups in the subcontinent and West Asian states and their surrogates, and the importance of keeping safe the sea-lanes that carry India's oil and trade, thereby integrating it with the world economy.

Iran is central to most of these Indian interests in West Asia—be it peace and stability in the Gulf where most Indians work, its influence in central Asia, as a partner in Afghanistan, or as a potential partner of both China and Pakistan. Iran is particularly important in terms of India's access to Afghanistan and the Eurasian continent. Iran has previously helped contain Pakistani attempts to use Sunni extremist organizations against India. In the past, India has also worked with Iran while simultaneously engaging her neighbours and regional rivals. Yet, India-Iran relations have been complicated for some time because of US sanctions and pressure on Iran. It is therefore in India's interest to do all it can to

encourage a lowering of US-Iran tensions, such as the reactivation of the JCPOA by both countries. This would also limit the potential for further nuclear proliferation in the region, thus contributing to India's security.

In the past, this mix of Indian interests was best served by avoiding entanglement in regional conflicts. That is an increasingly difficult tack to take as geopolitical polarization and violence continue to rise. India's interests too will expand with the increase in its own power. It is time, therefore, to transition to a more active stance on issues of direct concern to us and on which we can make a difference.

One such issue is maritime security in the Persian Gulf and the sea lanes of the Arabian Sea. As US attains energy self-sufficiency, its interest in maintaining the 5th Fleet in Bahrain will diminish and it may look for partners to share the burden. The countries most dependent on those supplies today are India, China, Japan and Korea. New Delhi should consider working with the others, as well as Iran, to secure these sea-lanes. Russia too would be interested in such an endeavour.

India should also embark on a more active pursuit of land routes to Afghanistan and Central Asia, through Iran and possibly Turkey. This quest is crucial not only for India's own integration with the region, but also to craft a continental response to China's growing strategic footprint in Central Asia—an essential counterpoint to India's actions in the maritime domain.

Bilaterally, India should aim to resume its traditional role as a provider of education and culture, leveraging the soft power that stems from our plural, diverse and open society. We should work on creating stakes for West Asian states and elites in India, and its progress. In a slowing world economy, we should be able to make India a more attractive destination for their investments.

## **SOUTH EAST ASIA**

In South East Asia, India faces a more complex situation where the stakes are higher and all the major powers are engaged. In the coming decade, this area will be the centre of gravity of the global economy, as well as of political contention. Indian interests in the region will be served by nothing less than a commitment to both political and economic involvement.

These interests include the desire for a peaceful periphery, for precluding an Asia dominated by any one power, and for harnessing the economic advantages of engagement with the most dynamic economies for India's own transformation. If we are to arrest the decline in the growth of our exports, it is imperative to plug into the global supply and value chains that run through South East Asia. Equally, the forward defence of the Indian Ocean and the subcontinent, lies in South East Asia and the Indo-Pacific. This is the actual locus of the China-US contention—not the Asian continent or landmass. South East Asia is also important as a source of investment, infrastructure construction, and for the supply of energy and raw materials. If India is serious about reducing its dependence on China, then it will have to work closely with partners in South East Asia.

It is also essential that India now articulate a strategy for a much more active engagement with South-East Asia that provides a path to entering the RCEP. In the meanwhile, we must actively engage ASEAN, Japan, Australia and Korea, on the economic front. Given false starts in the past, it will be necessary to demonstrate to our South East Asian partners, India's will and capability to implement an active engagement strategy—perhaps through new purpose-designed mechanisms for implementation. If not, we run the risk of missing the bus again, as we did in the 1970s and 80s when Japan began building manufacturing and supply chains in the region.

India's strategy towards South East Asia should include political, military, economic and soft power, playing to India's strengths and the region's desire for alternatives to a binary choice between the US and China, against both of whom they are currently hedging. The South East Asian states' desire for alternatives is likely to be strengthened as contention in North East Asia intensifies in the next decade with likely nuclearization of that region.

As for India's broader interests in maritime security, cyber security, counter-terrorism and an open and plural South East Asia, these would require working with coalitions, depending on interest and capability. ASEAN, particularly Indonesia, Vietnam and Singapore would be central to such an effort, which involved strengthening and filling out the dialogue that has already begun in the Quad (with Japan, the USA and

Australia), and the web of bilateral security partnerships that India has built across the Indo-Pacific since 2005.

Over the last two decades, the Asia-Pacific has seen one of the greatest arms buildups in history, mainly of offensive weapons such as missiles and submarines. In the same period flashpoints and disputes have come alive from the Senkaku/Diaoyu islands, to Taiwan, to the South China Sea, to the India-China border. The geopolitical space now called the Indo-Pacific is increasingly militarized. Since 2014, Chinese submarines, including nuclear submarines, have entered the Indian Ocean every year. The region has also seen the building of ports and other dual use infrastructure throughout the Indian Ocean and increasing naval activity by several powers. When this is superimposed on the series of security dilemmas—between China-Japan, Japan-Korea, North and South Korea, China-Taiwan, China-Vietnam, China-India, India-Pakistan—it is clear that the situation has changed fundamentally for the worse and that divisions into sub-regions like South-East or North-East or South Asia are dangerously obfuscating the single battle space that missile and other capabilities have made of the entire Asia-Pacific.

We do not believe that a great power war is likely in the next decade in the Asia-Pacific. But it is certainly more probable than it was ten years ago. The possible gains from war are unlikely to match its costs in most scenarios. Assuming a modicum of rationality, therefore, a great power war is unlikely. This does not, of course, obviate the possibility of accidents, miscalculation and folly. Nor does it rule out other forms and levels of violence, contention in cyber and other domains, and a heightened security threat and risk of war. (The exception to this forecast is Taiwan, where the intersection of domestic political drives in China and US/Japanese geopolitical interests in holding the first island chain against a rising China could create a real risk of conflict by 2035.) India has no choice but to be prepared for this future by a rapid and conscious process of self-strengthening—military, political, institutional and economic—described elsewhere in this document.

### INDIAN OCEAN REGION (IOR)

While the open geography and presence of multiple actors have so far maintained a geopolitical

equilibrium of sorts in the IOR, this is fragile and under threat from both the west and the east. At a time of heightened contention and rivalry in the region—with the subcontinent and the Indian Ocean now part of the central arena of China-US competition—India has no option but to increase its commitment to the security of the Indian Ocean. We should not allow other preoccupations, such as Chinese behavior on the LAC since spring 2020, to force a diminution of resources and attention to the IOR. If anything, additional resources are likely to be required for a new Indian push in this theatre, which is critical to India's security and prosperity. This would involve working with all available partners; accelerating the process that has already begun with maritime neighbors like Sri Lanka, the Maldives and others; bringing maritime security cooperation with Bangladesh, Myanmar and other littorals to similar levels; and working more closely with the US.

India has taken several initiatives to build security coordination in the IOR in the last decade and a half. These can now be made more granular. The time is propitious for a Bay of Bengal Maritime Initiative. The menu of security options and tools are available to us: from maritime domain awareness to HADR, through SAR and counter-piracy, to counter-terrorism and joint operability. Such an initiative needs to address not just security threats but also contribute to prosperity. Fisheries, sustainability and the blue economy should be built into the initiative. To be successful, such Indian outreach must be seen as contributing to the goals of the other states involved and must therefore be designed with them. The overarching objective should be to keep the Indian Ocean as a zone of trade and a maritime thoroughfare, and to prevent its domination by any single power which would convert it into a battle space (much as South China Sea is now a highly militarized Chinese lake).

Given past problems with implementation, as well as the lack of coordination of projects and initiatives, we would reiterate our recommendation of the establishment of a Maritime Commission to guide the development of India's maritime capabilities, which should include ocean development, coastal infrastructure, the shipping industry and naval capability.

# Chapter 4

## Hard Power

The primary role of India's hard power is to deter war, and, if deterrence fails, use force to achieve political objectives. India's adversaries, Pakistan and China, are nuclear powers and the use of force under the nuclear shadow will have to be tailored in scope, scale and lethality. However, India cannot avoid preparing for conventional war supplemented by its nuclear arsenal, on the basis of its longstanding policy of No First Use (NFU).

India's hard power in the next decade will have to negotiate the challenges posed by heightened global and regional tensions. The contested geographic spaces, apart from the immediate neighbourhood, could also encompass maritime spaces of the Indo-Pacific especially the South China Sea that requires interoperability with states that share our geopolitical objectives.

While the nature of war—as the use of force for political purposes—will endure, the changing character of war will be driven primarily by technology, innovative doctrinal concepts and flexible organisational structures. The presence of nuclear weapons will also lead to a growing preference for coercion by means less than war—a strategy that aims at achieving psychological effects through stealth and surprise, backed by the demonstration of force. Military power, while retaining the traditional core of hard power, will increasingly be used in conjunction with non-kinetic means: especially the use of the electro-magnetic spectrum, reinforced by cutting-edge technologies such as artificial intelligence, quantum computing, biotechnology and so forth. The spectrum of threats will continue to expand from its traditional domains of land, sea and air to include cyber and space.

### THREATS

The threat from China along our northern borders could manifest either as salami slicing or as a major offensive to capture areas like Tawang, Depsang or the Siliguri corridor. Salami tactics, aimed at occupying

unoccupied territory, has thus far been their preferred approach. Having built a vast network of roads and military infrastructure in Tibet, China uses the northern border to prevent India both from strengthening its own infrastructure and from punching at its weight elsewhere in the Asia.

Another flank of China's strategy is its increasing influence in India's strategic neighbourhood, especially the Indian Ocean littoral. While Pakistan has been a longstanding ally, China is now bankrolling the China-Pakistan-Economic Corridor (CPEC), which when completed would provide a land route to the Indian Ocean, from Xinjiang to Gwadar and Karachi, as well as creating a military base in the Indian Ocean. China has also enhanced its influence in Nepal, Myanmar, Bhutan, Sri Lanka and other countries in the Indian Ocean littoral. All this is aimed at confining India to the sub-continent and minimising its ability to heighten China's "Malacca Dilemma."

The threat from Pakistan is primarily terrorism—aimed at neutralizing India's military superiority and weakening it over time. Pakistan uses terrorism in the expectation that India's response will be curbed by the presence of nuclear weapons. Over the past decade, Pakistan has strengthened its conventional military capabilities, including its navy, with China's assistance.

### POLITICAL GUIDANCE

The Indian military has expanded in size, but its modernisation has been hampered by several problems: the absence of political guidance, stemming from deeper problems in civil-military relations; sub-optimal inter-service cooperation; an inefficient and complex acquisition process; a weak research and defence industrial base; burgeoning manpower expenditure that leaves little for capital expenditure and military modernization.

The absence of a National Security Doctrine/Strategy has handicapped military planning. Several versions

have been prepared by National Security Advisory Boards, but political approval has remained elusive. In 2018, the Defence Planning Committee headed by the National Security Advisor, was tasked with preparing such a document. Nothing has been heard since.

Meanwhile, the Raksha Mantri's (RM) Operational Directive continues to guide the military. Yet this document has its shortcomings: it originates from the military; it is not formalized in the national security system; it is often centred on a purely military conception and is abstracted from accepted political objectives; and finally, it is only approved by the RM. In turn, the military's bi-annual, five year and fifteen-year plans take the cue for modernisation from the RM's Directive. The principal drawback to this approach is the absence of a holistic view that shapes military modernization, and a well-defined strategy that is guided by a doctrine on the use of force.

### DOCTRINE ON USE OF FORCE

The coming decade is likely to witness mounting instability in global and regional geopolitics. As underlying power structures and established balances are disrupted, the resort to force will increase. An Indian doctrine on the use of force is essential to shape the development of coercive instruments and guide their application.

Force could take many forms: kinetic, non-kinetic or a combination of both. The preparation and application of force must take cognizance of the presence of nuclear weapons, which circumscribe the utility of force. The role of force should be to achieve political objectives through a synergised application with other instruments of statecraft.

The primary domains that would call for resort to force are India's territorial integrity, its sovereignty, and key nodes in its interdependence with the world. An illustrative list would include responses to:

- Territorial losses through any change of status quo.
- Acts of terrorism.
- Violations of agreements to not use force.
- Non-kinetic attack on critical infrastructure and strategic assets.

- Securing trade routes through maritime, land and air spaces especially in the Indo-Pacific.
- Securing assets abroad and in the global commons.
- Challenges to internal security.

The overall objectives to be achieved by the use of force will be decided politically, but it should be determined through a continuous political-military dialogue anchored in an integrated institutional setting. This requires a convergence between objectives that are politically desired and outcomes that can be militarily delivered. The availability of resources and the constraints on the use of force will be politically determined. A close monitoring of the preparation for, and application of, force by regular political-military dialogue will enable adjustments both in the objectives pursued and in the constraints imposed.

In applying force, strategic advantages in one domain could be used to offset the adversary's actions in another domain. India should respond to calls for military assistance from friendly countries in the manner it deems fit. Coordinated use of force with strategic partners should be resorted to with prior agreement and understanding. In a multilateral context, India's military forces could be placed under UN Command or operate with strategic partners under mutual agreements.

The use of nuclear weapons will be governed by the Nuclear Doctrine.

### MODERNIZATION & STRUCTURAL REFORMS

Thus far the process of modernizing the Indian armed forces has been a victim of tussles within the military as well as between the military and the civil bureaucracy. However, the structural and institutional reforms introduced in early 2020, hold out some hope for a thorough overhaul. Still, there exist a range of challenges to an attempt at genuine modernization: political sensitivity to corruption in defence deals, which has created a procedural morass; a political and bureaucratic approach that privileges process over outcomes; and the overall risk averseness of politicians and bureaucrats, owing to fears of subsequent political harassment and punishment.



The most promising defence reforms undertaken so far are the institution of the post of Chief of Defence Staff (CDS), the creation of the Department of Military Affairs (DMA) in the Ministry of Defence (MoD), and the political mandate to the CDS to create the Theatre Commands. All of these were proposed in *Non Alignment 2.0*, which also recommended the creation of a Maritime Commission to foster maritime capabilities.

These reforms could take between five to seven years to yield the desired outcomes. Yet these changes in themselves cannot improve military effectiveness. They need to be backstopped by reforms in three major areas: military strategy formulation and joint planning, strengthening of the research and defence industrial base, and provision of fiscal resources for modernization.

### THEATRE COMMANDS

The CDS has been politically mandated to facilitate Theatre Commands. The challenge is to create integrated structures, which reduce operational layers, synergize the strengths of the individual services and optimize resources. The system should enable centralized joint planning and de-centralized execution in the application of military power.

Military strategy should be formulated under the overall guidance of the Cabinet Committee on Security by the Headquarters of the Integrated Defence Staff (or an equivalent Permanent Joint Headquarters), led by the CDS and including the three service chiefs. The operational directives should then be provided to the Theatre Commands. Depending on perceived necessity, each theatre should comprise land, air, and naval component commanders, as well as a cyber agency, a space agency and a special forces commander. The [suggested Theatre Command structure](#) clearly assigns responsibilities for political guidance, military strategy, operational directives and the conduct of operations.

### MILITARY STRATEGY AND OPERATIONAL DOCTRINE

The military hierarchy, including the CDS, must consult the political leadership and decide what sorts of wars and military conflicts it should prepare to wage. This, in turn, will illuminate another meta-

question: what should be the balance between India's continental and maritime power? The answer has to be derived from a military strategy that balances the nature of threat and the political objectives with the available resources.

Maritime power includes robust naval power with amphibious capabilities, merchant shipping, ports infrastructure with inland connectivity, oceanographic expertise coupled with access to fishing and seabed resources. India must retain its long-term focus on maritime power to protect its national interests not only in the Indian Ocean littoral but the Indo-Pacific. The need for a Maritime Commission on the lines of a Space Commission will be even more pressing in the next decade.

India's military strategy must cater to the worst-case scenario: of a two-front war under the nuclear shadow, with the possibility of an additional half-front in Kashmir. Such a war will have to contend with the difficulties in the escalation of control, which could result from misjudgement, miscommunication, misperception and miscalculation. Adopting an operational posture of active defence in the northern and western land frontiers must be accompanied by a posture for an offensive in the maritime domain. This must be balanced in surface and sub-surface capabilities, which are effective across the spectrum of conflict from Operations Less Than War to Limited War. Our adversaries may threaten the deliberate launch of a major coordinated offensive, but they are unlikely to go beyond it--unless the issue at stakes warrants the risks of escalation to the nuclear realm. Military measures to counter such threats should aim to raise the threshold of escalation. More likely is the use of force that is considered less escalatory. This could range from cyber, space, electronic warfare--layered on physical actions that would change the status quo but would not warrant a war.

The operational doctrine for the northern borders should privilege an improvement in surveillance coupled with capabilities for quid pro quo actions as a swift response to China's salami slicing. This will require further improvement of our infrastructure, which should not be stopped so long as it does not violate any agreements. The capability for such action must be housed in brigade-sized groups that are pre-located with the forward deployed corps and the Corps

Commander granted the power to react as soon as a salami slicing action is discerned. In so doing, we must not play into China's strategy of getting India to expend more resources on the northern border. Instead, the resources must be harnessed by rebalancing from the Pakistan front. For paradoxically, despite acknowledging China as a greater threat, the weight of India's military power is tilted towards Pakistan. Since the land borders with China is expected to be active and there is practically minimum policing duties required, there is a strong case for militarising the Indo-Tibet Border Police (ITBP) on the pattern of Rashtriya Rifles and renaming it Indo-Tibet Border Rifles.

The military's primary role in dealing with terrorism from Pakistan is punitive. In doctrinal terms, it means the ability to strike without posturing. This calls for preponderance in fire power assets like air power, long range missiles and artillery coupled with Special Forces capabilities. At the upper limit, the capability for shallow territorial thrusts is essential. This must preferably reside in Division or Brigade-sized formations. Hence there is a strong case for deconstructing the existing Strike Corps-- a move that would also provide resources to strengthen our capabilities on the northern borders.

The military leadership, especially the army, has found it difficult to jettison the ideas of waging the 'big fight' to impose our will—never mind that under the nuclear shadow, the role of military force can only be to create the desired conditions for political and diplomatic efforts. A fundamental cognitive shift informed by a holistic perspective is therefore essential to overcome military demands that sustain the logic of the Strike Corps and the Mountain Strike Corps. This would also free up fiscal resources for acquiring cutting edge capabilities in the maritime domain. The evolution of such a military strategy must be accompanied by periodic reviews that adapt to unforeseen developments and, more importantly, to the continuous and realistic availability of resources.

## JOINT PLANNING

The creation of the CDS and the DMA provide a conducive structural edifice for joint planning with a holistic perspective. So far, joint planning has

amounted to little more than stapling together service-centric plans and working out a compromise on sharing limited resources. The recent structural reforms promise to remedy this by ensuring that plans are jointly prepared from the outset.

Once the military and political leadership have a measure of clarity on the types of wars that they must be prepared to fight, there will be greater downstream understanding. A military strategy can then be formulated unfettered by narrow visions of service-specific development of capabilities. It will instead be replaced by a conception of the military as akin to a united community--where diverse identities are preserved but worked jointly towards a common goal.

Joint planning could benefit by adopting two concepts of military power - *deterrence* and *employable power*. Nuclear weapons have driven military strategy to explore the space for the application of force below the nuclear threshold. Limited conventional war and even limited nuclear war have been discussed for decades, but these remain untested and unproved.

Deterrence on the other hand lies in the eyes of the adversary. An effective strategy of deterrence projects military power and the capacity for retribution through the possession of an array of robust arms, platforms, equipment--embedded in flexible structures and undergirded by effective and survivable command and control systems. To be sure, such power cannot fully be applied especially between nuclear powers. But keeping adversaries unsure of the quantum of application and our willingness to run risks is integral to a strategy of deterrence. The quest is therefore for employable power, which it is hoped, will not trigger an escalation.

Employable power resides in those systems where coercion is attempted through the actual use of force in a spectrum of conflict that can be described as, Operations Less Than War (OLTW). In particular, the potential for OTLW in the Indian Ocean against soft targets of potential adversaries must fully be explored. Cyber space is now the domain best suited for employable power: it combines effectiveness through speed and plausible deniability. It can be used to deceive, misinform, divert, blind and impact directly on the minds of decision makers.

## MANPOWER VS FIRE POWER

It is a commonplace that firepower will increasingly supplant manpower and, as a corollary, machines will replace people. Superior technology is often regarded as a key to military victory, especially in warfare at sea and air, space and cyberspace. Nevertheless, coercion exercised through long range firepower or other means, unless followed up with physical action that threatens the populace, can at best have a temporary effect. The attainment of political objectives may require a measure of territorial control, which in turn requires an armed soldier.

Along our northern borders, control of territory is the prime role of military power. Manpower augmented with technological support in terms of intelligence, surveillance, and firepower support from artillery and airborne platforms, and provisions of air and land mobility are of paramount importance. As noted earlier, a posture of active defence will necessitate brigade-sized groups that are pre-located in high altitude regions and can be employed speedily, in combination with Special Forces.

On the western borders, by contrast, we need to impose pain on Pakistan in response to a terrorist threat, which entails an ability to strike without posturing. Such a capability is more about firepower than manpower. Long range air, missile, artillery and Special Forces are best suited to it. Manpower on the other hand is required to defend territory and for shallow thrusts over a wide front.

Instead of remaining fixated with Pakistan, it is essential to rebalance manpower from the West to the North. Additional firepower, intelligence and mobility assets would have to be inducted, which must be preferably sourced through an indigenous research and defence Industrial base backed by an efficient acquisition system.

## RESEARCH AND DEVELOPMENT

The Defence Research and Development Organisation (DRDO) has been central to our efforts at building indigenous defence capabilities. A marker of its overall performance is India's status as the second largest arms importer in the world for several decades

now. Self-reliance has remained an elusive goal and the increasing external dependence has become a major strategic weakness. Several committees have examined this issue and made many meaningful recommendations--all of which have either been scuttled or cosmetically implemented.

Research and Development (R&D) when viewed as a continuum, encompasses fundamental and applied research, design and systems integration. With some exceptions, DRDO is mostly at the lower end of the value chain at the systems integration level. Instead, its main efforts should be focused at the higher levels of technology and applications as well as on developing technologies that would be difficult or very expensive to source from elsewhere.

The key reform now required is the restructuring of the DRDO by separating the functions of strategy and operations. The strategy function must be driven by military strategy objectives that must be translated and prioritised by a multidisciplinary Board which should be headed by the secretary, department of DRDO, in the MoD. The DRDO as it exists today could be rechristened as the Defence Research and Development Agency (DRDA) and headed by a CEO responsible to the Board. The CEO could be selected from any sector, private or public, but must be an accomplished individual with a proven track record.

The DRDA must focus mostly on the application of technology. It should have verticals that resemble strategic business units in the private sector which are created on specialist and functional areas of deep domain expertise like electronics, mechanical, electrical, metallurgy, chemical, biology, ergonomics, and industrial engineering. However, these structures should include cutting edge areas such as software and data management, Artificial Intelligence (AI), control automation, mechatronics, robotics, bioengineering, biomedical engineering, production and value Engineering, optics and optoelectronics. Each vertical should have a Managing Director responsible to the CEO. Further, the Board should be responsible for assigning objectives and allocating resources for the CEO.

An increased fusion between defence and commercial capabilities, accompanied by better access to funding will exponentially increase the capacity of DRDA.

Artificial Intelligence, machine learning, additive manufacturing, bio-technology, quantum computing are being increasingly applied in the civilian sphere and the defence R&D system will have to find the means to encourage development and absorption of its military applications. A deeper civil-military fusion is a clear imperative.

We also need a quantum increase in R&D spending in the private sector in collaboration with the Government. Indigenisation of sub-systems in platforms would significantly improve self-reliance. Some of the other measures that should be considered are the following: provision of tax exemption, greater infrastructural and technical support, duty free import of laboratory and test equipment for R&D; tradeable IPR and patents and allowing private sector to outsource projects.

### **DEFENCE INDUSTRIAL BASE (DIB)**

India's DIB ecosystem continues to be tethered to the public sector despite several initiatives to broaden the base and increase private sector participation. Building a robust DIB ecosystem, comprising Indian private sector, FDI-backed firms, and the public sector will help reduce the rising capital outlay over the long-term.

In practice, private sector entities have to contend with the protective shield provided by the Department of Defence Production (DDP) to the public-sector units. This remains the prime reason for the private sector being confined mostly to the role of vendors in the ecosystem. The conflict of interest is obvious. With greater civil-military fusion necessary to achieve economies of scale, the national manufacturing ecosystem cannot and should not be kept separate from the DIB.

There is a strong case to selectively corporatize the public-sector production units. This will dissolve the conflict of interest and provide a level playing field for the private sector. There is also a need to create arrangements—under the Government Owned-Contractor Operated model—that enable private human capital to use public-sector infrastructure. All these moves may face opposition from the labour unions, but it is not politically insurmountable.

The private sector should participate at three different levels: major systems, assemblies/spare parts, and components. Product development and production of major systems can only be undertaken by firms with high-end technical, managerial and financial strength. The DDP has blocked the notification of identified firms as Raksha Udyog Ratnas (RURs). This hurdle must be removed if major systems are to be manufactured by Indian entities. This calls for a cognitive leap in viewing the private sector as another important arm of India's manufacturing capacity and not as an outsider that has constantly to seek permission to participate in a national enterprise.

### **ACQUISITION SYSTEMS**

In the last two decades, India's defence acquisition system has been littered with allegations of corruption. The system has reacted by enmeshing itself in byzantine procedures where process and control reign supreme over outcomes. Concurrently, it has opted for Government-to-Government deals, which are undoubtedly the fastest mode of acquisition, but provide little by way of the transfer of technology. Hence, India's external dependence continues. The challenge is to adopt a system that reduces the time for acquisition, while simultaneously harnessing technology through indigenous research or the import of technology.

The route to technology transfer therefore lies in attracting FDI and getting the OEMs to use India as a manufacturing base. The liberalisation of FDI norms in March 2020 provides the opportunity to attract FDI: upto 74% is now permitted under the automatic route. This will, however, take at least five years to fructify. Until then there will be no alternative to imports, if the required items are not available at home and are needed urgently. The option of leasing should also be exploited. The three services must, wherever feasible, buy common platforms or systems. Once identified, the aggregation would provide the scale and size to facilitate Strategic Partnership Models (SPMs) and locate manufacturing in India.

To simplify procedures, we need to shift decision making from 'play safe' to 'safe play'. Currently, the fear of being taken to task for violating procedures, even when done in good faith, has choked the speed and

effectiveness of the acquisition system. Integrity and responsibility must guide authorities for achieving outcomes that must balance financial savings with effectiveness. All processes that do not add value must be weeded out. Field trials must be simplified and excluded wherever it is unnecessary.

The problem of human-capital in the acquisition system has not been adequately addressed despite the Comptroller and Auditor General (CAG) pointing out that Defence Acquisition is “a cross-disciplinary activity requiring expertise in technology, military, finance, quality assurance, market research, contract management, project management, administration and policy making”. Such specialization is imperative in the post-pandemic era, for the inevitable budget squeeze would be another major challenge for putting in place a viable acquisition system.

### FISCAL SPACE FOR MODERNIZATION

India is the third largest military spender in the world. Since 1990, its military spending as a percentage of GDP has been in the range of 2.1% to 2.3%. Yet, rising manpower costs have bedevilled the defence budget and there is no option but to significantly increase the budget allocation for the coming decade. We can, however, institute measures now that will pay off in the next 10-15 years. In the absence of structural reform, India's defence budget may become unsustainable. The writing has been on the wall for more than a decade. In light of the threats and challenges that lie ahead, we can no longer avoid grappling with this problem.

The increased demands for modernization stemming from geopolitical turbulence can be met only by increases in the budgetary allocations. With the post-COVID economic downturn and competing priorities over the next decade, defence budget could be squeezed in the initial years. This will necessitate reviews of the existing five and fifteen-year defence plans. The political leadership must view the defence budget holistically, using the National Security Council (NSC), and not rely solely on the Finance Ministry to decide on matters of routine budget allocations.

Further, fiscal space for modernization must also be created by rationalizing the costs of manpower.

### LONG TERM REVENUE REDUCTION

The central problem is the burgeoning burden of pensions, which now accounts for almost 24% of defence expenditure— in contrast to 23% for capital acquisition. A solution to this problem and the imperative to keep the Armed Forces young has already been recommended by the Standing Committee on Defence in its 33rd Report to the Lok Sabha titled ‘Resettlement of Ex-Servicemen’. Building on this, we can adopt an [Inverse Induction Model](#). In the first track, a Government agency recruits and sends selected personnel to the Armed Forces to serve for five to seven years, after which the person returns to the parent organisation where his/her seniority is protected. Ideally, all government agencies can be part of this model, though preference should be accorded to armed organisations like Central Armed Police Forces (CAPF) at the Central level and similar organisations at the State level. In a second track, the government can hire retired personnel on contract. They will then receive pay less the pension as is already the practice in organisations like the National Security Council Secretariat. This model is ideal for soldiers rather than officers, as the bulk of the pension outflow is due to pensions for people below officer rank.

By the most conservative estimate, with a 10 percent inverse induction rate, the net present value of the pension reduction bill comes out to ₹1.2 lakh crore. For a 10 percent induction of retired persons, in State and Union Government agencies on contract, the pension bill reduction in the first year will be ₹ 4152 crore. In the second year, the reduction will be ₹ 4276 crore. In this way, the pension expenditure saved each year will keep rising.

There is also a case to revisit the possibility of applying the New Pension Scheme to Armed Forces personnel as has been done to all other government employees. The difficulty here is the short service periods of Armed Forces personnel in comparison to their civilian counterparts.

## POLITICIZATION OF THE MILITARY

Contemporary political and popular discourse routinely conflates the government with the state. In consequence, the traditional apolitical stance of the military is under pressure at two levels: the first, of the senior military leadership, and the second, comprising the junior leadership of officers and persons below officer rank.

Among the senior leadership, the conflation of the government with the state has distorted the traditional outlook that the military's loyalty lies with the Constitution and not with the party in power. Further, there is an assault on the secular outlook of the armed forces by wider social and ideological currents.

In the last decade, there has been a subtle shift in the incentive system of the senior leadership due to the government exercising its powers while appointing the Chiefs, though such matters happened earlier too. The government is fully justified in such selections, but the shift has to be seen within the political context, where there is an increasing trend of identifying the Armed Forces with political ideologies, a phenomenon evident during the 2019 elections that leveraged the Balakot strike for electoral purposes. Demonstrating loyalty to the government and even prefacing public speeches by a reference to the vision of the Prime Minister are now not uncommon among senior leadership. There is a danger of a pliable military leadership being used for narrow party-political purposes at the cost of national interests. This issue is a matter for the military leadership to introspect and rectify.

The military as an institution must also inoculate other personnel against a majoritarian conception of the nation. While soldiers have increased political sensitivity owing to access to social media, their collective ethos should be institutionally directed to reflect the secular traditions of the Indian military. This too will require senior military leadership to acknowledge the existence of a problem and work to reverse the trend.

It is dangerous to believe that the historical ethos of the military as an apolitical professional institution will naturally serve to protect it—even in the face of novel social and technological trends. In recent times, politicians have tasted electoral victory by invoking the military for their partisan causes. Hence, the proclivity to ride the military horse may only increase, to the detriment of our national security. The sole bulwark against this pernicious trend is a military leadership that upholds the motto of the National Defence Academy – “Service Before Self.” This responsibility on the military leadership is huge because India is a nuclear power.

## NUCLEAR WEAPONS

India's nuclear doctrine has endured without iteration since 2002. It has withstood controversies and pressures to alter its basic premises: the policy of NFU; the maintenance of civilian control; and the existence of certain reactions that could be massive. The nuclear arsenal is still in its envisaged growth phase and its maturing which will be signalled when the fourth SSBN becomes operational. This is expected to occur by the mid 2020s. Major progress has been made in the Command and Control systems, in terms of its survivability and its effective operational functioning. An ABM system against missile launch by rogue actors is under development and could be deployed early in this decade. A system of periodic review identifies adjustments to the nuclear context and, so far, it has not been considered necessary to make changes to our doctrine.

Increasing scientific evidence of the catastrophic effects of nuclear explosions on the environment at a global scale has rendered the idea of a large scale first strike, a suicidal proposition. This evidence adds to the impossibility of answering the fundamental question of nuclear strategy – how to control escalation after the first strike? India is uniquely placed to push for a Global No First Use Treaty, which can serve to enhance stability, during times of peace and crises.

# Chapter 5

## Strategy in the Information Age

Over the next decade, global information politics will rise in salience amid sharper international contestations in technology and cyberspace. Three trends are likely to be the most prominent during this period: the partitioning of cyberspace into two or more spheres; the political power of private technology platforms; and the politics of pervasively networked societies. To protect its interests in this context, and to be in a favourable position in the information age, India must develop the capability both to use the cyber domain to achieve state objectives and to deny adversaries such use in the international arena. India must become a credible cyber power over the next ten years.

While our Information Technology (IT) industry is a global giant, India is yet to become a major cyber power. The technology sector's contribution to the GDP is set to grow from 7.7% in 2020 to over 10% in 2025. By some estimates, India constitutes 75% of the world's digital talent base, with just the top four Indian technology companies employing over a million people. However, it is misleading to presume that this, in itself, makes India a cyber power. Similarly, increasingly networked armed forces, intelligence and cyber security organisations do not confer cyber power in a strategic sense. Cyber power has not yet been integrated into our national strategy, which has led to limited allocation of fiscal resources and to a narrow remit for government organisations handling the information domain.

Beyond intelligence gathering and influence operations, there has been no demonstration of the use of cyber power in India's foreign policy. Such a situation is no longer tenable in a world where both partners and adversaries possess and routinely use cyber power in a variety of ways. Over the past decade, researchers have published evidence of systematic foreign surveillance of the Indian government's computer systems as well as cyber attacks on targets such as a nuclear power plant, a space exploration mission and an electricity grid supplying a major city. While these external attacks might not have achieved

their political goals, they nevertheless underline a critical vulnerability for India's national strategy, that will only intensify over the next decade in the face of greater digitization of the Indian economy and society. India cyber defence strategy must cater for securing the massive and multi-layered target space it presents to its adversaries.

Possessing a competitive technology industry, a large pool of trained manpower, significant mobile internet penetration, and several R&D and educational institutions offers India the potential to become a credible cyber power. However, to actually become one, India must not only systematically invest in capabilities but also assemble them into employable instruments of statecraft. And ultimately to be credible, partners and adversaries must recognise India's ability to achieve political outcomes using cyber power.

### OUTLOOK

#### *A partitioning cyberspace*

The partitioning of cyberspace began in the early 2000s when China erected a barrier of content censorship and prohibited foreign internet companies from operating in the country. What was once a policy of self-isolation by China has now turned into a de facto attempt to carve out a Sinosphere in cyberspace, comprising several countries either directly aligned with China or antagonised by the West. While not completely severed from the global internet, China is creating a zone, roughly corresponding to the Digital Silk Road of the Belt and Road Initiative, where its infrastructure, technologies, platforms and norms are deployed, often on the back of its financing. This is true for the subterranean and submarine fibre-optic cable systems that connect the world, for satellite-based systems, and for wired and wireless telecommunications networks. China is creating a zone where it will enjoy hegemony by providing a platform for authoritarianism.

The deployment of fifth generation mobile telecommunications networks (5G) over the next few years is likely to sharpen the contours of Sinosphere's cyberspace capabilities. In the latter half of the Trump administration, the United States recognised the strategic challenge posed by China in the information domain and initiated a series of steps to counter it—this included restrictions on Chinese network equipment, personnel, software and mobile applications. It pressed its Five Eyes allies, Japan, and the European Union countries, to reject Chinese equipment in its 5G networks, thereby triggering Chinese political retaliation. This so-called “tech war” has emerged as an important aspect in Washington's seemingly bipartisan resolution to contain China, encompassing semiconductors, network infrastructure, operating systems, platforms and content.

India should not become part of the Sinosphere. India's interests lie in the maintenance of a free and open cyberspace governed by multiple stakeholders. To avoid being overly dependent on its own partners, India should use its domestic market size, large-scale societal platforms, digital content creation abilities, and data generation capacity to promote the open character of cyberspace. At the outset, the government must ensure that the core networks of telecom operators, governments, banks and financial institutions, large corporate networks and those of R&D institutions exclude Sinosphere-linked equipment and vendors. End-user equipment such as modems, smartphones and devices should be allowed only after strict cyber security audits, conducted using equipment from whitelisted suppliers and supplier-countries. Additionally, Chinese investors should not be permitted to have significant stakes in strategic sectors (e.g., defence, R&D, cyber security); those that collect massive amounts of data (e.g., public health, genomics, financial transactions); and where there are systemic risks (e.g., banking, telecom, transport and energy transmission).

A US-China tech war will create opportunities for India's digital diplomacy and for its tech industry. In the battle for global digital norms, India's inclusive digital infrastructure is a source of strength. India's model of building an inclusive and innovative digital economy offers other with an option different from that of the United States, Europe and China. Not being a part of the Sinosphere will create opportunities for Indian

companies and manpower to work within the bubbles of trust with partner countries in the Americas, Europe and the Indo-Pacific. As much as creating relationships of trust is a foreign policy goal, its success will depend on upholding judicial independence, openness and fair treatment of foreign firms, and the conduct of Indian nationals at home and abroad.

“Self-reliance” in the global technological context is a chimera. India's strategic goal should be to build resilient inter-dependence, which includes boosting trade and investment with China as with members of the Quad and other countries. Resilient interdependence requires India to become a bigger exporter in general, and to Australia, Japan and other Indo-Pacific countries in particular. If the Union and state governments create a suitable climate for large manufacturing investments, India could host a significant part of the technology ecosystem that shifts away from China as a consequence of the tech war.

Despite AI and automation, it is likely that many key jobs —relating to semiconductor design, cyber security and infrastructure assurance, for instance — will require a large, skilled and trusted human resource base. If global immigration flows get more restrictive, such jobs can be performed in India, provided national, state and municipal public policies provide conducive environments for such workers and their families. Developing human resource capacity of the scale and type to succeed in the future environment needs an overall upgradation of public universities, with graduates equipped to exercise good judgement and challenge conventions, over and above high levels of technical proficiency.

### ***Power of big tech***

Riding on the back of mobile internet penetration around the world and network effects, several technology companies have acquired global dominance in society, economy, culture and politics, posing a variety of challenges to sovereign states and governments. States around the world have already begun to assert their power over transnational technology platforms like Facebook, Amazon, Twitter, Google and Apple, using existing instruments such as anti-trust, anti-hate speech, tax, data privacy and localisation laws. While this might tame the economic power of big tech platforms, it is unclear whether existing laws will suffice



to manage their political power. The latter comes from their ability to shape individual beliefs and behaviour through their control of information flows, user data and algorithms. The past decade has witnessed many ways in which social media and technology platforms can be used to manipulate public opinion, shape public discourse, influence political outcomes and organise mass movements.

All three branches of the US government are likely to be involved in checking the influence of Big Tech firms, and it remains to be seen what measures they will evolve to check the political influence of Big Tech. With few of its own companies in the league of Big Tech, the European Union is also likely to focus on protecting the rights and interests of its citizens, as it did in the case of data privacy. Unlike the US, the EU is even likely to enforce content regulation against hate speech. The Chinese party-state — which zealously keeps its technology companies under firm control — would prefer them acquiring political influence in other countries. Beijing staunchly guards its narrative dominance within China, preventing individuals or firms from becoming too influential. The same is true with Russia, albeit to a smaller extent. The Indian state, like other liberal democracies, is also faced with the task of containing the political and economic power of Big Tech, while protecting fundamental liberties of its citizens.

It is in India's interest that no individual, industrial group or firm acquire market dominance — in India or elsewhere — thereby enabling it to exert power over the Indian society, economy, culture and politics. The strategic and security dimension is all the more acute with Chinese technology platforms, which must be presumed to have connections with the Chinese state. The policy challenge would be curbing their power without hurting the much needed economic and employment growth that technology platforms bring. Instead of seeking a silver bullet, all existing policy instruments should be used to try to achieve this outcome. Among these, competition and data privacy laws — along with the privileging of open-source systems in government procurement — are a better approach than tax and data localisation requirements. India must champion the use of open standards in network equipment, including those used in 5G networks. This is also a good way to allow domestic technology & societal platforms to become globally competitive and expand beyond India.

### ***Social capital and India's narrative***

Networked societies have not only created new imagined communities and group identities but have also affected psychological processes and individual decision-making. Over the past decade, we have witnessed online self-radicalisation, leaderless mass mobilisation, systematic trolling, use of “fake news”, exhibitionist violence and large scale psychological manipulation of voters. Even as societies grapple for a response to these challenges, new technologies are already available that can generate convincing fake images, videos and documents; and there is enough data in the possession of companies and governments that can be used to exploit the politics of networked societies. Open, liberal democratic societies are especially vulnerable to malice and manipulation by internal and external actors.

The fundamental defence against hostile information campaigns is an abundance of social capital and a free, healthy, diverse media environment. To the extent Indian society engages in the politics of polarization and identity, it will be vulnerable to the external adversaries' information operations. Repairing political and social fault lines, healing the numerous extant fractures and building identity-agnostic social trust form the bedrock of national defence in our information age. At the same time, law-enforcement authorities must be equipped, trained and backed by constitutionally robust legislative instruments to identify and respond to threats to public order.

In theory, our pluralistic culture, vibrant content and media industry, and free media should allow India to enjoy at least a proportionate imprint in cyber space. For this to happen though, a larger part of our cultural energies have to be directed outward. The role of the state in such a project can only be limited or indirect. Nudging and economic incentives could encourage some firms and organisations to focus on reporting and shaping narratives abroad, but an overall outward orientation of economic policy will be more effective towards this end in the longer term.

### **CYBER COMMISSION**

To coordinate, nurture and align national capabilities in the cyber domain for strategic purposes, the Union government must set up a Cyber Commission, along

the lines of the Atomic Energy and Space Commissions. The Cyber Commission should be tasked with building capacity, resilience, defences and weapons. Weaponization is an imperative. The Commission must be mandated to develop indigenous instruments for cyber espionage, degradation & damage, as well as influence, within the first third of this decade. It should also recommend a cyber power doctrine that dovetails into India's overall strategic doctrine. This Commission would be best structured as a networked organisation that is capable of drawing on talent and expertise across the government, private sector, academia and the general public.

### **Capacity**

The first pillar of cyber power is the possession of the fundamental technologies, supply chains and industries that undergird the information economy. Since these technologies change over time, it is possible for new cyber powers to emerge on the wings of the next technological generation. While predicting winners a decade hence is impossible, it is clear that a leadership in a few fundamental technological areas will be crucial for an aspiring cyber power: deep computing (including quantum computing), cognitive sciences and genomics. India needs sustained public investment in R&D in these areas, which contribute towards the strengthening of our research institutions, help in attracting the world's top scientists, and creating effective curriculums of higher education institutions.

### **Human Resources**

India's educational system — both public and private — has incentives to cater to global demand and is likely to create adequate numbers of skilled technology workers for the emerging economy, even as 'traditional' IT jobs become obsolete. As noted earlier, graduates will need to acquire broader knowledge and cognitive skills in a world where machines accomplish routine tasks and humans make judgement calls. Information operations are essentially about creating desired cognitive effects in the minds of partners and adversaries. The curriculum must therefore focus on the mixing of not just technology, but also

focus on cognition. Paradoxical though it may seem, India's schools and universities must introduce humanities and social sciences to equip citizens to be globally competitive in the Information Age. State governments must encourage private investment and growth in high quality liberal arts universities, even as they upgrade the quality of public universities.

### **Resilience**

Resilience is essentially the ability to continue business and life in the face of damage and degradation. India must incentivize its telecommunication operators and firms to build highly resilient global and domestic networks. Telecommunications policies must be reviewed to encourage redundant domestic and international networks, build multiple domestic hubs and links to the world's telecom hubs. India should ensure that its telecom operators have adequate capacity on new international undersea cable systems. Regarding satellite communications, the May 2020 decision to liberalise commercial space operations should be followed up with a robust regulatory framework that encourages private investment in all segments of space.

### **Cyber operations and war**

Cyber 'war' — involving state and non-state combatants — is a continuous, ongoing phenomenon. However, cyber operations by themselves, have limited power to coerce, compel or shape a decisive political outcome. Their utility lies in their potential to transform the effectiveness of other forms of power used in conjunction. Influence operations and public diplomacy can shape public narratives in target countries in a manner that enables political initiatives. Cyber espionage and degradation operations weaken the adversaries' military and operational capabilities much before the physical fighting begins. Like the world's major powers, India must continue to integrate cyber operational capabilities into its diplomatic, foreign intelligence and military structures. The Cyber Commission must oversee the development and operationalisation of cyber weapons in both defensive and offensive contexts. This is essential for India to emerge as a credible cyber power in the coming decade.

# Chapter 6

## The Ecological Crisis

Humankind's survival beyond the 21st century may well hinge on acknowledging the ecological crisis that confronts us and taking urgent collaborative action to deal with it. The 6th IPCC report released recently has not only underlined the scale of the climate change crisis but also the urgency with which it needs to be addressed. This is a domain where India's developmental prospects will be deeply impacted not just by its own choices, but very substantially by what happens in the global context. India must do all it can, within the limitations of its own resources, to repair its damaged ecology and impaired natural assets. At the same time, it must work with other countries to mobilize an urgent, ambitious and effective global response to salvage and safeguard the fragile ecology of our planet. Climate change is merely one dimension of this epochal crisis. In this respect, the current decade will be a defining one.

Ecological sustainability must be embedded in the country's development strategy and processes. The notion of a trade-off between economic development and ecological preservation is false. We are now at a stage where safeguarding the ecology has become a precondition for sustainable development. Disregarding the ecological dimension of development will lead, literally, to a dead-end. The COVID-19 pandemic has heightened awareness of the dangerous consequences which result from the loss of biodiversity and the erosion of the already shrinking habitat of wild species. While the lockdown led to considerable distress, it also fostered an awareness and an appreciation for lesser air pollution, cleaner rivers, and the return of several species of birds and animals to urban spaces. There may now be a greater receptivity, both in India and across the world, to re-examining the prevailing development orthodoxies reliant on a relentless erosion of natural assets, well beyond their capacity to revive and regenerate. Reverence for nature is deeply ingrained in Indian culture and could enable popular mobilization in support of ecological sustainability. This would also help India shape the international discourse in dealing with the ecological crisis. The present government

has been successful in launching popular campaigns such as the Swacchh Bharat Abhiyan. This could be broadened to a Shristi Raksha Abhiyan.

India is already committed to the U.N. Sustainable Development Goals (SDG) that must be achieved by 2030. The SDGs are notable for their multi-domain character, taking cognizance of the feedback loops which bind different domains together. For example, the use of chemical fertilizers and toxic pesticides may be deemed necessary from the perspective of food security, but they also have a negative impact on health security, as farmers and their families are exposed to such toxicity. The establishment of coal-fired thermal power plants may be justified from the energy security angle, but they use large volumes of water, emit toxic fumes, and generate toxic wastes—all of which have negative impact on water and health security. Conversely, some interventions may have a positive impact across domains. For instance, planting new forests not only creates a carbon sink but also enhances water security by preventing the draining of rain water and allowing the recharge of sub-soil aquifers.

Another disastrous contemporary phenomenon is plastic waste. It is clogging our rivers, contaminating our soil, and turning large ocean spaces into dead zones with no possibility of life. Micro-plastics are ingested by fish and find their way into the food chain and affect human health. Investing in the removal of plastic waste and its recycling, restricting its use and promoting organic alternatives will have benefits across several domains which are not captured by our current accounting systems. Rather than treating the SDGs as a supplemental initiative, we must integrate them into India's development strategy, emphasizing a co-benefit approach wherever possible. Here is an opportunity for India to chart out an exemplary sustainable approach to development.

Climate change is one aspect of the ecological challenge and must be dealt with in that larger frame. India has a significant stake in addressing climate

change as it is among the countries most vulnerable to its adverse consequences. The enormity of the threat is reflected in reports of the U.N. Framework Convention on Climate Change (UNFCCC) and in reports of the Intergovernmental Panel on Climate Change (IPCC). The Indian Ministry of Earth Sciences Assessment of Climate Change over the Indian Region (June 2020) has further underscored the fact that climate vulnerability covers the entire development spectrum: reducing agricultural productivity, increasing water stress, spreading vector and water-borne diseases, and subjecting the country to far greater and cumulative destruction from more frequent natural disasters. Further damaging India's ecology and degrading its natural assets in the name of development sets up a false choice. Any increase in incomes and wealth result temporarily from the drawing down of natural resources will be wiped out by the negative impact of climate change. What's more, the very prospect of future growth will shrink if we persist on the current trajectory.

The challenge of climate change is two-fold for India. First, since climate change is a global phenomenon, India's fate is linked to global success or failure in collaboratively tackling the problem. India has a major stake in creating a global climate change regime—one that helps prevent the negative impact of global warming, and yet does not limit its development prospects. So, India must be an active and leading player in the ongoing multilateral negotiations on climate change in the follow up to the Paris Agreement on Climate Change.

The second is the domestic dimension. India's cumulative or historic emissions of greenhouse gases, of which carbon emissions are the most important, is relatively small and its current per capita emissions are among the lowest in the world. India has 18 percent of the world's population, but account for only 7 percent of global emissions. In 2018, the total carbon emissions across the world were 36.5 billion tonnes of CO<sub>2</sub>—of which China accounted for 10 billion, the U.S. for 5.4 billion, and India for 2.6 billion. Even though India may be the third largest emitter, it is well below China and the United States. These facts need to be prominently and repeatedly highlighted in India's international discourse—not least to counter

the claims that India's energy trajectory over the next decade and beyond makes it the greatest obstacle to meeting the Paris goals. There is a further tendency in the climate change discourse to club India with China. But our development trajectories are now rather different. India needs fully to decouple itself from China and highlight its own exceptional situation.

Over the next decade, there will be a spotlight on India's use of coal. It is estimated that from the current 200 GW capacity of coal-based thermal power, India plans to add another 100 GW of capacity by 2030. Indian coal mines now produce 700 million tonnes of coal—a figure that will be ramped up to 1 billion tonnes in 2030. On these grounds, India is being projected as the main threat to global efforts to keep average rise in global temperatures to within 2 degrees centigrade by 2050. We have been unable to highlight that currently China has an installed capacity of over 1100 GW of coal based thermal power and it has an additional 250GW (more than India's total current capacity) in the pipeline. Its coal production and imports have been rising. Output was 2.2 billion tonnes in 2005; 3.5 billion tonnes in 2015 with imports of 204 million tonnes; and 3.5 billion tonnes in 2018 with imports of 295 million tonnes. India needs to highlight these facts. Even if China's coal-based power plateaus in the near future, that does not mean that India must do the same at a significantly lower level, so entrenching acute energy poverty of its people. It is wholly incorrect to insist that those possessing a larger fossil fuel capacity may keep what they have while others at a much lower threshold should not be allowed to expand any further. This will at once freeze the global development differential and violate the principle of climate justice.

India has a good story to tell on coal. Thanks to lower than anticipated power demand, the Central Electricity Authority of India has stated that only half of the target of additional capacity of 100 GW may be met in the current decade. Further, tariffs of renewal energy are now lower than coal-based thermal power, so diminishing the economic viability of the latter. India is the only developing country that levies a sizeable cess on coal—currently at Rs 400 per tonne—which is effectively a carbon tax. Resisting undue international pressure should not, however, provide a pretext for

slackening the major domestic effort that India must make to reorient its development trajectory on a more ecologically-sustainable path. That effort stands on its own merit.

India's sustainable development entails a commitment to a low carbon trajectory. For energy security and for meeting ecological challenges, India should make a strategic shift from its current reliance on carbon-based fossil fuels to progressive reliance on renewable and clean sources such as solar energy. Today 90% of India's oil requirements are imported from parts of the world where political unrest and supply disruptions are constant risks. Our imports of natural gas as well as coal are rising. Newer power plants use high quality coal with low ash content, which is not available in India. Energy security, especially in the context of Atmanirbhar Bharat, requires an accelerated shift towards renewable energy; greater focus on energy efficiency; and the promotion of collaborative research and development on more efficient renewable energy generation, cost effective and efficient energy storage, and safer and more affordable nuclear power including fusion power. India is already a key participant in the International Thermonuclear Energy Research (ITER) project. These measures are not only critical to promoting energy security, but also national security in a broader perspective.

Consider the more direct impact of climate change on military security. Indian troops are deployed in the high mountainous zone in the north. Some deployments are in areas of permanent frost. The melting of glaciers due to global warming will pose major risks to our defence forces. There have already been significant casualties from avalanches and mudslides. Similarly, the rise in sea levels and the flooding of low-lying coastal plains could adversely impact our naval installations and bases. Acknowledging, assessing and respond to such challenges should be a major focus of our national security establishment in the coming decade.

India has also adopted ambitious targets for renewable energy as part of the Paris Agreement commitments. The original target of 175 GW of renewable energy by 2022 will likely be met. It has now been revised to 227

GW and 450 GW by 2030. Roughly 40% of the power demand by 2030 may be met by renewable energy. Coal-based power may decline from 76% of current power generation to only 46% by 2040. This too must be projected as a major contribution to global action on climate change.

During the coming decade enhancing energy efficiency and promoting energy conservation needs to be high on the agenda. India has two important legal instruments to achieve these goals. The first is the Energy Conservation Act (ECA), which has specified 15 energy-intensive industries that must adopt energy conservation measures against benchmarks framed by the Bureau of Energy Efficiency (BEE) set up under the Act. This legislation also mandates energy audits of a host of enterprises, including aluminium, fertilizers, iron and steel, cement, pulp and paper, chlor alkali, sugar, textile, chemicals, railways, ports, petrochemicals, petroleum Refineries; thermal and hydel power stations, electricity transmission and distribution companies, and commercial buildings or establishments.

The Bureau of Energy Efficiency has also introduced a 'Perform and Trade' market mechanism, through which energy certificates may be traded by enterprises covered by the Act. Those who perform better than the benchmark obtain energy certificates designated in calorific units. These may then be bought by underperforming enterprises in order to escape penalties. The ECA could become an effective instrument to promote energy conservation, if it is strictly implemented and overseen by an empowered BEE. During the coming decade, the implementation of the ECA should be a priority.

Related to the ECA is the Energy Conservation Building Code (ECBC) which was adopted in 2007. This Code is particularly important because India's urbanisation is still in its early phases. Much of building construction, both residential and commercial, will be taking place in the coming years. Ensuring that these buildings are energy efficient would significantly impact energy security. BEE, which is also the authority to implement the Code, has issued in 2017 a revised Code setting higher standards for energy conservation in buildings. As with the ECA, the challenge lies in

strict implementation. The ECA and the ECBC should become the pillars for enhancing India's energy security with a significant co-benefit in meeting the challenge of climate change.

In meeting energy conservation and climate change goals the corporate sector, both private and public, will play an important role. The corporate sector is increasingly aware that climate change is a serious business risk and that tackling it is not merely the state's responsibility. Mobilising the corporate sector to contribute to the goals outlined above will be indispensable to any sustainable development strategy.

We have argued earlier that the Indian sub-continent is a single geopolitical and geo-economic unit and that it is in India's interest to pursue regional economic integration. But the sub-continent is also a single ecological unit and there are ecological and climate change challenges which cannot be met without collaboration among the countries of the region. For instance, the melting of the Himalayan glaciers or the degradation of the fragile ecology of the mountains will affect not only India but Pakistan, Nepal and Bhutan. Since the river systems of the northern plains of the sub-continent have their origin in the Himalayas, even Bangladesh would be gravely affected if these river systems are subject to flooding and then to diminished flows. Further, all the countries of the sub-continent are affected by the monsoons and any change in weather patterns would disrupt the livelihoods of the entire population of the sub-continent. Similarly, a rise in sea levels will affect the island nations of Sri Lanka and the Maldives and people living along low lying coastal plains in Pakistan, India and Bangladesh. There may be major internal as well as cross-border migrations of affected populations and these will cause enormous social and economic dislocation and stress

And yet, there is virtually no collaboration among South Asian countries to understand changing monsoon patterns, the melting of glaciers, or the rise in sea levels—let alone considering adaptive responses. It is in India's interest to engage with its neighbours on these issues—concerns that also need to be placed on the multilateral agenda.

The next Conference of Parties to the UNFCCC will convene in Glasgow at the end of 2021. India must formulate its negotiating strategy carefully in advance. It should highlight its light carbon footprint both at present and in its future trajectory. It should contrast its positive record in comparison to China and seek a separate and differential treatment in any global Climate Change regime. India should also reach out to the large constituency of developing countries, flagging crucial issues on their behalf—especially, financial and technology transfers and adherence to the principle of equity and climate justice. We should also turn the international spotlight on adaptation to climate change as a major requirement for developing countries, for even with drastic mitigation measures the challenge of climate change will persist for over a hundred years owing to the existing stock of greenhouse gases. India should lead the effort to shift climate change action from its unifocal emphasis on mitigation and place adaptation high on the agenda of multilateral negotiations.

Over the past decade or so, we have ended up distancing India from this constituency. The lure of being grouped with China or a seat at the 'high' table should not obscure the fact that the interests and approaches of the advanced Western countries are rather different from ours and other developing countries. At Paris, this approach of being talked of India as a key player led India to give up its long-standing insistence on historical responsibility as an indispensable factor in determining the commitments by the parties to the UNFCCC. We should not be ensnared again: in being pressured, for instance, to indicate a peaking year for our emissions or a date for achieving carbon neutrality.

A reorientation of our climate change diplomacy has become urgently necessary and an early start must be made to regain our leadership role among developing countries. This may also be reinforced through bilateral cooperation through the International Solar Alliance, which is headquartered in India. In dealing with the ecological crisis, India should not only be an active player on the climate change front but also in multilateral negotiations under the International Biodiversity Convention (IBC). The UNFCCC and

the IBC are closely intertwined and require a well-coordinated negotiating strategy. India is rich in biodiversity and this should be regarded as a store of natural wealth. The manner in which we use this biodiversity has implications for climate change and vice-versa. Yet these are dealt with in silos. It is imperative that these are brought together, both in domestic policy making as well as in dealing with them in multilateral negotiations.

In formulating a credible and effective national strategy on ecologically sustainable development, including climate change, India suffers from weak or even absent institutional mechanisms. The requirements range from robust and rigorous research and analytical capabilities to policy coordination and implementation. Without comprehensive and credible data and analysis, policy making becomes ad hoc and uncoordinated. Even when high quality data and analysis are available, policy alternatives need to undergo careful consideration in an authoritative body where all stakeholders are represented. The Prime Minister's Council on Climate Change could be such a body, but it needs to be institutionalised and empowered to give advice and policy options.

There needs to be an authority preferably located in the Prime Minister's Office or a National Ecology Commission in the manner of the Space Commission or the Atomic Energy Commission, or the Maritime Commission recommended earlier in this report, headed by the Prime Minister himself, which has

the power to bring together concerned ministries and agencies and ensure inter-agency coordination and implementation. Most SDGs require multi-disciplinary and cross-domain approaches: only an empowered agency can ensure inter-ministerial and inter-agency policy designs and interventions. This would serve not only for domestic policy making but also in formulating appropriate multilateral negotiating strategies.

If such an institutional framework is designed and operationalized in the coming decade, we will be much better positioned to meet the coming crises of the Anthropocene. State government, too, have a critical role to play in dealing with the ecological crisis and more specifically climate change. Centre-state consultation and coordination is a must and this could be achieved through the Inter-State Council or an inter-state mechanism set up specifically to deal with this important agenda item.

India's development trajectory cannot replicate China's highly energy-intensive growth trajectory. This is not only because of finite global resource, but also climate change and ecological concerns both at home and in the world. India is still at an early stage of its modern development trajectory, so it is not yet locked into an energy intensive pattern of growth. Much of its infrastructure remains to be built. There is no great cost of retro-fitting as is the case with industrialized countries or with China. An alternate pathway to high quality growth and development is eminently possible.

# Chapter 7

## Growth, Inclusion and the Indian State

The best foreign policy for India is double digit growth. But growth without inclusion will undermine the economy rather than enable it. In the coming decade, economic growth, will have to be led by exports and private investment, and a massive investment in physical and human capital. This calls for continued commitment to market oriented economic reforms, to openness on the trade front, while enabling employment intensive growth. It will also require the Indian State to invest both financially and administratively in building human capital. India will need to shore up state capacity in the fiscal, administrative, and institutional dimensions. The increasing tendency to centralize along with symptoms of fraying federalism need to be checked. Decentralization and devolution to lower tiers of government is an imperative.

### REVIEW OF ECONOMIC GROWTH

India's economy is the third largest in the world measured in purchasing power parity (PPP) adjusted to dollars. Even without PPP adjustment, at a size of 2.7 trillion dollars in 2020, India's is among the top six economies. Its average growth rate in the past two decades is an impressive 9 percent per annum as measured in dollars. It has grown more than five times in size since the turn of the millennium. Three features of the Indian economy are worth noting. First, its relatively high growth has been services led, and has not led to an increase in the share of industry or manufacturing in its GDP. Thus, the services sector's footprint has expanded to nearly 65 percent (as against less than 40 for China), while agriculture has shrunk below 15 percent. Yet agriculture continues to be the source of direct or indirect livelihood for half the population. Second, India stands out as the only large Asian economy, which has consistently had a current account deficit and has yet accumulated a large stock of foreign exchange, presently the fourth

highest in the world. Hence, for the past two decades, the shortage of dollars on the external account was more than compensated by inflow of foreign capital. This signifies the confidence of foreign investors in India's growth prospects. Thirdly, India's growth experience has been divergent across regions and states within the country. Normally, the laggard states should exhibit higher growth rates, and there is an expected overall convergence. But contrarily, we see divergence, with the ratio of per-capita incomes between the richest and poorest states widening, instead of narrowing. This has persisted despite relative free mobility of labour and capital within the country. This third aspect has implication for the push and pull of federalism in the coming years.

### GROWTH DYNAMICS

Despite high average growth during the past two decades, it was uneven—with higher growth seen between 2003 and 2011 (barring 2009, the year of global financial crisis) and steadily declining growth since 2017. Growth in the first decade was driven by a boom in credit, investment, as well as exports, and in the second decade mostly by consumption and fiscal support. During the first decade, the steadily rising trade to GDP ratio as well as substantial capital inflows underscored the increasing openness of the Indian economy. Prior to 2010, strong inflows kept the currency on an appreciating rather than a depreciating bias. This feature was shared by other emerging market economies.

The global economy experienced a commodity boom in the run up to the Beijing Olympics, and global trade grew strongly—a trend reflected in relatively high growth in most economies. At the turn of the century, India's software and information technology sectors too received great impetus from globalization, the dot com frenzy and the Y2K panic, among other factors.



Owing to strong income growth both in absolute and per-capita terms, India was able to lift 270 million people out of absolute poverty between 2005 to 2015. Nevertheless, overall job creation—even during the high growth phase—lagged behind the pace required by demographic growth. India's workforce expands at nearly 1 percent faster than the population and will do so in the foreseeable future. This creates a potential demand for at least 10 million new jobs every year, and consequently at least half a million new enterprises. The high growth performance has not been matched by the commensurate growth in good quality, high productivity jobs or of enterprises. Youth unemployment is, in fact, a global challenge—one that has lately been rendered worse by the stagnation in investments combined with an increasing drive towards automation.

India was also better able to withstand the impact of the Lehman crash of 2008 on Wall Street and the subsequent Global Financial Crisis (GFC), which was one of the worst economic crises in the Western world since the 1930s. Thanks to proactive and prudent monetary policy tightening prior to the crash, as well as a strong fiscal and liquidity stimulus later, the growth downturn of 2009 quickly led to resurgence of growth rates back to 8-9 percent in the following years. The response of India's economy to the COVID pandemic and recession is a different matter which is discussed later in the chapter.

The strong fiscal stimulus in the wake of the GFC proved to be longer than necessary and excessive in magnitude, and was not withdrawn in a timely way. Hence since late 2011, the economy showed signs of overheating, and inflation stayed stubbornly high for several years. India's macroeconomic weakness was exposed, in terms of persistent double-digit inflation, widening current account deficit and a sharp fall in the exchange rate. This was exacerbated by the famous “taper tantrum” of global financial markets in the summer of 2013. Analysts began referring to India then, as part of the “fragile five” economies, which were extremely vulnerable to large reversal of foreign flows, and who were predicted to have a massive growth downturn. Interestingly three of these five economies were from the famous BRICS grouping, characterized as those with long term prospect of high and sustainable growth.

After 2012 it was evident that the drivers of growth were no longer investment and exports, but rather consumption—in which the government component was significant. This also led to sharp deterioration in the fiscal situation. The gains of fiscal prudence of the previous decade were steadily frittered away and worsened by macroeconomic weaknesses. Some of the excesses of the previous decade also contributed to the banking sector's woes. Excessive credit growth had led to the potential for increasing incidence of delinquent loans. This is also referred to as the twin balance sheet problem. Both corporate and bank balance sheets were excessively stretched. This was aggravated by several factors. First, GDP growth was slowing down, squeezing corporate profitability and the ability to service debt. Second, the foreign loans became unserviceable, owing in part to the worsening exchange rate. Third, banks had a relatively large exposure to infrastructure projects that became mired in delays and disputes, especially in the Public-Private-Partnership (PPP) model. Those infrastructure loans contributed to the rising ratio of non-performing loans. Finally, after 2014, the central bank instituted an intensive asset quality review of bank balance sheets, which forced banks to reveal the true scale of the bad loans problem.

## GLOBAL SECULAR STAGNATION

The response to the global financial crisis of 2008 was rapid, coordinated and massive. Central banks of USA, EU, and Japan slashed interest rates to record lows, and pumped in enormous liquidity. The GFC was immediately followed by a crisis of sovereign debts in Europe, triggered by sharp increases in the indebtedness of economies like Greece, Italy, Portugal and Spain. This too led to further monetary easing. Over the past decade, the balance sheet size of central banks in advanced economies has expanded by nearly 400 percent. Such was the scale of “money creation” globally. This was prior to the COVID pandemic, after which money supply increased even more steeply. Yet, the pick-up in growth rates since 2008, or in rates of employment were not commensurate to the monetary stimulus. Undoubtedly the U.S. economy expanded steadily for eight years after 2009, but the “firepower” deployed to achieve that expansion was quite disproportionate. The jobs expansion did not

result in wage increases, nor in the median household incomes. As a result of the glut of liquidity, much of the money flowed into asset markets such as stocks and housing. Even commodity markets were not spared by speculative investors who had access to cheap money. The rising asset prices have worsened the wealth inequality, since asset ownership is largely concentrated among the rich. The political backlash to rising inequality led to movements like “Occupy Wall Street”, the Brexit vote and the election of President Donald Trump.

Many economists believe that the advanced economies, or indeed much of the world is in an extended phase of “secular stagnation”. This is reflected in a prolonged and indefinite period of low interest rates, stagnant productivity growth and industrial investment, high rates of youth unemployment. On top of this came partial retreats from globalization, as many countries raised new trade barriers and the trade friction between the U.S. and China surged. This resulted in slowing down of global trade, which had been one of major driver of global growth during the first decade of the millennium. Larry Summers, former U.S. Secretary of Treasury, has suggested that secular stagnation may be the defining macroeconomic challenge of our times. He was referring to the ineffectiveness of aggressive monetary stimuli around the world. The only way to give impetus to growth seems to be aggressive fiscal pump priming, which is constrained by the already stretched fiscal situation in most economies. The pandemic of 2020 underscored the need for fiscal measures even more starkly.

## **SLOWING GROWTH PRIOR TO THE PANDEMIC**

India too has experienced a less acute version of secular stagnation. Since 2016-17, the annual growth rate has steadily declined from 8 percent down to 4 percent in 2019-20. This was prior to the pandemic of 2020. This four-year period included two major disruptions to the economy. One was the drastic act of demonetization which abruptly pulled out 86 percent of the circulating currency; the other was the rollout of countrywide Goods and Services Tax, which had serious teething problems. Both were driven by reformist intent but instead had immediate and

severely adverse impact on the large informal sector. The GST reform is expected to eventually lead to better tax compliance and higher economic growth. But it is currently imperfectly implemented, and the rates are too burdensome.

During these past four years, the investment to GDP ratio, a reliable indicator of future growth has been stagnating at around 28 percent, as compared to a peak of 38 percent seen during 2008-09. Export growth over five years since 2015 has been cumulatively zero. Some of this can be explained by the sharp fall in oil prices during 2015 and 2016. One fifth of India's merchandise exports are petrol and diesel, the dollar value of which is largely dependent on the international price of crude oil. It may be noted, however, that during these years, economies like Bangladesh, Vietnam and Korea achieved double digit growth in exports.

The non-performing assets—bad loans ratio—of India's banks went up steadily from 5.4 percent in 2015 to nearly 10 percent by 2019. This meant that banks had to hold higher capital for provisioning for losses and that their ability to make fresh loans was constrained. Many banks had to undertake corrective measures, which prevented them from any lending whatsoever. This too affected their profitability gravely. Consequent low credit growth was also a constraining factor on industrial growth.

## **DURING AND AFTER THE COVID PANDEMIC**

The post-2008 global economic context is therefore, of a prolonged secular stagnation. This ultra-loose monetary policy combined with a low interest regime will continue for several years, especially in light of the severe impact of the COVID pandemic. Since 2018, thanks to the U.S.-China trade friction, there is also increased protectionism globally, as countries try to grapple with jobless growth or stagnation of wages and productivity. The COVID pandemic and consequent lockdown caused a sharp contraction in most economies, and has now provided an alibi for injecting massive fiscal stimulus to stimulate recovery and growth. This massive fiscal spending has led to accumulation of government debt. That portends higher taxes—short of outright debt repudiation.

The US-led initiative to raise minimum corporate tax rates to 15 percent worldwide has gained popular acceptance. The abundance of money supply has also raised asset prices, which further aggravates income and wealth disparity. As a consequence, we see a strange disconnect between the health of financial markets and the underlying economic performance of most countries. However, concerns about debt and growth sustainability remain. The debt overhang is more acute in China, as policy makers try to rein in growth of credit. Amidst all this, the world is learning to deal with an assertive China, whose confrontational posture and belligerence have impinged on several countries.

The fate of global economic governance also hangs in balance. The World Trade Organization was rendered ineffective, as its crucial dispute settlement panel was crippled by the blocking of new appointments. The International Monetary Fund's influence has been overshadowed by large private cross border flows of global capital, and the influence of private rating agencies. Reform of voting powers within the IMF is yet to be addressed. The World Bank and World Health Organization, too, find their salience and influence diminished.

The COVID pandemic affected all economies adversely, although China managed to achieve a positive economic growth during 2020. The post pandemic recovery is asymmetric, since vaccine rollouts are faster in developed countries, which are hence recovering faster. During 2021, the global growth and recovery was very strong, especially in developed economies, thanks to vaccine optimism and large fiscal stimulus. India too was expected to register sharp, albeit profit led, economic recovery in 2021. However, the lethal second wave during April and May of 2021 has dented an otherwise robust recovery. It also exposed the unpreparedness of the healthcare infrastructure, and the need to scale up investment substantially. Crucially, early recovery trend indicated that recovery was primarily K shaped in 2020 and risked leaving severe scars in labour market and capacity of small and medium enterprises, where the bulk of India is employed. As a result of the setback from the second wave and the K shaped recovery, by end of 2022, India's GDP would be barely above its level from two years

ago. This implies a high opportunity cost in insufficient employment creation and investment spending.

Moving forward, growth will have to depend heavily on rise in private investment and stellar performance of exports. The drag on growth will come from banking, owing to the large burden of non-performing loans and write-offs, and the ailing power sector. During the post-pandemic years, the robust growth in developed economies offers a chance to revitalize export growth and increase the share of industrial and services exports. That calls for an appropriate export promotion policy, backed by fiscal incentives and the enabling exchange rate policy. China continues to be India's largest trading partner in 2020. Chinese growth and consequent higher demand is partly responsible for the inflation in commodity prices worldwide. This inflation trend is likely to continue owing to pressure of fiscal deficits.

## THE ROAD AHEAD FOR GROWTH AND REFORMS

As we look at the next decade, there are several levers, that if used correctly could yield a positive growth scenario for India. First, the twin balance sheet problem. Both banks and corporates have substantially reduced their leverage. With appropriate capital infusion and privatization, the bank balance sheets could be healthy enough to provide robust credit growth to support high GDP growth. The GST system could also get past its current teething problems to functioning much better. If petro-products and electricity are included into the GST, it should deliver on its promise of higher economic growth and better revenue collection. The other big reform-- of the bankruptcy law, is also expected to create better credit discipline and an active market for stressed assets. The temporary suspension of the insolvency law during the pandemic will hopefully not dent its eventual efficacy. The government's push for large-scale privatization could unleash large amounts of inefficiently managed capital that is earning too little return. The ambitious National Infrastructure Pipeline which envisages investment up to Rs 110 trillion (about \$ 1.3 trillion) could provide a big boost to growth in both the short and long runs. There remains

the fiscal challenge of meeting these requirements without crowding out private investment or triggering inflation and higher interest rates.

Several major risks could derail this optimistic scenario. First, the regulatory risk of frequent changes in tax policies, including U-turns, of which there have been many in recent times. These have affected sectors such as telecom, renewable energy, e-commerce, pharmaceuticals among others. Investors are not worried about myriad regulations that they need to comply, but rather the lack of stability, continuity and predictability in policies. The international arbitration panel ruled against India's taxman in two high profile cases. Policies like retrospective changes in tax laws seem whimsical and can deter investors, both foreign and domestic. As such there is a visible trend of increasing outbound investment, signaling perhaps declining domestic investment confidence. Second, a creeping inspection-raj seems to have replaced the old license-raj. It is important to move toward regulation by exception, rather than by over-inspection and bureaucracy. The Production Linked Incentive (PLI) scheme which seeks to promote and incentivize domestic production is an example of an overload of bureaucratic controls and regulation.

The third risk is of widening income, wealth and regional inequality. Income inequality is a natural consequence of high economic growth, as the leading sectors surge ahead and laggards fall behind. Eventually however, convergence between sectors or regions is expected. But if the disparities widen beyond a point, it becomes detrimental to economic growth and stability. This is the current reality in India. Spatial and wealth inequality has been rising substantially and especially in the last decade. Fiscal policy will have to ensure some degree of equitable redistribution. The fourth risk stems from the worsening "ease of doing business". Critical here are not the hard parameters such as ease of availability of skills and infrastructure, but the soft ones: speed of settlement of disputes, the enforcement and protection of property rights and investors' rights. These require a strengthening of judicial and regulatory institutions, protecting their autonomy and independence and giving room for their effective functioning. This essentially is a project of strengthening the foundation of trust between stakeholders and the state. A final risk is the current awkward turn toward protectionism.

The recent trend of increasing import duties on nearly half of all products and tariff lines do not bode well for India's commitment to openness. The lessons of the '90s about the links between openness and higher growth should not be forgotten.

## THE IMPERATIVE OF TRADE OPENNESS

Achieving high and inclusive growth is the best strategy to combat poverty, improve quality of life and to project power externally. This requires tapping into the purchasing power of consumers both domestically and internationally. Openness must therefore be embraced as an imperative. It enables not just trade in goods and services, but also inflow of investments and participation in global value chains (GVC). India's abrupt, last-minute opting out of the Regional Comprehensive Economic Partnership was a wrong turn. In the ten years since signing of the free trade agreement with ASEAN, both imports and exports have grown four-fold. More importantly, future investors seeking to locate complete value chains within the RCEP region, will think twice before locating any part in India, if it chooses to remain outside RCEP. Value chains contribute to employment creation, even if the trade balance is negative. India's trade deficit with China is the mirror opposite of its substantial trade surplus with USA.

A mercantilist approach of balancing every bilateral trade relationship is ultimately self-defeating. India must learn both from the successes (such as Nokia) and failures of its own Special Economic Zones policies. In a new avatar, we need to locate them as coastal economic zones and allow SEZ entities access to the domestic market as well. Even in a scenario of slowing global trade, India's share of global merchandise trade can surely rise from 1.5 to 3 percent, which would be a doubling of the volume. A focus on labour intensive sectors like garments, electronic assembly, footwear, agro-processing and tourism could yield tremendous dividends—but only if openness is truly embraced. The last-minute walk out of India from RCEP in 2019, sends a wrong signal on its intent toward open and free trade.

The world is awash with liquidity and global investors will pour funds where growth prospects are positive. India is one such growth pole, and a potential major

attractor of funds. Recent evidence of strong inflows supports this view. Liberalization of foreign direct investment policies, in all but a few sensitive sectors can energize investors further. But investment that locates parts of global value chain in India, will need it to be more tightly engaged with the region.

## SOCIAL INCLUSION AND GROWTH

There is no trade off, investment in human capital is constitutive of growth. In the coming decade as India finds her way back to a sustainable growth path, she will have to confront the deep limitations of the current growth pathway – a path that improved national income but failed to make concomitant improvements in human capital. Despite high growth, India today ranks 115 out of 157 countries in the World Bank's Human Capital index that measures country performance on five key human development indicators. Crucially the gap in wealth and income between the top 1% and bottom 50% of the population has only been growing. Most of India has thus far remained spectators rather than active participants in India's growth story.

The three key functions of any State is to provide its citizens with security of their lives and property, in particular the security and well-being of women and children, health and education. That as a democracy India has failed singularly to provide these basics to its citizens' remains one of the greatest puzzles of the country India's development pathway. It undermines the democratic project of ensuring social justice, equality and freedom to all citizens. But it also undermines growth prospects. Economies with entrenched inequality and resultant intergenerational rigidities like India face disproportionate constraints to sustainable long-term growth by limiting opportunities for low-income earners to participate in higher income generating economic activities. In India, this transition from low income to high income, is particularly challenging because growth has largely been fueled by the high skilled, services sectors. Consequently, most of India remains locked in a vicious low skills and low wages cycle, with limited prospects of growth and intergenerational mobility.

At the heart of India's growth challenge in the next decade, is the urgent need to break out of this vicious

low skill - low wages cycle. This requires far greater public investments in human capital. The Indian State invests far lower as a percentage of GDP in provision of basic public services – health, education, social safety nets – than any other country with comparative GDP growth. The violence of these redistributive failures were made visible during the COVID-19 lockdown in early 2020 when millions of India's urban workers found themselves stranded in cities with no income and no shelter. Their long walk home through India's highways became the defining image of India's COVID-19 response.

But the challenge of public services goes far beyond financial investments. On the key metric of quality and outcomes, India's performance is abysmal. The Annual Survey of Education Rural, has for over a decade highlighted that nearly 50% of students on completing 5 years in primary schools in India can barely read a standard 2 text. With school closures on account of COVID, it is likely that these gaps have been exacerbated significantly. Primary health too suffers from serious quality concerns. Studies on government health facilities in India have repeatedly pointed to high levels of absenteeism, low quality of care provided by doctors and health workers. Improving the quality of public goods provision in India will require a significant enhancement in the technocratic and governance capabilities of the State to effectively provide and regulate the provision of public goods. Strong state institutions, empowered and capable of delivering public goods to all citizens are a necessary condition for sustained high growth. In the coming decade, India's growth story will depend on the investments India is willing to make in building a strong and capable State.

The weakness of India's criminal justice system and of its police forces had made it impossible for the State, both at the central and the States' level to deliver public security to its citizens and ensure prompt legal redress. Law and order is a State subject but in a majority of states, the law and order machinery has been steadily depleted through gross lack of resources and what remains is often corrupted through political patronage and interference. Police forces are operating at well below their sanctioned strength and even the sanctioned strength is well below international norms. In 2017, which is the latest year for which

figures are available, the sanctioned strength of police forces across all States was 2.8 million but more than 30% of the posts remained vacant. Even at the sanctioned strength there were only 144 police personnel per 100,000 of our population while the norm set by the U.N. is 222 per 100,000. Furthermore, the police are either poorly trained or not trained at all. Their intelligence gathering, investigative and forensic capabilities are extremely poor. Their living and working conditions are pitiable and often inhumane. The police establishment like other administrative organizations is top heavy with layers of institutions at higher levels while basic and urgent reforms, including those mandated by the Supreme Court remain unimplemented for several years. Public trust in police is minimal and deteriorating. Urgent reforms are required if the vulnerability of the ordinary citizens of India is to be addressed. The strengthening of the judicial system has been pending likewise for years and the judiciary, too, even at the apex levels, is falling prey to political interference and manipulation. An independent judiciary is one of the key pillars of a democratic state and its integrity must not be compromised.

## **BUILDING A STRONG, CAPABLE 21ST CENTURY STATE**

Nurturing Indian capitalism by breaking it free from the tentacles of the predatory State (or the license raj) was the dominant framework of India's growth story. Growth for India required getting the State out of the way. The now infamous equip by author Gurcharan Das, India grows at night while the State sleeps best encapsulates the animating spirit of the post 1991 growth imagination in India. But in the rush to get the State out of the way, scant attention has been paid to ensuring strong state capacity where the State and its institutions are needed. Consequently, India's regulatory regime, despite initial investments in institutions such as Securities and Exchange Board of India, mirrors the very infirmities of State intervention that economic reforms hoped to escape. Robust regulation required building technical skills, creating an enabling legal regime, instituting checks and balances against unrestricted power and ensuring public accountability. The absence of a concerted effort at State building has resulted in weak and politically vulnerable regulatory landscape, which in

so small measure contributed to challenges like the proliferation on NPAs that slowed down growth in the second half of the last decade. When it comes to core state functions, including and especially delivering human development as discussed above, weak state capacity is even more visible.

Looking ahead in to the 21st century, from rapid urbanisation to climate change and technological advancements, will have to confront new challenges that require a different approach to Statecraft. The Indian state will need to negotiate competing, conflicting pressures while building synergies and balancing trade-offs. Consider the opposing pulls between goals of increased energy provision and infrastructure to fuel economic growth versus climate change. To negotiate these pressures, administration in the 21st century will have to be innovative, nimble, responsive to knowledge and able to credibly broker compromises. A far cry from current statecraft that privileges a silo driven, schematic and haphazard approach to policy making. Every policy problem has a scheme and a commission set up to resolve it. Rarely are these schemes and commissions accompanied by a long term articulation of the problem and vision for solutions, nor do they enable effective linkages across different sectors of the economy.

If the 1991 moment and the decades that followed were about dismantling the state from core sectors of the economy, in the next decade, India will have to work hard to rebuild the state and ensure that it does its job with a degree of competence. This is a well-recognised challenge. The Prime Minister himself in a 2016 speech made the important observation that India is a 19th century administration struggling to meet 21st century challenges. The great irony is that the Indian State has capably demonstrated great strength when deployed in the theatre of politics – India's experience with demonetization in 2016 is evidence of this. Yet the state has failed miserably when it comes to performing its basic sovereign functions. Administrative reform and investing in the State to build strong, capable institutions are necessary conditions for India achieving her path to power in the coming decade.

We propose two critical arenas where investments are necessary. First, right sizing the State. In popular imagination, the Indian state is a bloated, overstaffed

entity, filled with apathetic, poorly trained officers. The reality however is that the actual size of the state, in terms of personnel is actually very small, in comparative terms. The size of the Indian federal government is half the size of its US counterpart when normalized by population. Instructively, public employment in India has fallen from 19,000 per million population in 1986 to 14,000 per million population in 2012. However, no discussion on the size of the State can escape confronting the reality of weak accountability and poor performance of the State actors. Corruption, cronyism, inefficiency, apathy, absenteeism characterise the everyday encounters between citizens' and the state, particularly at its frontline. Embedding a culture of accountability is at the heart of the challenge of State building in India.

One critical step in this direction, and this brings us to our second key recommendation is a commitment to deeper decentralization. For its size and scale, the Indian state is unusually centralized. Despite a constitutional amendment mandating devolution, local governments play a marginal role in everyday governance. They are responsible for a mere 5.6% of public spending (2018-19 figures). For all intents and purposes it is the central and state government that provide basic civic services in India. Contrast this with the United States and China where local government's account for 27% and 51% of public spending, respectively (Kapur 2019). Across the globe, key public services like health, school education, sanitation and water supply – belong firmly in the domain of local governments. On first principles alone, the closer government is to people, the more directly they can place accountability claims on the state and ensure representation of their interests. Deeper decentralization is critical for greater state accountability and remains at the heart of the project for building a strong and capable state.

### **SINEWS OF THE STATE: ITS VULNERABILITIES AND POSSIBILITIES**

The vision of India articulated in the Indian constitution remain the foundational source of India's democratic strength and political power across the globe. Today India's commitment to these values, particularly its commitment to secularism, pluralism and diversity

look increasingly precarious. This is partly on account of the particular historical juncture of politics and economic development which risks undermining certain core binding principles of the constitution. There are three critical and related areas where the Indian State is especially vulnerable and the risks to constitutional principles are significant.

First is the independence and effectiveness of democratic institutions. Consider the functioning of Parliament. Key parliamentary functions - debate, deliberation, legislative scrutiny, executive oversight that set standards of accountability are the essence of democracy. However these critical functions have been severely compromised. The number of sittings have decreased over the decades from 127 days in the 1950s to a mere 65-70 days in recent years. In 2020, Parliament sat in session for 33 days. Parliament sessions are frequently disrupted and debate and scrutiny has been replaced by chaos and frequent adjournments. According to PRS Legislative Research (PRS), a leading think tank that works with legislators in India, in the 2021 Monsoon Session, the Lok Sabha worked for just 19% of its originally scheduled time and the Rajya Sabha for 26%. Laws are increasingly passed without debate or discussion in Standing committees. There are several structural impediments such as the anti defamation law which mandates voting in accordance with the party whip has undermined the functioning of Parliament. Reforms in the structure and functioning of Parliament are urgent and necessary to preserve democracy.

A second factor that has contributing to the undermining of Parliament and indeed democratic institutions more broadly, is the increasing share of criminality among elected representatives. This trend is visible in Parliament as well as state assemblies, and now also local governments. The percentage of elected representatives with serious criminal charges has been increasing in the last 20 years, and is close to fifty percent in some state assemblies. Even candidates put up by political parties are increasingly tainted, charged with serious crimes like murder rape and assault. Various committees appointed by the government, and also the law commission have recommended electoral reforms to bar candidates with criminal record from contesting elections. However these have failed to produce any positive result. At the heart of the challenge of criminality is the skyrocketing

costs of electoral campaigning in India. Personal wealth and corporate funding of political parties are increasingly linked to electoral victories. Rather than reform to increase transparency in party funding, in recent years, India has reformed to increase opacity through the introduction of electoral bonds – where a donor can purchase bonds and deposit them into registered bank accounts of political parties - which makes political party funding even more opaque. By purchasing bonds, the donor and the recipient are under no obligation to disclose purchase or receipt of bonds thus enabling anonymity. The health of Indian democracy is linked in no small measure to the ability of the Indian state (and ironically its legislators) to introduce electoral reforms and take steps toward campaign finance reforms. The failure to do so will have a deep, corrosive effect on Indian democracy.

Third, the federal principle, which today has emerged as a critical site of contestation. In the political realm, India's diversity of language, region and religion has long been preserved through federal accommodation. These arrangements have routinely evolved to respond to specific linguistic, regional and ethnic assertions of statehood within the framework of the nation state. Recent events such as the abrogation of article 370, the amendments to India's citizenship laws have eroded the national governments credibility to effectively mediate India's multiple ethnic and regional identities. If the current political trends prevail, renewed sub-nationalism could result in fresh and potentially fractious divisions in India's political-federal consensus. The possibility of new forms of domestic conflict linked to new subnational mobilization remain alive. India saw glimpses of this in December 2019 when the North East erupted in protests against the passage of the Citizenship Amendment Act (CAA) and the possibility of the implementation of a National Register of Citizens by the Indian Parliament. More recently India witnessed tensions in the North -East resulting in border clashes and protests. This resurgence of ethnic anxieties within the region, are reminiscent of the 1970s and 1980s. These incidents highlight a harsh truth - the conditions for competitive sub-nationalism and the stoking of representational anxieties in India are ripe today. It is imperative that any security strategy remain alive to this challenge.

These tensions within the political realm are likely to be exacerbated owing to shifts in the economic landscape will likely have a direct impact on India's federal balance. India's fiscal architecture is characterized by a constant tug of war between the national and state governments over the appropriate balance of powers and responsibilities. Constitutionally, the national government has far greater revenue raising powers while sub-national governments have been responsible for fulfilling the bulk of sovereign functions, particularly related to public service provision. This constitutional fiscal imbalance has been a site of contestation and constant negotiation which in turn has shaped India's fiscal federal compact in ways that have often privileged fiscal and administrative centralization. In this sense India's federal compact has been unique fiscal and administrative centralization has co-existed with deepening democratic decentralization, particularly through the 1990s and 2000s when coalition politics propelled State level, regional parties on to the national stage. Even as State political parties routinely complained about excessive centralization, this never resulted in a comprehensive political demand for greater decentralisation in the fiscal and administrative realm thus enabling a precarious fiscal compact, one that favoured political decentralization with administrative and fiscal centralization.

As the economy is getting more complex, the dynamics of fiscal and administrative federalism are ripe for renegotiation. There is today a sound economic rationale for moving in the direction of integrating taxes (through a Good and Services Tax), developing structures for regulating national markets (agriculture and labour that are constitutionally state subjects), creating provisions for portable public services, and developing coordinated strategies to address environmental challenges from pollution to climate change. However, these new demands for integration are emerging at a moment when the divergence in social and economic development amongst States has increased sharply, particularly between Western and Southern India and the rest of the country, creating a new set of needs and dependencies as poorer states command a greater share of tax resources received largely from richer states for meeting their own



developmental needs. These increased dependencies are an emerging source of great friction between states and risk becoming an impediment to greater economic integration – a necessary ingredient for economic growth going forward.

Left unchecked, these tensions in the economic realm are likely to be further escalate in this decade with the impending political delimitation exercise. Currently, the total number of parliamentary and state assembly seats in every state of India have remained unaltered since the 1971 census, even though boundaries have been redrawn to equate populations across constituencies wherever possible. By constitutional requirement, in 2026, India will need to re-structure the current allocation of seats taking the latest population census as the base. This will lead to a change in the mix of legislators between the southern and northern states. Given the evolution of demography and fertility across states, and relative success of family planning in the south, the north stands to benefit in terms of number of seats. The resultant restructuring of political representation at the national level will likely open a new site of deep contestation exacerbating the frictions between

India's relatively better off southern states and far more underdeveloped Northern States. A new politics of sub-nationalism is likely to emerge and will need careful political and institutional maturity as these contestations are negotiated.

To guard against these vulnerabilities becoming serious threats to India's democratic project, investing in institutional capacities for deepening representation of State interests at the national level is urgent. Three key reforms that ought to be the focus in this decade include revitalising the Inter-state council, reforming the upper house (Rajya Sabha) so that it emerges as a genuine institutional space for representing State specific interests and striking political bargains and reforming the functioning of the Goods and Services taxes.

A strong, capable State peopled with institutions committed to realising India's constitutional values is the only path to ensure India achieves her growth potential and her rightful place in the global order. To meet her aspirations, India will need to spend the next decade focussing on investing in the State and building State institutions to navigate the complex political, social and economic challenges the nation confronts.

# Conclusions

1. India's external geopolitical environment and its domestic political dynamics have undergone significant changes since the publication of Non Alignment 2.0. These changes have constricted India's strategic options and its prospects for assuming the role of a great power. India needs an altered national strategy to overcome these constraints and resume and, if possible, enhance its quest for power and agency in inter-state relations. In this regard the next decade will be a decisive decade for India.
2. The ongoing COVID-19 pandemic is both a public health crisis and an economic crisis whose impacts are still being played out. It has serious geopolitical consequences. There are trends from before the pandemic, such as the shift of the centre of gravity of the global economy from the trans-Atlantic to the trans-Pacific. While the world is tending towards a multipolar Asia and a multipolar world, this shift is still a work in progress and we are in a transition between the old and a new international order. There is an acceleration in the expansion of the digital economy in particular cross-border digital communications. The salience of newer domains such as cyber space and security of space based assets has increased. The rules of the game and norms are being adjusted and reshaped across the board and India needs to be an active participant in this process. This points to a renewed priority to mobilizing a larger constituency of developing countries and emerging economies who share India's interests in this regard and in reinforcing multilateral institutions and processes so that norm setting is carried out on a wider canvas and in a democratic spirit. The authors believe that a period of geopolitical change and transformation carries risks but also creates spaces for emerging countries like India to expand its strategic autonomy, that is, to enhance its ability to take relatively autonomous decisions on matters of vital interest to it. Critical decisions must be taken now so that the coming decade sets the stage for India's emergence as a front ranking power in Asia and beyond. Their recommendations are directed towards this objective.
3. The authors are convinced that in order to enhance its economic prospects and improve the economic and social welfare of its people, India must maintain an outward orientation of its economy, continue the globalization of its economy and participate in regional trading arrangements so as to avoid being pushed to the margins of the regional and global economy. India cannot play an expanded external role from the margins of the regional and global economy. In this context, the authors wish to highlight the key role of regional economic integration in the Indian sub-continent. Such integration offers significant economic opportunities to India while subserving the objective of strengthening political relations through greater inter-dependencies. While economic self-reliance, or Atmanirbhar Bharat, is a laudable objective, it must not lead to a high cost low quality economy which was the hall mark of India's economic record before the economic reforms and liberalization of the early 1990s. The resumption of a higher growth trajectory is indispensable for strengthening and upgrading India's defence capabilities.

4. India's efforts towards an expanded regional and global role will yield sub-optimal results unless it does a better job of managing its sub-continental neighbourhood. It can do this through a more active pursuit of regional economic integration referred to above but through becoming a net security provider and a source of public goods. The authors believe that India should continue to promote SAARC as a platform for regional cooperation. The Neighbourhood First policy must be reinforced through much higher deployment of both human and material resources and more sustained and higher level political engagement. While relations with neighbours are often influenced by domestic politics it is important that such influence does not distort and even undermine the pursuit of India's national interests. This is particularly relevant to the management of the sensitive relations with Pakistan and with Bangladesh.
5. India faces contested land borders with China and Pakistan and the increasing prospect of their collusive threat to India. India must be able to deploy sufficient military capabilities to make any intrusive operations across these borders a high risk, high cost venture by our adversaries. These capabilities must be shaped to counter the form of threats envisaged and military power restructured to rebalance from the West to the North. The authors remain convinced that India will be able to expand its strategic options by a sustained expansion of its maritime capabilities leveraging its favourable location straddling the sea lines of communication from the Indian to the Pacific Oceans.
6. India as a densely populated tropical country will be much more adversely affected by ecological degradation in general and climate change in particular. India is not yet locked irretrievably in a pattern of growth that is resource intensive, in particular fossil fuel intensive. Much of its infrastructure remains to be built. But India needs a new pathway for economic and social advancement which is resource frugal, generates minimal waste and accords the highest priority to conservation. There is no trade-off between development on the one hand and ambitious climate change action and enhancing ecological integrity on the other. Persisting with the current strategy of growth will lead to a dead end. It is not sustainable. An urgent reorientation of growth strategy is imperative. In this context technology will play a significant role. A judicious leveraging of advanced technologies such as artificial intelligence and machine learning may offer opportunities for leap frogging . India's success will be a model for the developing world. This is one area where India could lead the world through the power of its example.
7. The authors are convinced that the vision of India articulated by the Constitution of India must remain the guide post for the country's trajectory towards great power status. It is the plurality of India, its comfortable embrace, through the ages, of extraordinary diversity, its innate sense of humanity and the cosmopolitan temper of its people, these mark India as a civilization secure in its identity and confident

of its place in the world. Any attempt to impose a monochromatic frame over a people who celebrate multiple identities will not succeed. Political democracy based on individual rights and the liberal spirit are innate in Indian culture and the sustenance of democracy in India will determine the future of democracy worldwide. The world has a stake in India's success as a democracy. It is also important that democratic values are reflected in inclusive policies, in reducing income and wealth inequalities, with the state fulfilling its primary responsibilities of providing health, education and security to all its citizens.

8. The authors believe that for the foreseeable future it is China which will impact most directly on India's interests and its challenge is not only in terms of a widening gap in economic and military capabilities but also as an ideological challenge. Our two countries are both longstanding and ancient civilizations but with different historical and cultural experiences and different value systems. India should not aspire to become another China and fall prey to an envy of its totalitarian trajectory. The authors believe that India is the only country which in terms of its area and population, its inheritance of a longstanding and brilliant civilization, its significant pool of skilled manpower and scientific and technological capabilities, can not only match but even surpass China. Its close partnerships with the U.S., Europe and Japan could be leveraged to ensure enhanced flows of capital, technology and knowledge resources to support this endeavour. For the realization of this potential the next decade will be critical.

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