Through a billion voices

India’s role in a multi-polar world
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The views expressed in the articles of this reader are solely those of the authors and do not represent the views of the conveners of the Foresight project.
The land of unlimited contradictions

Foreword

In today’s rapidly changing world, most countries are neither friends nor enemies, and anxieties are rising. The Foresight initiative aims to compare future visions of the key global players in order to prevent a clash of futures in a multi-polar world. While the critical challenges we face may be similar, each country approaches these from its own unique perspective. Given the interdependent nature of the current global age, it is vital for the key powers to recognise the interests they have in common. It is only when we learn to see the world through the eyes of others that it will be possible to even attempt to try to find solutions to the key challenges we face.

India is a fascinating country. It is a dream destination for those who have never been there. And for every visitor, it is an unbelievable experience. The extremes of wealth and poverty, hunger and plenty, past and future are all visible in close proximity to each other. Seemingly irreconcilable contradictions manage to coexist peacefully.

In recent years, India’s economic policies have led to unprecedented growth but a large part of the population has not yet benefited from this. In one of the world’s most dynamic cities, Mumbai, nearly ten million people live in slums. Yet, the slum is not a dangerous place for outsiders, unlike some of the favelas in Latin America. European visitors who come to India for travel or business can only experience speechless amazement and should refrain from giving unsolicited advice. Other nations may have collapsed under the strain of such contradictions and diversity. India, even with all of its alarming opposites, is an unimaginable utopia.

Even where today is deficient, the positive in tomorrow is recognisable. If India can overcome the new inequalities created by economic growth and provide a better quality of life for even its poorest citizens, then India can become a role model for a world in which disharmony threatens to break out into open conflict. As a German citizen, I live in a consensus-driven democracy. As soon as German political parties start to argue, voters become agitated. It is important to decipher India’s secret for flourishing in the midst of disagreements and argument.

India is set to be one of the key powers of the 21st century. It insists on its independent policies and calls for a seat in the UN Security Council. At the same time, it has been involved in global networks such as the G20 in order to help address international crises. Yet, at times, it still seems far away and isolated from the rest of the world. The world’s largest democracy has much to offer. It should take on a more active role in the world, because ultimately it too will not remain unaffected by problems in other regions.

We welcome this opportunity to be in India and to learn from a country of unlimited contradictions: not only to learn to accept contradictions but also to transcend them in peace.

WOLFGANG NOWAK
Managing Director, Alfred Herrhausen Society
Introduction

Elena Jurado and Priya Shankar*

“Whatever one says about India, the opposite is also true”

As the saying goes, India, with its multifaceted diversity, is not easy to categorise. A 21st century global power or a poor developing country? An economy based on cutting edge technology or subsistence level agriculture? A liberal secular state or a deeply religious society? An ancient and traditional civilization or a culture that is rapidly modernising? The questions, paradoxes and possibilities are infinite.

Yet, in spite of its multiple realities, it is clear that India is undergoing a period of remarkable transformation. Following its economic liberalisation in the 1990s, the country has experienced a period of breathtaking growth, which has also led to profound socio-cultural change. From the emergence of shiny new software companies in Bangalore to the appearance of mobile phones in the hands of traditional artisans, this change is clearly visible in the evolving landscape of the country. Accompanying this period of internal transformation, external perceptions of India have also changed radically over the last decade. It is now viewed as an emerging power with increasing global clout.

On the whole, India’s rise is largely seen as a positive development. As a plural democracy in the developing world, India has extraordinary symbolic significance. As a moderate state, it is viewed by many as a stabilising force in a volatile region. However, at the international level, there is insufficient clarity about India and its policies. It is sometimes perceived as being difficult in international negotiations, with strong positions on a whole spectrum of issues from trade to nuclear non-proliferation. Indeed, many in the “west” are uncertain about what kind of role India will play in the international system as it acquires greater influence. In part, this is because of the complex reality of India. Simplistic generalisations are not accurate in the case of any country or society, but in India, they become even more problematic. At the same time, there is a mismatch between the outside world’s perception of India as an emerging power and India’s own internal discourse and reality. While India has long had a sense of its entitlement in world affairs, its key concerns are often internal, given the enormity of the domestic challenges it faces.

Our Foresight reader analyses these issues by comparing the perspectives of Indian and non-Indian authors on three critical global challenges: sustaining economic globalisation; combating terrorism in the South Asian region; and ensuring resource security. The section that opens the publication sets the Indian context, with two essays that explore India’s identity and role in a multi-polar world. The volume also contains key comparative data that elucidates some of the recent trends in each field. This brief introduction highlights some of the major arguments put forward.

I: India at the crossroads

The nature of the Indian state as a vibrant and diverse democracy is essential to understanding its foreign policy, which can sometimes appear to lack clear strategic vision. As Sunil Khilnani argues in this volume, the democratic and deliberative nature of

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Indian policy-making can actually be advantageous because it leads to greater political legitimacy, both in the international community and at home. Democratic debate and argument also result in a more rigorous process of negotiation, as whatever is agreed to at the international level, also ultimately has to be approved by domestic voters.

India’s historical experience has played a key role in defining its perception of the international system. The experience of its colonial past and the ideals of its freedom struggle led India to view the international system with scepticism. As Arundhati Ghose points out, the international system was perceived to be dominated by a small group of powerful states and India was right to assert its independence and resist unjust obligations. As India’s integration with the global economy increases, this perspective is slowly changing. How much and how quickly this perspective should change is a matter of much debate within Indian policy circles. According to some, as India becomes a great power, it needs to develop a new and positive conception of power. Yet, others assert that India remains a developing country and the ideals of ‘non-alignment’ are still relevant in today’s changing world.

Another key question is what impact India’s rise will have on the international system. Given the nature of Indian democracy, with its slow processes of decision-making, it is argued that any changes that India brings about in the international system will be gradual and minor adjustments. At the same time, some suggest that India will need to be prepared to disrupt the status quo, in order to promote greater global justice and imprint the rights of the poor on the international system. Indeed, India’s efforts to ensure a more equitable sharing of global wealth and resources are visible in its stances at Copenhagen and Doha.

II: Sustaining economic globalisation

Following the recent financial crisis, protectionist trends have led to worries that the international consensus in favour of economic globalisation may be faltering. This section explores the future of globalisation in the context of economic uncertainty and the changing balance of power. As Karan Singh outlines, conventional protectionist measures including anti-dumping duties, have combined with domestic stimulus packages to produce severe policy distortions in the trade sector. This will have negative impacts on those emerging economies with trade-oriented growth strategies. Even India, where economic growth has largely been driven by domestic consumer demand, will be affected.

Indeed, the financial crisis has seen a paradoxical reversal of attitudes to globalisation. Throughout the 1990s, it was the advanced economies that pushed forward the agenda of economic liberalisation and many developing countries suffered from this process, for example during the East Asian and Latin American financial crises. Today, in the advanced economies there is anxiety that jobs are being lost to the emerging economies, and sectors of public opinion are demanding a deceleration in the pace of globalisation.

It is still unclear whether this will affect the special provisions and differential treatment for developing countries that have been incorporated, often through difficult negotiations, in trade and other international economic regimes. The repeated hurdles facing the Doha round do not bode well for this question.

Financial globalisation is another area which is likely to suffer a setback following the recent crisis. The turbulence in financial markets has led China and other surplus countries to call on the advanced economies to introduce more responsible fiscal policies. The latter, in turn, blame the emerging economies for contributing to the financial instability and trade distortions by refusing to float or otherwise revalue their currencies. Until the major economic powers are able to agree on the terms of a “fair” international financial architecture, there is no guarantee that the crisis will not repeat itself. In his contribution to this volume, Yao Yang proposes the creation of non-country specific financial assets for surplus countries to invest in as a way out of this quandary.
As Andre Sapir explains, efforts to resolve these issues will remain hampered until we are able to reform our global economic institutions. The revitalisation of the G20 is an important first step, but more structural reforms are needed to ensure the emerging economies have greater weight at the decision-making tables. The rapid shifts in economic power to India, China and other countries make further delays in this regard unacceptable. Otherwise, we risk undermining multilateralism, and with it, the prospects for managing globalisation.

III. Terrorism in the South Asian region

India has long been the target of terrorist attacks, but in recent years their scale and frequency has increased, reflecting the greater volatility in India’s neighbourhood. Traditionally an area where states have zealously guarded their sovereignty, India, like other countries, has tended to manage the threat of terrorism on its own. However, the increasingly transnational nature of terrorism in different parts of the world has acted as a catalyst for deepening international cooperation in this area, particularly since 9/11. The essays in this section focus on the implications of this trend for efforts to tackle transnational terrorism in South Asia, including the on-going conflict in Afghanistan.

Some Indian commentators, wary of the tendency for international cooperation to become mired in the interests of great powers, have been monitoring this process with some trepidation. There is little doubt that international interventions, if conducted without sufficient sensitivity to local needs and interests, can have damaging consequences for stability in the region. G. Parthasarathy illustrates this with a scathing critique of “Enduring Freedom”; the military operation launched under the Bush administration against the Taliban stronghold in Afghanistan. He characterises this operation as excessively timid and incompetent, resulting in the dispersal of the Taliban threat rather than its destruction. The Obama administration seems to be trying to turn things around by re-focusing the military effort on laying the foundations for functioning political and security institutions in Afghanistan. But the challenges remain large.

In the long term, the stabilisation of Afghanistan will depend on the establishment of a multilateral framework in South Asia capable of reconciling the interests of the regional players. With increased recognition of the limits of US power in the region, the prospects for regional actors to play a role may be growing. Charles Kupchan emphasises this point, calling on Pakistan, India and Afghanistan to draw lessons from ASEAN and the Gulf Cooperation Council, regional organisations which have flourished in regions which have a lot in common with the troubled context of South Asia. However, given the history of the South Asian region, with its deeply-embedded rivalries, the process of establishing stronger regional security mechanisms may be more difficult. Prem Shankar Jha alludes to this problem by calling instead for the establishment of a new regional “contact group” consisting of Afghanistan’s neighbours, including India and Pakistan, but also Turkey and Iran. In the end, the prospects for this will depend on the evolution of US policy towards Iran and broader geopolitical developments.

IV. Ensuring resource security

India is not only located in a politically troubled and unstable region. Geographically it is also situated in the world’s most populous continent, a region where demographic growth, rising affluence and changing consumption patterns are placing significant pressure on water, energy and other scarce resources. At the same time, the challenge of ensuring access to resources is likely to be adversely affected by climate change - a scenario which India is acutely aware of, as reflected in its positions at the recent UN climate conference in Copenhagen. The final set of essays focus on the challenges posed by increasing resource scarcity.

As Bas de Leeuw points out, we have come a long way since the 1970s when sustainable development was the exclusive concern of a small group of
scientists. However, while ensuring access to scarce resources has climbed to the top of the global political agenda, there is no consensus on its implications at both the international and domestic level. There are those, like Brahma Chellaney, who predict that Asia will become the setting of a new “great game,” with regional powers vying to secure a larger share of energy and mineral resources.

Others place their hopes in the power of technology, where new innovations including water reuse schemes and renewable energy will provide the solution. As Zha Daojiong argues, international cooperation on these issues can go a long way towards alleviating the problem. However, in a world characterised by great inequalities of wealth and power, the absence of norms regulating the transfer of technologies remains an important obstacle. Given existing rates of resource depletion, there are many who argue that in the long-run we will need to move towards more sustainable patterns of growth and consumption. In India, as in other developing economies, there is also concern that efforts to mitigate this problem should not unfairly limit its access to resources at levels much below those already reached by the advanced economies.

Historically, international norms on access to resources have been weak, not least because of the localised and highly politicised nature of some disputes. As global scarcity increases and more powers compete, there have been growing calls to strengthen international mechanisms for delivering resource security. New institutional arrangements able to entrench trade and other forms of interdependence between resource producers and importers are required. However, in view of the strategic interests at stake, the prospects for strengthening international mechanisms appear slim. In view of these obstacles, the time may be ripe to leap-frog “resource diplomacy” in favour of more systematic, bottom-up approaches to changing global consumption and production patterns, where civil society takes the lead. Here, Indian civil society has much to offer.

Foresight India
From ensuring adequate access to water, food and energy to providing a better livelihood for its citizens, the domestic challenges that India faces are so immense that many maintain that India’s primary concerns are likely to remain internal. However, in an increasingly interdependent world, the global and the domestic, the internal and the external, are becoming more intertwined. As India’s economy grows, its engagement with the outside world will continue to increase. India’s policies are likely to be shaped by both its internal and external environment. The attempt to provide an improved quality of life for its people through economic growth will be a significant driver.

At the same time, India’s volatile neighbourhood and the changing balance of power in the wider world will also influence its positions.

The way in which the interaction between India and the rest of the world evolves will have a bearing both on India’s development and the resolution of significant global challenges. As we embark on the process of understanding India’s role in the emerging world order, newcomers to India may be struck by the lack of a grand narrative. Those that look to India in search of a simple story about its rise, rights and responsibilities in the world may find this frustrating. Yet, it is important to keep in mind that India’s visions are characterised more by complex debate and argument than by a grand strategy. It is only through such discussion and debate that we can arrive at a more nuanced understanding. It is this process that we aim to facilitate both in this publication and at the Foresight symposium in New Delhi.

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Section one
India at the crossroads: understanding the multiple transformations
India has long aspired to play a role in redefining the global order. Its aspirations stem from its vast human scale, its depth as a civilisation and a normative legitimacy that Indians believe they have amassed, first through their non-violent freedom struggle against British rule under Mahatma Gandhi’s leadership, and second by building a state that despite many perturbances, remains a secular constitutional democracy: one of modernity’s few large-scale triumphs outside the west.

If political legitimacy has inspired India’s global ambition, a deficit of economic and military power has tempered it. Initially, India had to devise alternative definitions of power – by, as Jawaharlal Nehru put it in the mid-1950s, adopting a negative sense of power as resisting. Thus, India refused to participate in Cold War alignments; it avoided treaties (such as the nuclear Non-Proliferation Treaty); and it kept away from markets and international trade. All these structures it saw as skewed in favour of the powerful. The Gandhian idea of boycott defined India’s stance towards the global order.

Yet now, as its economic power accumulates, India needs a positive conception of power. It is evident that India is on an economic growth path: savings rates are currently over 35% of GDP and rising, investment is up, and its demographic “youth bulge” has still a decade or so to go before it feeds into the working population. The global recession has certainly depressed India’s near double digit growth rates achieved since 2004; but with a less export-dependent economy and with a more regulated, less globalised financial system, India has shown some agility in recovering. Economic growth is enabling greater social expenditure – and more weapons purchases (recent defence budgets have increased by over a third, to nearly $30 billion).

None of this means that India is about to become a “superpower” – as some over-excitable commentators like to imagine. But as its conventional power expands, does India have a comparably evolving outlook of what it wishes to do in the world – and prevent the world from doing to it? Analysts invariably lament India’s lack of a “grand strategy” or “strategic vision”. Certainly, it lacks anything like China’s government-devised “peaceful rise” doctrine.

Yet this lack of an all encompassing vision could be advantageous. For it is testimony to India’s open society and to the diverse definitions of national interest and identity enabled by its democratic structures. As India’s 28 regional states, its many social groups, and its unequal economic classes use democratic channels to register a voice in their government’s policies and actions, India’s international objectives will be, in part, shaped in arenas far beyond the ministerial corridors of Lutyens’ imperial Delhi.

Definitions of Indian national identity and interest are emerging through robust democratic contest – not through the rarified debates of policy “wonks” or the diktat of leaders. Take for example the recent bruising debate over the US-India Civilian Nuclear Agreement: what looked like (and was) public cacophony actually helped to refine the terms that Indian negotiators pressed for and finally achieved.

In devising and defining the kind of international power India seeks, India will need to define what it wants power for, and how that power will address the particular challenges India faces internally, within its neighbourhood and the wider Asian region. As India’s global involvement deepens, it will need to confront three critical issues, each requiring distinct...
conceptions of power.

The tyranny of geography

First, as India finds itself located in the world’s most threatening regional environment, it is perforce having to recognise the tyranny of geography. In its first four decades, India was anxious to avoid being drawn into conflicts whose causes originated elsewhere – superpower rivalry during the cold war, for instance – and over which it would have no control. Keeping out of such conflicts was essentially what national sovereignty, and autonomy of judgment and action, meant: being able to choose one’s battles. Now, however, India faces different kinds of threat – rooted in its region, linked to neighbours like Pakistan and China, and even emanating from within India itself.

At the regional level, India is surrounded by unstable or authoritarian states – Nepal, Bangladesh, Burma, Sri Lanka and above all Pakistan. Internal conflicts stemming from within these countries traverse the subcontinent’s colonially-imposed borders and infiltrate India’s own domestic security, threatening its economic prospects as well as political and social peace.

The primary focus of India’s regional concern is of course Pakistan, and its incendiary internal conflicts. In response to its dangerous neighbour, India will need to cultivate a stronger authority as a regional power. India’s strategy towards Pakistan has been threaded around assumptions which are now invalid: that it is a unified state, and that India can outsource its Pakistan policy to the US. In fact, Pakistan is disaggregating rapidly. Power is split among a civilian political elite, its military chiefs and their intelligence agencies, and numerous extremist groups, none of which can claim actual sovereign power over the country’s whole territory. America’s response to this is a series of tickertape parades and photo-op banners announcing “victory” – an illusion. It is likely that states will need to use force more, not less, in coming years – not in pursuit of conclusive, decisive outcomes (“decapitating” the enemy, as the gentle phrase goes); not as an act of “last resort”; but as a way of managing long-term confrontations and conflicts.

The central plot in this Asian drama is the very real threat of conflict. Conflict is now a continuous condition for all, everywhere, not a singular event. The idea that the primary purpose of military force is to deliver decisive, knock-out blows – with the resultant tickertape parades and photo-op banners announcing “victory” – is an illusion. It is likely that states will need to use force more, not less, in coming years – not in pursuit of conclusive, decisive outcomes (“decapitating” the enemy, as the gentle phrase goes); not as an act of “last resort”; but as a way of managing long-term confrontations and conflicts.

In fact, the sort of military conflict India might face stretches from classical battles (gaining and defending the commanding heights: the battle for Tiger Hill during the Kargil war) to, unimaginable as it is, nuclear blasts. This includes situations where the battlefield has “dematerialised” and the enemies are formless – rubber dinghies drifting in the night; bomb-laden people who slip into railway carriages or

The new Asian drama

The second great challenge will be to find an appropriate role in the new Asian drama slowly being played out across the continent. India’s greater neighbourhood is inhabited by a number of rising, aspiring powers, while at the same time it lacks any structural or shared norms that might harmonise the diverse group of jostling aspirations. It is states in India’s broad region, stretching from Iran to North Korea, that are most likely to acquire nuclear weapons in the near future; and it is non-state actors in India’s immediate environment – “AfPak” – that will pose lethal and fugitive challenges.

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It follows that questions about the proper use of military force will loom large. Given the broad and diverse range of threats that India in particular faces, it will need to think in terms of managing conflict, rather than definitive, ultimate victory.

In fact, the sort of military conflict India might face stretches from classical battles (gaining and defending the commanding heights: the battle for Tiger Hill during the Kargil war) to, unimaginable as it is, nuclear blasts. This includes situations where the battlefield has “dematerialised” and the enemies are formless – rubber dinghies drifting in the night; bomb-laden people who slip into railway carriages or
park scooters in crowded markets.

This awkward conjoining of different types of threat, which is in some ways historically unique, is epitomised on India’s doorstep in the shape of Pakistan: a state whose destructive weaponry encompasses the entire range of human ingenuity; a state awash with conventional as well as nuclear weapons; and a state which is host to thousands of men armed in the most basic of ways, prepared to wreak maximum damage and under the, at best, loose control of their government.

Besides the Pakistani conundrum, India will also have to work out the terms of its relationships with two of Asia’s major powers. Beyond its northern border, India has a neighbour that has grown faster in economic size than any society in the history of our times, possesses one of the largest military forces in the world, and is still trying to make sense of what it has achieved and what it wishes to do in the world. Its intentions and ambitions remain obscure – perhaps even to itself.

At the same time as trying to get to grips with China’s increasing influence over its near neighbours and its gargantuan economic might, India also faces an extra-territorial Asian power in the form of the United States of America, whose army is enmeshed in that contemporary dystopia “Af-Pak”.

New Delhi is trying to build relations with these colossal powers (perhaps the last great classical sovereign states of modern times) by using the “Manmohan Singh doctrine” of economic diplomacy, founded on deepening trade relations and engagement. But its relationships with both will be tested by conflicts of interest – and in each case it will need to deploy different forms of power: persuasion with the US, diplomacy and where necessary the threat of counter-force with China.

While Indian-US relations are currently on a firm footing, they will be tested if, for instance, India suffers another terrorist attack originating from Pakistan’s territory. After the Mumbai attacks in November 2008, India showed conspicuous restraint towards Pakistan; next time, it will be harder.

Yet it is Indian-Sino relations which exhibit the greatest tension and potential for future conflict. Situated in the most dynamic region on the planet and propelled by rapid economic growth, competition between Asia’s two dominant civilizations, now each in possession of modern states, may come to dominate global power relations. History reminds us how easy it is for the interests of nationalism to trump the supposed rationalities of international trade, but it also tells us that democratic legitimacy can prevail over raw power.

Equity and global justice
Third, India is home to the world’s largest concentration of poor people and contains vast numbers of chronically hungry children and barely literate citizens.

Yet, while the majority of Indians will remain poverty-stricken for the foreseeable future, the state will get richer – a result of revenues accruing to it through the economy’s overall growth. And given the Indian economy’s absolute size, it carries some weight in the global economy. Thus, the state must use its growing global clout to represent its poor in global negotiations. India has a unique opportunity – indeed, an obligation and, in the case of its elected politicians, even an incentive – to use its international status to imprint the interests of the country’s millions of poor upon the global architecture of decision making.

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effects of economic growth (including the vital issue of climate change), India must work to devise norms and terms that are fair to the poor.

As India negotiates, it must affirm a long-standing commitment to greater international equity – not by rejecting globalisation, but by calling for a more inclusive globalisation.

That means India will need to be prepared to disrupt the status quo. It will likely evoke international criticism on some of the positions it takes, as it did from many quarters over the nuclear issue; it will thus have to improve its powers of negotiation and persuasion.

India remains a long way from superpower status in its conventional forms: military or economic power. But it possesses legitimacy in the eyes of the rest of the world, and that is a form of power that can be drawn upon to help sustain arguments for global justice.

Avoiding artificial dichotomies

Each of these core issues – managing regional conflict, defining relations with the key global powers, addressing the asymmetry of the global economic order – will require India to develop complex strategic positions, yielding flexible and contextually specific tactics. India will have to resist the false dichotomies and choices that are often proffered: say, between being a “G-20 or a G-77 nation,” between allying with the “west” or staying out in the cold, between having to suppress using its conventional means of force or face a nuclear meltdown.

There is no simple or single identity that India can or should seek to project at the global level. India is too large, too complex, too open and too irremediably argumentative a country to find any adequate description of its interests in some singular, tidy identity or form. It will need to find ways to both bridge its own internal diversities and contentions, and to act as a bridging power in an international domain that is increasingly fraught and fragmented: bridging between rich and poor states, between the west and China and between various means of managing conflict. It is only through its multiple identities and as a bridging power that India can play a constructive role in redefining the global order.

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Since the economic rise of the BRICs was predicted in 2003, there has been a widespread tendency to conflate the experiences of the four countries. Central to this inclination is the belief that China’s emergence on the global stage, as the world’s largest exporter and second largest economy, could be replicated by the other three countries. China’s startling economic growth, its military modernisation, and its increasing assertiveness in international forums along with perceptions of its indispensability to global stability and prosperity have created a dual sense of both dread and awe in the west.

In the case of India, this rationale has given rise to an image of a nation enjoying breathtaking economic growth that is about to enter a period of change as dramatic as that of the other Asian giant. It follows that there is also an assumption that India’s rise would cause major shifts, rather than subtle adjustments, in a volatile and turbulent world order.

Yet, it must be remembered that India remains both a developing country – with all the associated problems of underdevelopment – and a democracy, with the accompanying constraints of a slow and hesitant decision-making process. This is not to underplay the healthy and sustained growth rates of the Indian economy and its conservative yet assured responses to globalisation. However, India is unlikely to dramatically change its developmental path and worldview. It is instead likely to move slowly, cautiously and gradually in evolving its policies, both domestic and foreign.

From ideology to pragmatism
India is already making a concerted effort to engineer changes in its policymaking processes in order to adapt to the changing world order. However, these changes are in the nature of adjustments to external factors rather than changes explicitly driven by the desire to enhance India’s “power,” whether economic, political or military.

As with many other developing countries, India’s experiences of colonial rule have historically affected its attitude towards international relations. This stance was defined by the assertion that India would not leave itself dependent upon the decisions of countries in the industrialised and wealthier world. The wishes of the “international community” were to be resisted as the underlying intentions were assumed to be fundamentally untrustworthy. This was not necessarily a false assumption, as the more powerful countries of the world sought to protect and promote their own national or regional interests through the global system and the different norms that governed the conduct of international affairs. The stance adopted by India in international forums on development issues, including trade, reflected this view, as did its attitude towards issues of non-proliferation and nuclear disarmament.

Another important element of India’s external relations is its approach to international legal agreements. It has been difficult for India to commit to legally binding international agreements. This is because international legal commitments can impose constraints upon governments of democratic countries, as they are required to enact domestic legislation in order to fulfil their international commitments. Such legislation subsequently becomes subject to domestic political pressures, as has been the case in India. With complex coalition governments, India’s politics has become increasingly “regionalised” as regional parties with local interests...
become part of coalitions in the centre. Political parties, with little or no interest in foreign policy, demand concessions from the central government for their states in return for support to the centre on a foreign policy issue. Therefore, negotiations over international agreements have often been difficult for India due to its domestic political context.

As a result, India has often resisted the acceptance of new legal obligations at the international level, which in turn has left it with little leeway in international rule-changing negotiations. This position resulted in India at times being perceived as a “naysayer” at the international level. Historically, in Indian eyes, the agendas for international cooperation have been set by the wealthier countries of the west. India had the right, therefore, not to be subject to the whims of the “international community”.

These attitudes of resistance are now changing in line with the impact of globalisation and increasing interdependence. Today, with economic growth more firmly established and reduced dependence on external aid, the tone, if not the substance of Indian positions, has altered considerably. New Delhi now actively seeks participation in setting the agenda for a range of global issues where India has an increasing interest such as climate change, trade and non-proliferation. Correspondingly, foreign policy is increasingly defined by India’s economic goals.

The economic imperatives behind India’s foreign policies include not only the search for markets and reliable energy sources – whether hydrocarbons or non-renewable sources – but also for high technology.

There is an abiding belief in India, especially amongst the current government, that it is only through advanced technology that India’s core and persistent challenges of poverty, illiteracy and backwardness can be overcome. In this search, ideology necessarily takes a back seat, though it is never completely absent from India’s decisions.

A nuanced change

The evolving nature of India’s positions on issues of international concern is clearly visible in the field of nuclear non-proliferation and nuclear disarmament, where nuanced changes have taken place. India has been seen by many in the west as a dissenter on these issues, yet it was a vociferous supporter of both non-proliferation and nuclear disarmament during the period when the two superpowers were busy building up their nuclear arsenals and conducting a series of nuclear weapons tests. India was one of the first non-nuclear states to sign and ratify the Partial Test Ban Treaty of 1963. This position became even more clearly articulated after China’s first nuclear weapon test in 1964 when India felt its security was threatened by a belligerent neighbour. As a result it took the issue to the United Nations and was able, with the help of the delegation of the Soviet Union, to inscribe the issue of non-proliferation on the agenda of the UN General Assembly; the subsequent negotiations resulted in the Nuclear Non-Proliferation Treaty of 1970. This treaty not only failed to provide assurances to non-nuclear weapon states which felt threatened, as India did, by the possession of nuclear weapons by hostile neighbours, but in a sense legitimised the possession of nuclear weapons in the hands of those from whom India had sought security, and against whom India had in fact taken the issue to the United Nations in the first place. India, understandably, refused to sign the treaty and proceeded to promote the issue of nuclear disarmament with greater vigour.

The issue of the wholesale elimination of nuclear weapons, a goal which today has achieved a degree of global respectability, continues to be proclaimed
as a part of India’s foreign policy. The argument advanced is that a neighbourhood free of nuclear weapons would be in the security interests of both India and the international community. This position has been maintained even after India declared itself a nuclear weapon state, with India offering to negotiate its own weapons away as and when the size of the arsenals of the other seven nuclear weapon states reached comparable levels. Given the logic of its position, India continues to support and practice non-proliferation of nuclear weapons and related technology. After the Nuclear Supplier’s Group agreed to waive the restrictions imposed on trade in civil nuclear technology with India in 2008, following the US-India Civil Nuclear Agreement, India’s adversarial approach to the NPT appears to have somewhat softened. For domestic political reasons, however, and given certain insurmountable legal obstacles in the NPT framework and the very real continuing apprehensions in India of China-Pakistan nuclear cooperation, legal acceptance of the treaty by India is unlikely. At the same time, a commitment to adhere to its provisions has been reiterated by Indian foreign ministers in two different governments. On this issue, at least, India has started repositioning itself, although the broad contours of its policy remain more or less the same.

Alignment in a new world

In recent years, a new element has developed that has a significant degree of influence on the direction of Indian foreign policy. The power of Indian civil society, the media and public opinion on key global issues is growing. With instant connectivity, the debate in India is also influenced by civil society and the media in other countries. India is not yet a global player, though it has developed global interests, and has a vital interest in most global issues. In a diverse polity such as that of India, such issues are adopted by one or other political party, and the media plays an inordinately significant role in shaping the decision-making process. This applies as much to relations with other countries, especially neighbours and major powers, as it does to global issues such as climate change and international trade talks.

As India becomes more aware of the benefits it has reaped and is reaping from globalisation, it is likely to remain active in international discussions and negotiations. India’s reactions to the agendas set by other countries, which led some in the west from homegrown extremists, whether Hindu fundamentalist or insurgent groups, these challenges are exacerbated by the regional environment. India faces the challenge of dealing with the spillover of instability, especially in the states in border areas, as the populations share ethnic, cultural and linguistic links across these borders.

Furthermore, India faces the challenge of dealing not only with the ramifications of its multi-ethnic population in terms of the ever-present potential for increased instability, but with the altogether different conundrum of having two nuclear armed and not necessarily friendly countries as neighbours. The China-Pakistan challenge, especially at a time when China is steadily beginning to flex its muscles, and when Pakistan has made itself pivotal to the foreign policy agenda of the US and Europe in Afghanistan, is one that will determine much of India’s foreign policy in the near future.
to perceive India as a "naysayer", are likely to become a thing of the past. Over the last few decades, India has repositioned itself and has succeeded in establishing stable relations around the world. The emphasis today is still on its basic interests, conditioned by its innate conservatism in a changing situation. Ultimately, India’s policies and positions will be grounded in its national interest. This could entail agreement with the positions of the west on certain occasions. At the same time, the protection of its interests may at times require cooperation on some issues with other countries. In this way, India remains truly “nonaligned”.

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Data on India

With its one billion people, India exhibits enormous linguistic, cultural, regional and religious diversity, which is reflected in its complex politics. Although its population has been rising, the birth rate is declining and population levels are likely to stabilise in the decades to come. In recent years, economic growth has been very rapid and poverty levels are falling. However, given its historic impoverishment and size, per capita income remains low. At the same time, there is a great degree of variation within India.

Indian political system

With 26 languages, numerous religions, and thousands of different ethnic and cultural groups, Indian politics is an exercise in governing diversity. India is a parliamentary democracy with a federal structure and an independent judiciary. The Indian political system includes mechanisms aimed at accommodating diversity and redressing historical injustices, including by recognising and promoting the rights of different cultural groups. Each of the twenty-eight states has a vibrant politics, and there are numerous parties, both national and regional, which mobilise support on the basis of different issues, such as geography, ideology and identity. The last three central governments, even though led by large national parties, have been coalitions consisting of ten or more political parties.

Preamble to the Indian Constitution

WE, THE PEOPLE OF INDIA, having solemnly resolved to constitute India into a SOVEREIGN SOCIALIST SECULAR DEMOCRATIC REPUBLIC and to secure to all its citizens:

JUSTICE, social, economic and political;
LIBERTY of thought, expression, belief, faith and worship;
EQUALITY of status and of opportunity;
and to promote among them all
FRATERNITY assuring the dignity of the individual and the unity and integrity of the Nation;

IN OUR CONSTITUENT ASSEMBLY this twenty-sixth day of November, 1949, do HEREBY ADOPT, ENACT AND GIVE TO OURSELVES THIS CONSTITUTION.

Population and birth rate in India

Source: Registrar General of India
## India and its diversity

<table>
<thead>
<tr>
<th>State</th>
<th>Official Language</th>
<th>Other official languages</th>
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</thead>
<tbody>
<tr>
<td>Andhra Pradesh</td>
<td>Telugu</td>
<td>Urdu</td>
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<tr>
<td>Arunachal Pradesh</td>
<td>Assamese, English</td>
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<tr>
<td>Assam</td>
<td>Assamese</td>
<td>Bodo</td>
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<tr>
<td>Bihar</td>
<td>Maithili, Hindi</td>
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<td>Chhattisgarhi, Hindi</td>
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<td>Goa</td>
<td>Konkani</td>
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<td>Gujarat</td>
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<td>Himachal Pradesh</td>
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<td>Madhya Pradesh</td>
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<td>Marathi</td>
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<td>Meeteiion (Manipuri)</td>
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<td>Tripura</td>
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<tr>
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<td>Telugu, Tamil, Bengali</td>
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<td>Lakshadweep</td>
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### Religions

<table>
<thead>
<tr>
<th>Religions</th>
<th>Millions of people</th>
<th>Proportion</th>
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<tbody>
<tr>
<td>Hindu</td>
<td>828</td>
<td>80.5%</td>
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<tr>
<td>Muslim</td>
<td>138</td>
<td>13.4%</td>
</tr>
<tr>
<td>Christian</td>
<td>24</td>
<td>2.3%</td>
</tr>
<tr>
<td>Sikh</td>
<td>19</td>
<td>1.9%</td>
</tr>
<tr>
<td>Buddhist</td>
<td>8</td>
<td>0.8%</td>
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<tr>
<td>Jain</td>
<td>4</td>
<td>0.4%</td>
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<tr>
<td>Other Religious Communities</td>
<td>7</td>
<td>0.6%</td>
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Source: Census of India
Economic development in India

<table>
<thead>
<tr>
<th>Indicator</th>
<th>National Average</th>
<th>State with highest</th>
<th>State with lowest</th>
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<tr>
<td>Per capita income</td>
<td>Rs. 37,490</td>
<td>Punjab: Rs. 50,558</td>
<td>Bihar: Rs. 12,643</td>
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<tr>
<td>(2007-2008)</td>
<td></td>
<td></td>
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<tr>
<td>Life Expectancy</td>
<td>63.5</td>
<td>Kerala: 74</td>
<td>Madhya Pradesh: 58</td>
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<tr>
<td>(2002-2006)</td>
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<td></td>
<td></td>
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<tr>
<td>Infant Mortality</td>
<td>55</td>
<td>Orissa: 71</td>
<td>Kerala: 13</td>
</tr>
<tr>
<td>per 1000 live</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>births (2007)</td>
<td></td>
<td></td>
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<tr>
<td>Literacy</td>
<td>64.84%</td>
<td>Kerala: 90.8%</td>
<td>Bihar: 47%</td>
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<tr>
<td>(2001)</td>
<td></td>
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Source: Source: Economic Survey of India, 2009-2010
Section two
Sustaining economic globalisation: building a fair regime
Institutional imbalances: can globalisation be sustained?

André Sapir

This time around, there are two major differences which can save us from the spiralling descent into global conflict and collective despair. The first is the respective role of the centre and the periphery. According to Angus Maddison, the economic historian, at the start of the first wave of globalisation in 1870 the two largest emerging countries, China and India, still accounted for about 30 per cent of world GDP (measured in purchasing power parities), down from their previous historical level of about 50 per cent that had prevailed up to 1820. When the first period of globalisation was brought to a close by the outbreak of WWI the combined weight of China and India had fallen to barely 16 per cent, and it continued to decline thereafter, staying below 10 per cent from about 1940 until 1980.

From the end of the 19th century till late in the 20th century, the centre specialised in manufactured goods while the periphery was confined to the role of producer and exporter of raw materials. As recently as 1975, developing countries accounted for only 9 per cent of world manufacturing exports, and manufacturing goods accounted for barely 16 per cent of these countries’ total merchandise exports. The second wave of globalisation, which commenced around this time, has fundamentally altered patterns of production and trade, with large parts of the periphery assuming centre stage. By 2005, developing countries already accounted for 45 per cent of world manufacturing exports and manufacturing accounted for two-thirds of their total exports.

The second difference between the current and the earlier wave of globalisation concerns institutions. The domestic and international confrontations that brought the first wave of globalisation to an end happened in an environment where nations lacked adequate institutions to resolve conflicts. It took WWI, the great depression and WWII for countries, mainly in Europe and the United States, to set up domestic welfare states and international institutions of global economic governance, such as the World Bank, the
IMF and the GATT/WTO, aimed at containing the kind of economic and political tensions inherent to the processes of economic transformation brought about by globalisation. It is therefore worthwhile to consider how well these institutions have so far performed during the current wave of globalisation.

The performance of the welfare state
Well before the 2008/2009 financial crisis, there were signs that globalisation was threatening the welfare state institutions enacted in the west after WWII. At the turn of the century it was clear that opposition to globalisation was gathering pace within labour movements on both sides of the Atlantic.

In the US, where markets operate more efficiently, globalisation generated more wealth, but also more income inequality and adjustment problems than in Europe. The US median voter lost wages and experienced rising job insecurity, both of which resulted in fierce opposition to increased globalisation.

In Europe, where the welfare state is more generous and markets are less efficient, globalisation generated less wealth, but also less income inequality and adjustment problems than in the United States. The European median voter in fact suffered relatively little; unemployment had increased, but its effect fell mainly on labour market outsiders: the young and the immigrants. Accordingly, European organised labour voiced less opposition against globalisation than in America. An important question, at the time, was whether these responses could be sustained in the face of major challenges.

The advent of the global crisis in 2008/2009 indeed delivered a significant and abrupt challenge to the situation of the median voter in America and the sustainability of the welfare state in Europe.

In Europe, before the crisis, there existed four types of social model, each with a different combination of efficiency and equity: a Mediterranean model, which is neither efficient nor equitable; an Anglo-Saxon model, which is efficient but not equitable; a Continental model, which is equitable but not efficient; and a Nordic model, which is both efficient and equitable. Given the tumultuous effects on markets and spiraling public debt figures induced by the crisis, it is now clear that the Continental and Mediterranean models, unsustainable even before the crisis set in, are in dire straits. Furthermore, debts have sharply increased in the previously low indebted countries belonging to the Anglo-Saxon model, rendering them unsustainable. This leaves the Nordic model as the only one in Europe capable of handling economic and social changes in a sustainable manner.

In the US, the effects of the crisis had severe impacts on income distribution, poverty and unemployment levels giving rise to a situation which is bound to result in increasing protectionist pressures, targeted especially against emerging countries.

The performance of global governance
There were also signs, before the financial crisis, that globalisation was threatening the global governance system put in place after WWII. By the early 2000s, the global economy had little in common with that of only 20 years earlier when a collection of integrating, but still highly segmented national economies co-existed with quasi-autarkic blocks (China, India, the Soviet Union and its satellites) representing about half the world population. Yet, the global economic governance regime – the set of global rules that govern international economic relations, the network of institutions that support and enforce those relations and the processes that steer change in this system – had not undergone a parallel transformation. Some


changes had taken place. The core institutions had taken up new roles – the IMF, for instance, moved from financing current account deficits in the fixed exchange rate era of the early post-World War II years to managing debt crises, marshalling the transition to the market and addressing financial account crises. Flexible responses to the transformation of the trade scene had been found through the creation of informal negotiation groupings within the WTO. Also, ad hoc structures such as the Financial Stability Forum had been created to steer cooperation between institutions.

Reforms had remained limited to adaptation and tinkering within the post-war system. The only significant institutional reform over the past 25 years was the creation of the World Trade Organization (WTO) in 1995. The other essential pillars of the post-war economic order – the Bretton Woods institutions – remained basically unchanged, in particular with respect to the role of the Group of Seven (G7). The cold truth was that for the last quarter of a century decisions were made by the G7, which accounts for about 40% of world GDP (measured in purchasing power parities) and only 10% of world population.

It was clear that considerable changes in the global economy had not been mirrored in the structure and missions of global institutions. The suspension of the WTO Doha Round in July 2006 clearly indicated the difficulty of delivering at the multilateral level; the two global institutions long seen as the most effective, the IMF and the World Bank, were struggling to adapt to new realities and seemed to have lost relevance; almost ten years after the Kyoto protocol on global warming was signed it was still rejected by the US and major emerging economies; and scarcity of fossil fuel and other natural resources was creating international tensions that the international community was ill-equipped to tackle.

This situation raised major, perhaps unprecedented policy challenges. Yet the changing global balance of economic and political power made their resolution more difficult than at any time since WWII. Global economic governance had been a stable and relatively simple game in a western-dominated world under US leadership. Now it had become much more unstable and complex due to the rise in the number and diversity of players, and the growing weight of new economic powers that had long been kept on the periphery of the global system. Urgent reform was, and is, needed. It is desirable not simply for the sake of fairness and legitimacy, but also to create incentives for a strong commitment to multilateralism on the part of emerging powers without which the perennity of the multilateral system itself cannot be ensured.

Could this continued disparity, combined with rising domestic tensions in the west, prove to be a heady mix for a fundamental restructuring of the international regime?

Awakening giants in the east

Despite the weak state of global economic governance at the start of the financial crisis, the international community was able to act cooperatively and prevent a replay of the “beggar-thy-neighbour” policies that plagued international relations during the Great Depression of the 1930s. The G20 summit entered the lexicon of global governance, marking the end of an era where America, Europe and Japan dominated world affairs and the beginning of one in which there exists the potential for a new, more balanced relationship between mature and emerging economies.

Whether or not the G20 leaders will be able to continue cooperating after the crisis, to further the
process of evolution towards a political body capable of defining global priorities, and agree on coherent policy and institutional reforms remains to be seen. Yet what is sure is that the list of areas requiring urgent international cooperation is long, ranging from international finance and international trade to climate change and natural resources.

The current phase of globalisation marks the end of a century which is likely to remain exceptional. Never before had the share in world income and production of the two most populated nations in the world, China and India, fallen so low. The re-emergence of these two giants (and the emergence of other developing countries) to positions of global prominence had already produced, before the financial crisis, major changes that tested the resilience and relevance of the domestic and international economic institutions put in place after WWII. By hitting so severely the mature economies and leaving the emerging countries relatively unaffected, the crisis will accelerate the process of global transformation in favour of the latter, and test these institutions further.

The future of the welfare state in mature economies is by no means obvious. Although its rigid labour market and its generous welfare state have greatly helped Europe escape from severe social consequences of the crisis, the generosity of the system may not survive the crisis. Clearly the costs of the crisis combined with the costs of an ageing population pose a huge challenge of fiscal sustainability to Europe. In the United States the problem is pretty much the other way round: the more flexible labour market has meant that the crisis has produced more industrial restructuring and more productivity gains than in Europe, which – together with better demographic trends – probably implies better medium-term growth and sustainability prospects. In the short term, however, the US suffers from greater unemployment than Europe, a situation which is once again bound to result in rising protectionist pressures especially against emerging countries.

Under these conditions, reforming global governance institutions and global policies will be crucial in order to sustain globalisation. The replacement of the G7 by the G20 as the global forum for economic issues is definitely an important step in the right direction, but it is only a beginning. G20 members must now come forward with concrete reform proposals. On the side of the advanced countries, the European Union has a special responsibility to contribute to the reform of the Bretton Woods institutions where its members are grossly over-represented in terms of voting rights and board seats. Decreasing their weight would allow a better representation of emerging and developing countries, and might even increase the EU’s influence if its reduction in voting rights coincided with a unified representation. For their part, emerging countries, particularly China and India, must commit to play a more active role in global institutions and policy design. Their greater economic and political weight must go hand-in-hand with greater sharing of global responsibility.

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The global financial crisis shook the foundations of the international economic system. In recent decades, increased trade in goods and services has reshaped the global economy, blurring the boundaries between nation states and heralding a new era of economic dynamism and interdependence. However, the financial crisis sent trade into freefall. Whilst the recovery is now underway, domestic economic activity is recovering at a faster rate than international economic activity. One major explanation for this is the resurgence of protectionist tendencies. Trade has been a victim of the drop in economic activity during the crisis, but to add insult to injury it has also been a victim of domestic policy responses – be they stimulus packages which contain distortionary policies, or the increased use of more conventional protectionist measures. Governments around the world should be concerned by this, because long-term economic growth is highly dependent on trade. Whilst protectionism may provide short-term political gains, in the long term it will only act to harm economic growth prospects.

Trade in freefall

Since the 1990s, global trade in goods and services has grown several-fold - reaching its peak in 2008 when it accounted for 64.1 per cent of total global GDP (the corresponding figure for 1990 was 37.9 per cent). In 2008, services accounted for 19 per cent of total trade, and goods accounted for 71 per cent. Clearly, the manufacturing sector is more deeply globalised than the services sector. Between 2003 and 2008, the average annual rate of increase in goods and services trade was a massive 16 per cent. However, global trade was severely impacted by the financial crisis – in 2009, trade decreased by 22.9 per cent. As of 2008, the total volume of trade in goods and services stood at US$ 39 trillion – in 2010 it is expected to total around US$ 32 trillion. On the other hand, global GDP is expected to recover to its previously highest level: in 2008 global GDP reached its peak at US$ 60 trillion; it fell to US$ 57 trillion in 2009 and is now expected to recover to US$ 60 trillion in 2010.

So what went wrong with the trade sector? Even though trade was not the cause of the global financial crisis, what are the factors behind such divergences in the recovery process? Trade is measured in terms of total sales made across countries. And so, it is not numerically prudent to compare GDP and trade using the same scale, and draw implications about the respective highs and lows. But certainly one could argue that the fall in the external sector was steeper and that the recovery process has lagged behind the domestic sector.

The question is therefore: why have such divergences taken place in a global crisis? The very first reason is that international supply chains, especially those for manufactured goods produced for foreign consumption, are more complex than those produced for domestic consumption. Goods are often traded as intermediates, which are in turn traded to a number of different countries, with the addition of value at each step of the process. And so, owing to these international supply chains, a unit fall in the consumption of the traded good has a direct effect on a number of industries. Also, since the value of the good is measured in terms of sales, the fall would be steep. However, by this logic one could expect that in normal times, once the process of recovery is underway, trade should recover much faster than the domestic economy. This has clearly
not been the case.

**Trade in the eye of the storm**

The financial crisis has affected trade through the trade credit channels. Due to liquidity shortages in financial markets, credit allocated to trade finance has been greatly reduced. The crisis has seen increased uncertainty in business, leading to a rise in the demand for letters of credit for trade. Banks have also been increasingly unable to guarantee finances for trading. Owing to the lack of trade finance, traders were forced to fund trade with alternative resources. High exchange rate volatility has also been a feature of the crisis – again increasing the level of uncertainty for firms producing for foreign markets. The effect of asset bubbles has also spilled over into the manufacturing sector. Prices of oil and metal have shot up to unsustainable levels. As a result, prices have risen, but actual trade taking place in each commodity has fallen greatly. And so, all – trade finance, exchange rate volatility and commodity bubbles – have played a destructive role in the trade sector. These factors should subside once economies return to their normal state.

However, the financial crisis has resulted in severe policy distortions within the trade sector. Therefore it is worth considering whether such distortions can potentially transform temporary features of the crisis into permanent features of post-crisis economies. Since monetary policy was ineffective in dealing with the crisis, governments resorted to fiscal stimulus in the hope of boosting economic growth. A number of countries now believe that the external sector has been the source of much uncertainty and that the best way forward is to look inwards, at the domestic economy. As a result, fiscal packages have been aimed at boosting the domestic economy and designed to avoid spillovers into foreign markets. This has had a huge impact on the differential effects of the domestic versus the external sector. A number of projects now focus primarily on the domestic economy: take for instance the focus on the green economy, where a number of countries have set aside a large proportion of their fiscal stimuli for spending on green projects - South Korea (81%), the EU (59%), China (38%), France (21%), Germany (13%), the US (12%), Australia (9%), Canada (8%), the UK (7%) and Spain (6%). With regards to their green projects, these countries also discriminate against foreign firms.1 One example, from the recently enacted US stimulus legislation, bans foreign firms from benefiting from a multi-billion dollar appropriation for high efficiency batteries.

Other conventional protectionist measures have also surged during the crisis. For instance, the number of anti-dumping cases (both investigations and imposition of duties) surged in 2008 – anti-dumping initiations grew by 15 per cent and findings with imposition of duties grew by 22 per cent. Developing countries accounted for the majority of initiations, though developed countries accounted for the greatest number of duty impositions. However, it is also true that a number of countries foresaw the danger of a protectionist backlash in the post-crisis period. To avoid this, G20 leaders signed a pledge on 15 November 2008. Sadly, since then many countries, including 17 of the G20 countries, have implemented 47 measures, the effect of which is to restrict trade at the expense of other countries.

Macro-level conditions have created greater

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1 Simon J. Evenett and John Whalley 2009, VoxEU
uncertainty in the trade sector, particularly the current account imbalances between the US and China. It is argued that, in theory, the US must reduce its current account deficits because no country in the world can maintain them at such a high level. At the same time many economists argue that China needs to revalue the Renminbi, and that floating its currency in the global market is a necessary condition to the creation of a fair trade environment. Yet so far the Chinese have not agreed to revalue their currency because this would have a significant negative impact on their growth.

According to the mercantilist view, an appreciation of the domestic currency is a bad thing - currency appreciation creates a pressure on the current account balance with regards to the trading partner. Mercantilists normally overlook the alternative benefits from trade such as efficiency gains, competitive price wars, and the spillover of business know-how from foreign firms to domestic firms. The fear of currency appreciation does not only apply to China. A number of emerging countries fear a loss of employment due to currency appreciation. Thus, today there is urgent need for creating a level playing field for both developed and developing countries in the global trade regime.

The performance of India

Against this background it is prudent to present a review of India’s economic performance, especially during external crisis periods. India undertook major liberalisation reforms at the beginning of the 1990s. Although India liberalised a full decade after China, the process of trade liberalisation was much faster in India. Trade in goods and services as a proportion of GDP (a ratio that also measures trade openness) rose from 19 per cent in 1990-91 to 61 per cent in 2008-09. This begs the question – has India been less vulnerable to external crises? India was relatively unaffected by the East Asian crisis in 1997, but at the time, India’s trade openness was only 30 per cent and this could provide an explanation for why the country was not as affected.

How severe is the effect of the present crisis on the Indian economy? Trade openness is expected to fall to 54 per cent in 2009-10 from its peak of 61 per cent in 2008-09. The impact of the financial crisis was seen from the middle of 2008-09, a crucial point in time for the Indian economy. At this time India experienced a combination of domestic economic slowdown, financial crisis and political change. The effects of the domestic slowdown and the financial crisis were partially offset by a huge expansion of demand through fiscal stimulus. In 2008-09, the combined deficits of states and central governments shot up to an unsustainable level of 8.9 per cent of GDP from 4.2 per cent in 2007-08. On the balance of payments side, the current account deficit amounted to 2.6 per cent of GDP - this was its highest level since 1990-91. Capital inflows fell to 0.7 per cent of GDP from 9.2 per cent of GDP in 2007-08. This sudden reduction in capital inflows and widening current account deficits have been managed with the help of a US$ 300 billion foreign exchange reserve build-up prior to the crisis.

Did India resort to protectionist measures during the crisis period? Yes, like other countries India was a very active user of anti-dumping investigations, standards and tariff measures. However, unlike other countries, in its fiscal stimulus, India does not discriminate against foreign firms. There is also no green investment in the fiscal stimulus in the Indian case. Since the global trade sector has been lagging behind in the recovery process, in the coming years India will find it difficult to cope. This means that the country will have to face retaliatory protectionist measures by partner countries in the near future.

In sum, during the crisis and in the recovery phase both developed and developing countries have followed protectionist policies. Also prior to
the financial crisis there already existed structural and protectionist impediments to trade, and during the crisis the situation has been aggravated, since many countries used protectionist policies as a tool to boost recovery. All countries should bear in mind that these practices ultimately lead to a lose-lose situation in view of the vertical specialisation of trade; the fact that the benefits of trade extend far beyond mercantilist views; and the risk that a discriminatory resource allocation away from the trade sector will slow the recovery process. Even though several recent multilateral dialogues have failed to achieve a consensus, countries must try to work through existing multilateral institutions to prevent the spread of protectionist measures in an interdependent world.

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The fall of the Berlin wall in 1989 heralded a new era of globalisation. Unlike previous eras, the chief characteristic of this surge of free trade and openness has been an all encompassing division of labour that covers almost every country and commodity – even extending into many traditionally non-tradable services. The global system we have become accustomed to dictates that each country has to find a position in the international value chain, whether it is willing or not.

Undoubtedly, the most phenomenal feature of this global era is the economic ascent of China. In the Cold War period, the rise of West Germany and Japan was also quite remarkable, but their economies were relatively small compared to the US, the then dominant power, which, at the time, accounted for nearly half of the world’s GDP.1

China is the most populous country in the world – even when the Chinese economies per-capita income was only one twelfth that of the United States its rise had already sent shock waves throughout the world. It is now the second largest economy in the world in nominal dollar terms, and although the US economy is currently still three times its size, it is reasonable to predict that China will overtake the US to become the largest economy in the world by 2025 at the latest.1

The world is now feeling the pressures of China’s rapid development and economic might. China has the capacity to produce a wide variety of quality manufacturing goods at cheap prices, and it is testament to this manufacturing base that Chinese exports are sold in almost every corner of the world. At the same time, China has a great hunger for resources. It has become the world’s second largest importer of oil, and the growth of its oil imports has been equivalent to the growth of world oil output in recent years. Of course, the downside of this remarkable growth is that it has become the largest greenhouse gas emitter.

However, China is not alone in the quest for a better life. Three other big developing countries, India, Brazil and South Africa, are joining the ranks. Sharing the same destiny and agenda, these four countries have begun to coordinate their international diplomatic efforts, as demonstrated most recently at the Copenhagen climate conference.

Specialisation and “global imbalances”

As the developing world asserts itself on the global market place, the rest of the world is feeling the pain. Developed countries are losing traditional manufacturing jobs, and are trying to ease the anguish by upgrading to higher value-added activities, especially financial services. Indeed, traditionally strong manufacturers, most notably Russia, have been forced to retreat away from manufacturing, instead specialising in resource exportation; whilst many poor countries are now being forced to rely more heavily on exports of primary goods.

In a more visible form, the specialisation of countries has created the so-called “global imbalances,” i.e. some countries run high current account surpluses while other countries run high current account deficits. One of the consequences of global imbalances has been the excessive liquidities

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1 The calculation makes the following assumptions: China grows by 7% per annum and United States grows by 2% per annum, both in real terms; China’s inflation rate is 5.9% and the US’s inflation rate is 3.5%, the averages for the period 1981-2008; and RMB appreciates by 2% per annum against the US dollar. If inflation and RMB appreciation are not considered, then China will take over the United States in 2032.
flowing from the surplus countries to the deficit countries, which many believe has been one of the causes of the recent financial crisis. As the crisis deepened, the major deficit countries saw domestic savings increase while their current account deficits declined. Meanwhile, in the major surplus countries the current account surpluses also declined.

It is supposed by many that global imbalances will soon be cured. However, this is a premature assessment because the fundamental drivers of this era of globalisation have not changed one iota, despite the destructive forces which they unleashed to bring about the crisis.

Even a casual glance at the countries on opposing sides of the imbalances reveals a pattern to this new wave of global labour division. On the deficit side, we have the US, the UK and Australia, all of which have adopted the Anglo-Saxon model of capitalism and have strong financial sectors. The surplus side is more diverse, but we can still discern a pattern. It is comprised of three groups of countries: the old manufacturing giants, namely, Germany and Japan, the newly emerged “world factories,” especially China, and oil exporters.

Here the key to understanding the imbalances is to think about financial services as a tradable good. Traditional economic theory does not recognise them as such, thus it cannot be used to explain current account imbalances. This is because a surplus country experiencing an increase in wealth would import more until its current account surplus is depleted. Meanwhile, a deficit country faced with high interest rates would cut borrowings in order to rebalance its current account.

Thus, if we treat financial services as a tradable good, it becomes easier to explain global imbalances. It is not a coincidence that all of the surplus countries do not have highly developed financial markets. They generally specialise in either manufacturing or in oil exporting. Like other activities, finance is concentrated in places where efficiency can be maximised. It is therefore of little surprise that the “manufacturing” of finance is concentrated in New York and London. As a result, “hard-earned” money flows from the surplus countries to the deficit countries. Here “money” is the input of the financial companies in New York and London, just like raw materials bought by any manufacturing company.

The financial markets in the surplus countries are incapable of channeling income earned from exports towards domestic investment or consumption, so those countries have to seek the assistance of financial service firms in New York and London to help invest their surpluses. This observation has an ironic implication when viewed in the context of the debate over the cause of the global financial crisis, where blame is often laid squarely on the door of the American financial market. Whilst the American financial market may be too fluid, the financial markets in the surplus countries are too static. The large influx of money creates a wealth effect that increases current consumption in the recipient countries, ultimately creating deficits in their current accounts.

The pain of downward adjustment

For many, the financial crisis demonstrates that the current pattern of global specialisation is unsustainable. However, viewing it with the reasoning presented above, one realises that the issue is not one of sustainability, but one of adjustment. In this case, two factors, both relating to economies of scale, require painful adjustments in most countries: (1) the concentration of manufacturing in a few countries; and (2) the concentration of finance among a small section of the population in financially strong countries.
Most developed countries, with the exception of Germany and Japan, are losing their edge in manufacturing and need to create new job opportunities for their citizens. Even in the financially strong developed countries, such as the US and UK, manufacturing is hollowed out to such an extent that the financial sector will simply not be able to create enough jobs to fill the void.

In America, wealth is increasingly concentrated in the hands of the top 0.1% of the population, while the real income of people without college diplomas has remained constant over the last forty years. Global specialisation has led to what economists call "skill-biased" technological change, i.e. economic activities in the United States have evolved to demand more and more knowledge. The financial sector has benefited from this change disproportionately well. Wall Street has truly become the world's financial centre; the financial companies located on and around this street serve the whole world.

Global imbalances have helped strengthen Wall Street's position by feeding it with continuous flows of large amounts of liquidities. On the other hand, blue-collar and low-skilled white-collar workers are facing competition from workers in the emerging manufacturing economies. International trade, as predicted by the factor price equalisation theorem, tends to equalise the wage rates among trading partners; the large wage gaps between the developed economies and the emerging manufacturing economies inevitably put downward pressures on the developed economies, which have to either adjust their wage rates down or endure unemployment if they cannot upgrade their economic activities to create enough high-pay jobs.

In the short run, it seems that such downward adjustment is unavoidable; the financial crisis only aggravates this prospect. But downward adjustment means the deterioration of life quality – a very hard pill for national governments to swallow in the midst of a downturn. This goes some way to explaining the reason that the protectionist moods are deeper in the developed world.

In poor countries that are weak in almost every aspect, the challenge is no less severe than in the developed world. They face the danger of a "trade trap," i.e. they are forced out of manufacturing and have to concentrate on exporting resource-based products. Many of the emerging manufacturing economies, such as China, Brazil, India, and the eastern European countries, adopted import-substitution policies in their early stages of development. While their results were generally unsatisfactory, such policies left them with relatively sound industrial bases, in the process helping them to obtain favourable positions in this era of globalisation.

The case of China

Today, the late comers in Africa and south and south-east Asia will not have the opportunity to accumulate domestic manufacturing capabilities in a protected environment, even if import-substitution policies worked. They have to learn to do that in an open environment, which is hard because the giants ahead of them are capable of producing almost everything they can produce at relatively low costs.

Even the emerging manufacturing economies are feeling the pain. Environmental problems, inflationary pressures, and sluggish domestic demand are forcing this group of countries to rethink their growth models. This is particularly evident in China. A heavy reliance

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on manufacturing has led to both internal and external imbalances. The share of residential income in GDP declined by 18 per cent over the last 15 years; that is, improvements in ordinary people’s lives have not caught up with the country’s phenomenal pace of growth. Accordingly, consumption as a share of GDP has declined by 15 per cent in the same period.3

In expanding international trade, China has also accumulated large current account surpluses that have to be reinvested in developed countries, noticeably the United States, but with low returns. To maintain a fixed exchange rate against the dollar, the central bank has to accumulate large amounts of dollar reserves, which leads to constant inflationary pressure on the economy. Most economists in China agree that serious structural adjustments are needed to correct these imbalances and increasing domestic demand is at the core of this adjustment process.

It has become common place for people to blame global imbalances on the inflexible exchange rate regimes of some surplus countries, most particularly China. In addition, holders of more extreme opinions also point to China’s inflexible exchange rate regime as the root cause of unemployment in developed countries and the slow recovery in developing countries.4 But historical evidence shows that exchange rate regimes have little to do with global imbalances. Germany and Japan both have a floating regime, but both countries run very large surpluses. In particular, Japan has remained a strong exporter despite the Plaza Accord forcing the Yen to float and revaluate.

China’s own experience since 2005 also flies in the face of this claim. Between 2005 and 2008, the Renminbi appreciated by about 20%, but China’s trade and current account surpluses both surged. To blame the value of the Renminbi for causing unemployment in developed countries is wrong. If global imbalances are not related to exchange rate regimes, employment will not pick-up even if the Renminbi appreciates.

The claim that a weak Renminbi hurts China’s trade competitors has some merits. But one has to remember two things. Firstly, the Renminbi is only pegged to the dollar and floats against other currencies together with the dollar. If the Renminbi’s value is artificially low today, then there are other periods when it will be artificially high. For example, the Renminbi was not devalued in the Asian Financial Crisis while most Asian currencies were.

Secondly, it has to be remembered that there are costs associated with having a fixed exchange rate regime, which other countries may not want to bear. For example, when liquidities are flowing to emerging markets including China, a flexible exchange rate regime discourages the movement through revaluation of the home currency and avoids asset bubbles, but a fixed exchange rate regime cannot do this.

So when we turn to China, we have to question, why it insists on pegging its currency to the dollar. The cause is not mercantilism aimed at boosting Chinese exports, as most like to believe. Experts and government officials inside China have realised that heavy reliance on exports is creating serious problems for the Chinese economy. In addition, moderate appreciation of the Renminbi will not affect exports, as China’s experience between 2005 and 2008 has shown.

The Chinese central bank’s concern for the value of its dollar assets is another invalidated argument. The fixed exchange rate forces the central bank to issue interest-bearing bonds to reduce the money supply caused by its purchase of dollars. The net impact of this on the central bank’s balance sheet is thus unclear. The only explanation is political. In other

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words, Chinese policymakers do not want to yield to a demand from other countries. They want to avoid domestic accusations of “being weak” in the face of foreign stipulations.

**International architecture for adjustment**

Even if a flexible exchange rate regime on the part of China would offer some short-term help to the rest of the world, China’s role has perhaps been exaggerated. In the end, economic fundamentals will dictate the game. Unless we reject free trade, and the free flow of capital and division of labour associated with it, then we will have to live with global imbalances for quite a long time. The problem facing us is not how we correct the imbalances, but how we neutralise their negative consequences. To do this, we have to realise that the countries on each side of the imbalances are incapable of finishing the business on their own. We have to find global solutions.

One of the solutions is to create non-country-specific financial assets and make them sufficiently profitable for the surplus countries to invest in. The IMF’s Special Drawing Rights (SDRs) could be such an asset. Most of the world is still very poor and desperately needs investment. If arrangements are made in the right way, investing in developing countries can be profitable and the surplus countries will be willing to contribute. In this respect, the IMF can work with the World Bank to enlarge and strengthen both institutions’ current operations to accommodate more contributions from the surplus countries. The recent round of the IMF’s recapitalisation is a good start and should be continued. China and other Eastern Asian countries’ efforts to create a regional fund in Asia is another good example.

There are two advantages to this proposal. One is that excessive liquidities will be re-channeled from chasing asset prices to investing in the real economy, thus reducing the risk of another financial crisis. The other is that developing countries which receive investment will be able to improve their manufacturing capacities. In this regard, China’s involvement in infrastructure building and direct investment in Africa should be welcomed. But that is not enough because most Chinese firms, especially those that are investing in Africa’s manufacturing sector, are small and inexperienced. This is the space that international development agencies must occupy and exploit. The proposal outlined above is only one possible solution. What is clear is that a new international architecture for adjustment is required.

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Data on economic globalisation

The last decade has seen a shift in the distribution of economic power away from the United States, Europe and other advanced economies. Although GDP in the advanced economies is still much higher than in the emerging economies, the gap is narrowing. Changes in the share of trade and investment broadly mirror this, and emerging economies are now playing an active role in the process of economic globalisation. The recent global financial crisis is likely to accelerate these trends, and it is unclear how this will affect the future of trade negotiations.

Growth in GDP and total GDP

Source: IMF
Data on economic globalisation

**Share of World Trade**

*Share of World Trade, 2008*

- Imports
- Exports

Source: WTO

*Change in Share of World Trade, 2000-2008*

- Imports
- Exports

Source: WTO

**Foreign Direct Investment**

*Share of FDI in 2008*

- Inward, 2008
- Outward, 2008

Source: UNCTAD

*Change in share of FDI (2000-2008)*

- Inward
- Outward

Source: UNCTAD
## Special and differential provisions in WTO agreements

<table>
<thead>
<tr>
<th>WTO trade agreement</th>
<th>Special and differential provisions</th>
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<tbody>
<tr>
<td>GATT</td>
<td>Developing countries are entitled to take measures not consistent with provisions of GATT to promote the establishment of a particular industry (subject to prior consultations and within time limits)</td>
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<tr>
<td>Agreement on Agriculture</td>
<td>The requirements to reduce budgetary outlays for export subsidies and the quantities benefiting from such subsidies are lower for developing countries</td>
</tr>
<tr>
<td>Anti-Dumping Agreement</td>
<td>Constructive remedies must be explored before applying anti-dumping duties where these would affect the essential interests of developing countries</td>
</tr>
<tr>
<td>Technical Barriers to Trade Agreement</td>
<td>Developing countries are not expected to use those international standards, which are not appropriate to their development needs, as a basis for their technical regulations</td>
</tr>
<tr>
<td>General Agreement on Trade in Services</td>
<td>In negotiations for specific commitments, there shall be appropriate flexibility for individual developing countries to open up fewer sectors</td>
</tr>
<tr>
<td>Agreement on Trade-related Aspects of Intellectual Property Rights (TRIPS)</td>
<td>Developing countries are entitled to a delay in implementing most TRIPS obligations. Incentives should be provided to encourage the transfer of technology to developing countries</td>
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### Recent financial and economic crisis

**Change in volume of world trade**

- **2003**: 8.5%
- **2004**: 12%
- **2005**: 6.6%
- **2006**: 5.7%
- **2007**: 8.3%
- **2008**: 0%
- **2009**: -9%
- **2010**: 7.5%

**Annual change in GDP Growth**

- **2005**: 3.5%
- **2006**: 3.8%
- **2007**: 2.5%
- **2008**: 1.5%
- **2009**: -5%

Source: IMF, UN and Eurostat

### Data on economic globalisation

- **Recent financial and economic crisis**
  - **2003-2008**
  - **2009-2010**

- **Source**: IMF, UN and Eurostat
Section three
Transnational terrorism: regional dimensions of a global challenge
The elements of success in Afghanistan

Charles A. Kupchan

The new strategy for Afghanistan that President Barack Obama unfurled at West Point late last year is, like most of his decisions, carefully calibrated as to both policy and politics. As for policy, Obama is seeking to balance means and ends, recognising that the United States must pursue limited objectives in Afghanistan if it is to aim for the attainable rather than the desirable, and keep the US effort in proportion with the interests at stake. As for politics, he is well aware that he is conducting the war amongst polarised and discontented electorates at home and abroad – providing another incentive for Obama to embrace modest aims and put a cap on the scope and duration of the mission in Afghanistan.

The main strength of Obama’s strategy is its modesty and sobriety – its implicit recognition of the limits of US power and the obstacles facing the successful pacification of Afghanistan. The success of the policy in the coming year will turn on Obama’s ability to maintain modest aims and sustain a balance between the effort in Afghanistan and the political and military resources at his disposal. The situation on the ground could encourage him to do more; counterinsurgency and nation-building can be a bottomless pit. The situation at home will likely encourage him to do less; the Democratic base is uneasy with the war and the 2012 election already looms on the horizon. Obama must maintain his steadiness amid the inevitable setbacks ahead and the political backlash that will accompany them, resisting both the danger of sliding down the slippery slope of deeper involvement and the urge to head for the exit prematurely.

Obama’s plan – deploying an additional 30,000 US troops and stepping up the counterinsurgency campaign, redoubling efforts to build a functioning Afghan government and security apparatus, and eyeing the summer of 2011 as a target date for the beginning of a handover of the mission from the international community to Afghan authorities – rests on a clear and far-sighted observation. It acknowledges that NATO’s military effort in Afghanistan, spearheaded by the United States, has a crucial role to play. However, rather than extending Afghanistan’s dependence on outside forces, it refocuses the military effort on laying the foundations for functioning political and security institutions in Afghanistan. If implemented correctly, this important realisation should contribute to the short-term success of the US and NATO mission. However, the plan offers less in the way of a long-term strategy for Afghanistan. The latter will depend on the development of a regional security architecture that aims at promoting security, stability and economic integration for the South Asian region as a whole.

Obama’s plan

Looking ahead, the successful implementation of Obama’s plan for Afghanistan will depend on four main elements. First, the coalition must make the establishment of a functioning Afghan government, army and police force its top priority. Indeed, this objective must be the focal point of the international effort. Without a viable Afghan government and security force, even successful efforts at counterinsurgency would be little more than an expensive palliative. If the centre does not hold, then neither will the periphery. If a rump Afghanistan is not ready to begin standing on its own by the summer of 2011, then failure will beckon – with costly consequences not just for the region and the fight against extremism, but for the Obama presidency and NATO as well.
Resources should be allocated appropriately. Although General Stanley McChrystal’s original request for more troops stemmed from the perceived need for a reinforced counterinsurgency campaign in rural areas, that mission should not be allowed to distract resources from the more important task of consolidating control and security in more central locations. In this respect, the surge of civilian advisers and military trainers is crucially important; both are needed to build up the capacity of the Afghan government and its security forces. It is worrying that the arrival of civilian advisers has been running well behind schedule, as has that of the trainers; as of the beginning of 2010, only about 1500 of the 4200 trainers planned for deployment were in place. Even if the pace of arrivals picks up, the coalition needs to do a better job of coordinating the civilian and military efforts. Some improvement in command and coordination was made during 2009, but much more can be done to integrate the work of NATO, the EU, the UN and the many other national and international missions.

Helping the Karzai government increase the capacity of state institutions will entail continued efforts to clamp down on corruption and patronage in favour of a more meritocratic system. At the same time, the Afghan government has little choice but to work within the confines of traditional patterns of authority. In Iraq, the United States made the fatal error of dismantling the Iraqi state – and is still suffering the consequences of the collapse of order that followed. Afghanistan has no functioning state to dismantle. But it does have institutions of governance rooted in ethnic, tribal, and religious traditions. Setting up more capable Afghan institutions will require a stronger centre and advances in the rule of law and other universal measures of good governance. But no less important will be tapping into and strengthening the civic capacity of traditional communal and local institutions that will be, at best, only loosely connected to the central government in Kabul. And under some circumstances, working with local communities may require cooperation with Taliban elements prepared to accept reconciliation.

Second, the coalition should maintain tight limits on the footprint of the counterinsurgency effort. Were international forces to aim at pacifying the broad swaths of rural Afghanistan where the Taliban operate, it would be a bridge too far; that task can await the standing up of the Afghan army. Instead, US and coalition forces should focus on specific locations – transportation nodes, market towns, and areas of higher population density. It is better to clear and hold key areas – such as Marjah – than to spread coalition forces too thin, providing opportunities for the insurgents to regroup and return. Moreover, investments in local projects – schools, water pumps, irrigation systems – will often be more effective than the presence of foreign troops in affecting the alignments of remote communities.

Afghanistan’s fragmented tribal structure is a further reason to be cautious about the ambition of the counterinsurgency mission. In Iraq, the United States did succeed in undercutting the Sunni insurgency. But that insurgency was controlled by key tribal leaders whom the US forces were able to turn through a combination of bribery and coercion. In Afghanistan, tribal structures are much more decentralised, in part as a result of decades of war, compelling the coalition to woo communities elder by elder and village by village. The country’s forbidding terrain makes the task even more formidable, reinforcing the need for the coalition to curb the scope of the counterinsurgency mission.

Third, when it comes to counterinsurgency and counterterrorism operations against militants, the coalition should take a page from its opponents, adopting hit and run tactics against the Taliban and al-Qaeda. Rather than maintaining remote outposts, the coalition can use special forces to carry out strikes in peripheral areas. In addition, as more assets become available from Iraq, drone attacks can be used more regularly in Afghanistan to attack militants and keep them on the defensive. Due to their ability to loiter...
quietly over potential targets, drones offer the coalition an especially effective means of engaging militants in areas of Afghanistan where coalition ground forces may choose not to operate. Indeed, drone attacks in Pakistan, where US forces are not allowed to deploy, have taken a heavy toll on militants.

Fourth, the success of the coalition effort will depend upon Pakistan's willingness to continue prosecuting offensive operations against militants in the Federally Administered Tribal Areas and the Northwest Frontier. While Washington should continue to quietly press Islamabad to expand and intensify its offensive, too much overt American pressure may well backfire. Instead, the United States and its coalition partners should focus on producing tangible progress in Afghanistan. The setting up of a legitimate and competent government in Kabul, the forging of cooperative partnerships with local communities, and coalition progress in setting back the Taliban in Afghanistan – such developments may well convince Pakistan that the Afghan Taliban will not be making a significant comeback. Accordingly, Islamabad might no longer see any reason to indulge the Taliban, and could instead seek to shut them down. Indeed, this calculation seems to have helped convince Pakistan that the Afghan Taliban will not be making a significant comeback. Accordingly, Islamabad might no longer see any reason to indulge the Taliban, and could instead seek to shut them down. Indeed, this calculation seems to have helped convince Pakistan to apprehend a high-ranking leader of the Afghan Taliban, Mullah Abdul Ghani Baradar. In this sense, the construction of functioning Afghan institutions is doubly important: it is an ingredient critical to prevailing against extremism not just in Afghanistan, but in Pakistan as well.

Should these four elements of strategy fall into place, Obama has a reasonably good chance of realising his objectives in Afghanistan. But the obstacles are daunting; the Taliban has demonstrated surprising resilience and the coalition has only limited leverage over its key partners – the Karzai government, disparate Afghan communities, and the leadership of Pakistan. It will be a year, if not more, before the evidence is in. In the meantime, Obama will have his hands full managing the war and trying to maintain the balance between means and ends that has thus far proved so elusive in Afghanistan.

**Planting the seeds of regional cooperation**

A longer term strategy for Afghanistan and its region will require much more than the success of the US and NATO mission over the course of the next few years. If all goes according to plan, the Afghan government and security forces will consolidate institutionally, improve their capability and performance, and gradually assume responsibilities from the international community. But even if so, Afghanistan will remain fragile and vulnerable – and continue to reside in a dangerous and unstable neighbourhood. In this respect, it makes sense sooner rather than later to begin to advance new regional initiatives that seek to enhance security cooperation and enable Afghanistan and its troubled neighbourhood to proceed along the path to long-term peace and stability.

South and Southwest Asia (SSWA) are hardly ripe for the establishment of a multilateral framework for promoting integration and cooperation. Such bodies – NATO and the EU are examples – usually emerge against a common enemy or after a war, when there is a collective search for a new regional order. In SSWA, regional rivalries abound and territorial grievances fester; the strategic landscape is hardly conducive to a cooperative security order.

Nonetheless, regional initiatives have the potential to help settle such grievances and rivalries, not just preserve stability after it has already set in. In this respect, bodies such as ASEAN and the Gulf Cooperation Council (GCC) may provide the most useful examples for SSWA. They emerged in regions rife with unresolved conflicts. They focused on
internal threats to security (insurgency and terrorism) more than they did external threats. They included states that were not democratic. And they involved countries with experience in consensual decision-making based on village and tribal traditions.

Preventive regionalism
Looking over the horizon, a “preventive regionalism” for SSWA would be an important investment in the region's stability. Four initial lessons emerge from the evolution of ASEAN and the GCC. First, especially in a region like SSWA, where politics and security in Afghanistan, Pakistan, and India are inextricably intertwined, programmatic investment in multilateral dialogue has the potential to leapfrog the obstacles that can stymie bilateral negotiation. During their early years, ASEAN and the GCC both provided useful vehicles for resolving longstanding rivalries and territorial disputes. The multilateral setting provided “cover” for instances of mutual accommodation that might have otherwise failed to materialise. Groupings of countries can at times exercise persuasive powers unavailable at the bilateral level.

Second, regional initiatives in unstable areas are most likely to succeed if they are informal and loosely institutionalised rather than formal and legalistic. Western observers of ASEAN often criticised the body for its absence of codified rules and the ambiguity of its decision-making procedures. Nonetheless, the organisation’s informality and flexibility proved to be key strengths, enabling its members to draw on village-based traditions of compromise and consensus to resolve disputes. The GCC was somewhat more institutionalised than ASEAN. But it too found its way forward primarily through the informal traditions of tribal bargaining that predominate in the lower Gulf. A similar logic would apply to multilateralism in SSWA.

Third, regional initiatives in SSWA should focus on function, not form. Some of the most important initiatives taken by ASEAN and the GCC were ones that seemed minor at the time – sharing intelligence, joint border patrols, and joint counterinsurgency training. But these efforts succeeded in promoting not only mutual security, but also the mutual confidence that over time laid a foundation for deeper cooperation and the resolution of longstanding disputes. In SSWA, cooperation can start with similarly small steps – border patrols, efforts to curb drug trafficking, intelligence sharing – before seeking to tackle larger issues, such as settling territorial disputes.

Fourth, the practice of strategic restraint – particularly by major powers – was a critical ingredient in the onset of stability in both Southeast Asia and the lower Gulf. Indonesia’s willingness to end its confrontation with Malaysia and rein in its ambitions of regional hegemony cleared the way for the consolidation of ASEAN. The same applies to Saudi Arabia and its willingness to practice strategic restraint in the Gulf. This pattern provides important lessons for SSWA and underscores the potential for India to use strategic restraint to help encourage regional cooperation.

Finally, the experiences of ASEAN and the GCC make clear that regime type matters less than commonly presumed. Contrary to the conventional wisdom, non-democracies can be reliable partners in building regional security. Indonesia’s Suharto oversaw a regime that practiced ruthless repression at home but nonetheless helped guide Southeast Asia to peace. The members of the GCC have all been governed by illiberal regimes, but they nonetheless engaged in impressive levels of regional cooperation. These experiences suggest that even Iran, a country that continues to be governed by a repressive regime, may be willing to play a constructive role in promoting regional security. Indeed, regimes that are threatened at home have powerful incentives to try to improve their regional environments as a means of
bolstering their legitimacy and stability.

These ideas provide only an initial sketch of a regional security order for SSWA. But as Afghanistan searches for a measure of stability and engages the Taliban, as Pakistan and India seem ready to revive their security dialogue, and as Pakistan’s willingness to cooperate in stabilising Afghanistan is on the rise, now seems an opportune time to start planting the seeds of regional cooperation. The fledgling efforts of SAARC, the South Asian Association for Regional Cooperation - which includes Pakistan, India and Afghanistan amongst its members - to strengthen the security dimensions of its activities, offers a promising basis on which to work.

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Afghanistan: reversing the vicious circle

Prem Shankar Jha

Two months after American General Stan McChrystal asked for more troops and a longer commitment of US and NATO forces to Afghanistan, the Obama administration is in a state of perfect paralysis. Its “new” strategy for Afghanistan, announced with much fanfare in early December, is in tatters. The Taliban have grown stronger; no “moderates” have so far been weaned away from the main body. And the body count of both US and NATO troops has risen. Although the Pakistani army is now fully engaged in a war against the Taliban in its border region, it has come nowhere near the US goal of sealing the border with Afghanistan.

Handing over responsibility for governance and counter-insurgency to a stable Afghan government remains a distant dream. Gen. McChrystal has conceded that a 132,000 Afghan police and military force will not suffice to keep the Taliban in check, much less get the better of them. As if this were not enough, the Karzai government has lost whatever little legitimacy it had once possessed. The political and military vacuum in the Afghan polity is therefore fully restored.

The paralysis is taking a heavy toll on US credibility in Europe, where British Prime Minister Gordon Brown has openly declared that he will not send more troops to Afghanistan without a clear exit strategy. It is taking a toll on US credibility in Afghanistan where, with every passing day, it is reinforcing the Taliban’s conviction that it will win. It is taking a toll in Pakistan where it is heightening the Pakistan army’s fear of being left to face the Taliban and Al Qaeda alone when (no longer if) the US and NATO pull out.

But paralysis is taking its heaviest toll in the US itself where it is recasting Obama’s image from that of a decisive force for change into an indecisive prisoner of the status quo. Indeed, the spectre of a one-term president, unthinkable only six months ago, has begun to haunt liberals, not only in America but across the globe.

The cause of the paralysis is a widespread awareness in Washington that while the military effort is failing, the political effort to create a stable regime in Kabul that will be able to take on the Taliban after the foreign troops go, is in no better shape. McChrystal’s proposal of a minimum additional commitment of three years has evoked little enthusiasm because almost no one believes its underlying premise any longer – that the war is being lost because the military effort has been inadequate. And no one believes that a government with little or no Pashtun participation in it can fill this vacuum, no matter how much time and money the west invests in enlarging, training and equipping Kabul’s armed forces and building up its capacity to govern.

This is the key not only to understanding past failure but plotting future success. For the unrelenting military “cleaning-up” campaigns that followed the fall of the Taliban, the various military surges of later years, the increasing use of drones to target individuals (which unleash a special kind of fury in those at the receiving end), and the resulting loss of civilian life have alienated ordinary Pashtuns, marginalised moderate tribal leaders and provided an unending supply of new recruits to the resurgent Taliban.

Talking to the Taliban

Obama will not be able to break the paralysis that grips his administration until he finds a way to reverse this vicious cycle and bring the Pashtuns back into the mainstream of Afghan politics. The only
way to do this is by brokering a new power sharing arrangement between all Afghan ethnic factions. That can only happen if they agree to another peace conference – perhaps another grand Loya Jirga – attended by all warring groups, but especially the Taliban. What has made the paralysis in Washington perfect is the adamant refusal of the Taliban to join any peace process in Afghanistan.

There has been no dearth of efforts to bring them to the conference table. Hamid Karzai began to reach out to the Taliban even while US and NATO commanders were mounting new offensives in 2006. The Taliban spurned his offer, but this only made him change tactics. Previously, Pakistan and Afghanistan had been attempting to make their separate peace with elements within the Taliban, but this only created sanctuaries in one country and military offensives in the other. Karzai realised that the two countries stood a much better chance of bringing the Taliban to the negotiating table if they co-ordinated their peace-making efforts. After a year of preparation he was able to hold a peace Jirga in Kabul in August 2007 which Musharraf himself attended on its last day.

The Jirga generated considerable optimism and even appointed a fifty member committee drawn from both Afghanistan and Pakistan to coordinate future initiatives. But it had no impact whatsoever on the Taliban. Although Karzai issued two more public invitations to the Taliban to participate in peace talks while preparations for the peace Jirga were underway, he received his answer from them only a month after it ended. This took the form of an assassination attempt in the heart of Kabul.

Even this did not discourage Karzai. In 2008, with the full backing of the US, he induced the Saudi Arabian government to act as a go-between to reach Mullah Omar. Saudi Arabia had been chosen because it was one of the only three countries that had recognised the Taliban government in 1996, and had been its main financier. Riyadh persisted in its efforts through the early months and the summer of 2008 but these too ended in failure.

Nevertheless, in October 2008 the US too announced openly that it was ready to talk to the Taliban and brought out the second string to its bow. This was the discredited leader of the Hizbe-Islami, Gulbuddin Hekmatyar. Hekmatyar is a Pashtun, and although he was born in the north, he had been the principal recipient of American largesse in the war against the Soviet Union. In recent years he was believed to have drawn closer to Mullah Omar. But this initiative, although launched in February 2009, has also yielded no fruit so far.

If all of these efforts have failed is there any point in trying to convene a new Loya Jirga? If the US and NATO are willing to understand and accept the reasons for their failure, then the answer is “yes”. There are two reasons for this: the first is that every effort has been made by or on behalf of the Taliban’s adversaries. The Taliban command therefore read them as signs of growing weakness and an increasingly desperate desire to achieve at the conference table what they have not achieved through war. They have, therefore, strengthened their will to fight and their ability to find fresh recruits. The second is that none of the peace initiatives has explicitly offered the one thing that all Afghans want – the exit of the foreigner from their soil in return for a durable peace.

The importance of this omission is hard to overestimate for in the absence of an explicit quid pro quo, any leader who shows signs of even wanting to talk to the enemy runs the risk of being denounced by his peers as a traitor and himself becoming a target.

The need for an explicit quid pro quo to get peace talks moving has been apparent for at least the last three years. In September 2007 the New York Times reported that when the US ambassador to Pakistan asked Maulana Fazlur Rahman, the mentor of the original Taliban, to support a government led by Benazir Bhutto after the coming elections, he immediately agreed to do so provided Bhutto committed herself to asking the US to leave Afghanistan. Without such a commitment from
Bhutto, he said, supporting her would turn even him into a target, especially for the new brand of Taliban leaders that had emerged after 9/11.

In the Saudi-mediated contacts with him a few months later, Mullah Omar is reported to have laid down the same condition. Finally in the “big tent” meeting on Afghanistan at the Hague in April this year, the Iranian foreign minister surprised the US by offering to promote peace in Afghanistan, but warned that its efforts would come to naught if it could not promise an early withdrawal of US and NATO forces.

A neighbourly initiative

The strongest lure to a peace conference would therefore be a commitment by the US and NATO that they will cease hostilities the moment all Afghan factions agree to hold a peace conference, and will withdraw rapidly, in an orderly manner, once a new government has taken power. But so deep is the suspicion of the US and NATO among the Taliban that this offer is more likely to be seen as a trap. Most of the Taliban leaders will therefore prefer to see it as yet another indication that the US’ will to fight is flagging.

To be credible the offer has to be made jointly by a group of countries that is not engaged in hostilities in Afghanistan but commands sufficient influence to make sure that the west will keep its promise. Afghanistan's immediate neighbours, Iran, Pakistan, Uzbekistan, Tajikistan, Turkmenistan and India are the prime candidates. The idea of a neighbours’ initiative is not new. But giving it any substantial role in Afghanistan has not aroused any enthusiasm in Washington or Brussels so far because it would require the US and NATO to treat Iran as an ally and not an adversary, and because of Pakistan's visceral allergy to allowing India anywhere near Afghanistan. Dealing with Iran was unthinkable until President Obama came to power, but now, the United States may be open to discussions with Iran if it can help achieve progress in Afghanistan.

Even though the Obama administration recognised that Pakistan's allergy to India was rooted in past history and paranoia and was working directly against its own interests today, instead of finding a way of allaying its fears, the US made the exclusion of India a lynchpin of its Af-Pak strategy, and thereby ensured its failure. But it is still not too late to learn. In addition to openly supporting Dr. Manmohan Singh's efforts to improve relations with Pakistan (against the hawks within his own country, most of whom consider themselves to be fanatically pro-American) and commending his efforts to reopen the stalled Singh–Musharraf dialogue, the best way to allay Pakistan's fears would be to add a seventh member to the contact group of nations on Afghanistan: Turkey.

Turkey is not a neighbour, or even a near-neighbour. Nor does it have the longstanding links with most Afghan factions that India does. But it is a moderate Islamic country that enjoys immense respect in Afghanistan and India, and has very close ties with Pakistan. It is, above all, the country that most Pakistanis want to emulate. Its presence in such a coalition would calm Pakistan's fears of Indian domination, and open the doors to cooperation between them.

How would the Taliban respond to such a detailed offer, made by a group of nations whom the Afghans know and, by and large, trust? While there are no guarantees, it is likely that they will have no choice but to join in the conference. This is because the offer will otherwise split their ranks both vertically and horizontally, and dry up the pool of recruits upon which they rely to replenish their ranks.

The Taliban are not a single unified force under a single monolithic command structure. All factions...
are unanimous in their determination to oust the US and NATO from Afghanistan, but they have little else in common. Only a minority subscribes to the hard line Islamism of Mullah Omar. Still fewer have any interest in waging a perpetual Jihad against the west. The vast majority of the fighters would like to go back to their old lives once peace is restored. Indeed they will find it hard not to do so because of the pressure that they will come under from their families once the overriding goal of ridding their country of the foreigner becomes attainable by means other than war. Their leaders will therefore hesitate to spurn such an offer, for fear that their cadres might start melting away.

This is not a theoretical proposition, for there is a precedent from Kashmir next door. In 1994 the then prime minister of India, Narasimha Rao, quietly asked the election commission of India to start delineating constituencies for an election in Kashmir. No sooner did the Kashmiris hear about this than election fever gripped them. Political parties that had been dormant for the previous five years of military rule suddenly sprang to life promising to wrest genuine autonomy from New Delhi. This put the separatists who had taken up arms on the defensive and forced them to start framing counter proposals. In a matter of months the armed insurrection began to die away.

Friends and enemies

The key to the exit strategy that Obama is seeking therefore lies in the offer of a credible political alternative to war. But there are two other ways in which the US and NATO can tilt the scales within the Taliban in favour of the former. The first is to raise the price of refusal. That is where Gen McChrystal’s request for additional forces and three years to enlarge the Afghan government’s self-defence forces would fit in. The second is to strike at the roots of the Taliban’s finances. Since all of them sustain themselves on the trade in opium, the easiest, cheapest and most effective way to cut off the flow of funds to them is to enable the World Health Organisation to buy up all the opium that Afghan farmers produce now, and for a decade in the future in order to give them time to develop alternative crops.

The benefits of doing this, as opposed to burning the crops in the farmers’ fields, are incalculable. The money involved, $800 million in a good crop year, is less than what NATO and the US spend on war in two days. But today this base sustains a superstructure of illicit trade, industry and crime worth over $6.5 billion. A small, although important, portion of this goes to the Taliban, but a much larger portion goes into the pockets of Afghan warlords and politicians and Pakistani generals. Burning the crop has turned the US into the farmers’ enemy. Buying it up will turn it into a friend.

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Terror, instability and interventions in south Asia

G Parthasarathy

On 2 February 2010, Director of National Intelligence Admiral Dennis Blair delivered his “Annual Threat Assessment” overview to the US Senate Select Committee on Intelligence. His sobering analysis must have caused some consternation. Referring to Pakistan as a “safe haven” for terrorists, Admiral Blair drew attention to Islamabad’s support for selected Taliban groups acting against American and International Security Assistance Force (ISAF) forces in Afghanistan. His comments are worth quoting in full: “The safe haven that Afghan insurgents have in Pakistan is the group’s most important outside support. Disruption of the insurgent presence in Pakistan is a necessary condition for making substantial counterinsurgency progress. Islamabad has persisted in combating militants it perceives dangerous to Pakistan’s national interests. However, it still judges it does not need to confront groups that do not threaten it directly and maintains historical support for the Taliban. Pakistan has not constantly pursued actions focused on Afghanistan. Islamabad has maintained relationships with other Taliban associated groups that support and conduct operations against US and ISAF forces in Afghanistan. It has continued to provide support to its militant proxies such as the Haqqani Taliban, Gul Bahadur Group and the Commander Nazir Group”.

Admiral Blair further highlighted the extent to which regional security, economic and political factors are interlinked as he alluded to Islamabad’s support for terrorist groups operating against India. This included the Lashkar e taiba and the Jaish e Mohammed, which were responsible for the Mumbai terrorist attack of 26 November 2008 and the attack on the Indian Parliament on 13 December 2001. Once again it is worth quoting him at length: “Islamabad’s conviction that militant groups are an important part of its strategic arsenal to counter India’s military and economic advantages will continue to limit Pakistan’s incentive to pursue across the board efforts against extremism. Islamabad’s strategic approach risks helping Al Qaeda sustain its safe haven, because some groups supported by Pakistan, provide assistance to Al Qaeda.” In a recent statement, Pakistan’s army chief General Ashfaq Pervez Kayani alluded to the “sacrifices” Pakistan had made in fighting terrorism, having lost 2273 officers and men in operations against terrorists in Pakistan. Admiral Blair’s statement suggests that the Pakistan army has lost men in operations against the Pakistani Taliban – whom it perceives to be challenging the writ of the Pakistan state. At the same time he suggests that they are adopting a more benevolent approach to radical outfits operating from Pakistani soil against the governments of India and Afghanistan.

The failure of US counter-terrorism strategy

The current and continued presence of radical Islamic groups supporting terrorism emanating from Pakistan and Afghanistan can be traced back to events in February 1998, when Osama bin Laden announced the formation of an “International Islamic Front for Jihad against Jews and Crusaders”. Radical Islamic groups from across the globe were soon associated with this front, which from its very inception comprised Al Qaeda (made up almost exclusively of Arabs), the Taliban, the Islamic Movement of Uzbekistan, the Abu Sayyaf group from the Philippines, various Chechen groups and five radical groups from Pakistan. These groups were committed to backing not only the Jihad in India, particularly in Jammu and Kashmir, but also the Taliban in Afghanistan and other Islamist causes, like the Chechen armed struggle in Russia.

The formation of the International Islamic Front...
was accompanied by terrorist attacks on the US embassies in Nairobi and Dar es Salaam and the attack on the US navy destroyer the USS Cole in 2000. The Clinton administration was unable to devise and articulate a clear and consistent policy towards the Taliban. It initially regarded the latter as a “factor for stability” in Afghanistan, with its leaders even hosted in the United States by the Union Oil Company of California (UNOCAL) in the belief that Taliban rulers would facilitate the transit of central Asian gas from Turkmenistan to the Arabian Sea, through Pakistan. The ramifications of the Clinton administration’s inability to either correctly assess or deal with the dangers posed by the activities of Al Qaeda and their Taliban hosts, and thus its failure to precisely identify and uphold US interests in the region, are evident in the subsequent terrorist attacks of 9/11.

Operation “Enduring Freedom”, launched by the Bush administration following the attacks on the World Trade Centre, was both hastily and poorly planned. Indeed, it was defined by the reluctance of the US military leadership to place enough American boots on the ground to block the exit routes of the Taliban. The Taliban was ousted from Kabul, not by American forces, but by forces of Afghanistan’s Northern Alliance. And yet, due to the American failure to block the exit routes, the Kandahar based Taliban political leadership escaped across the Durand Line into Pakistan’s Baluchistan province, while the Taliban military leadership, together with Osama bin Laden and the leadership of Al Qaeda and its Uzbek and Chechen allies, escaped into the tribal areas of Pakistan’s North West Frontier Province.

Rather than destroying global terrorism, Operation Enduring Freedom merely dispersed the threat it posed. The close links between Al Qaeda and the Taliban forged in the 1990s are abiding and based on a shared aversion and indeed hatred for both pluralistic and democratic values, and religious and democratic freedoms. These links have been further strengthened as a result of Operation Enduring Freedom, as there now exists a shared determination to ensure an ignominious American withdrawal from Afghanistan. Such fundamental realities appear to have been more widely understood by the Obama administration. However, the perception that peace and security for the international community can be attained through a mere weakening of Al Qaeda, whilst effectively leaving Afghanistan vulnerable to another Taliban takeover, continues to prevail amongst certain sections of the policymaking community. This perception is both misplaced and dangerous.

Towards a more holistic approach

The London Conference on Afghanistan held on January 30, 2010, sought to assure the international community and the people of Afghanistan that American and ISAF forces will not withdraw from the country and leave the constitutionally elected government in the lurch. However, the sincerity of this vow has been undermined by what appears to be an unrealistic schedule for increasing the strength of the Afghan National Army and making it an effective fighting force. There also exists a significant level of doubt over the specific nature of the international community’s policy of “reintegration” of the Taliban back into Afghanistan’s national life and the democratic process. Unfortunately, the announcement by President Obama of July 2011 as the date when the US will commence a drawdown in its troop strength in Afghanistan appears to have persuaded the Taliban leadership – and those whose support it enjoys – that the US has no option but to cut them a deal. There is also a widespread feeling in India that while the US would inevitably find a premature withdrawal unacceptable, its British allies appear to be exhibiting undue haste in their desire to exit from Afghanistan by seeking “reconciliation” with large swathes of the Taliban. There exist deep misgivings in both New Delhi and Kabul about British policies on this score. The current approach of President Karzai of reaching out only to those Taliban members who renounce violence and accept the Afghan Constitution appears to many
as the only realistic and viable basis on which to try to forge a conciliatory deal with the Taliban. How developments in Afghanistan play out will have a crucial bearing on the future fortunes of terrorist organisations and their activities across both South Asia and the wider world. The region is at a critical juncture in its battle against the spread of Islamic radicalism, and there exist multiple challenges to a stable environment. Following Operation Enduring Freedom, a substantial number of members of the Harkat ul Jihad ul Islami sought shelter in the tribal areas of Pakistan and still operate from there. Some other members of this group moved into Bangladesh and have been responsible for a number of terrorist strikes on India. But sensing the dangers posed to the Sufi-oriented body politic of Bangladesh by such radical groups, the newly elected Awami League government of prime minister Sheikh Hasina Wajed has cracked down on them heavily. India has also seen the emergence of a range of small groups of Islamic radicals, which according to Indian intelligence agencies, have been motivated and trained across its borders in Pakistan. Such groups, however, enjoy miniscule support within India. Indeed, the Muslim community in India reacted with outrage to the November 2008 terrorist strike in Mumbai and refused to grant burial space for the perpetrators of the attack, whose bodies have not yet been identified by authorities in Pakistan.

Instability in Pakistan
Fears regarding the possibility of the Taliban or another radical group gaining control of Pakistan’s nuclear arsenal appear overblown: not only are Pakistan’s nuclear sites evidently well protected, but it is known that Pakistan’s nuclear weapons are stored unassembled, with the fissile core separated from the non-nuclear explosives; these components, in turn, are stored separately from delivery vehicles. But some concern on this score will remain, as a new generation of officers recruited during the “Islamist era” of President Zia ul Haq between 1977 and 1988 assume positions of higher command. Ultimately, the role of radical Islam in Pakistan will depend largely on the support that radical groups receive from Pakistan’s military establishment, as part of its “strategic arsenal”.

Shortly before the terrorist strikes of 9/11, a report of the US National Intelligence Council entitled “Global Trends 2015” noted: “Pakistan will become more fractious, isolated and dependent on international institutions. Nascent democratic reforms will produce little change in the face of opposition from entrenched political and Islamic parties. Further domestic decline will benefit Islamic political activists who may significantly alter the makeup and cohesion of Pakistan’s military – once Pakistan’s most capable institution. In a climate of continuing domestic turmoil, the central government’s control will probably be reduced to the Punjabi heartland and the economic hub of Karachi.” This scenario appears more plausible now than ever before, and will continue to do so unless there is a concerted effort to convince the military establishment in Pakistan about the dangers their country faces if they persist in pursuing their current path.

US and NATO counter-terrorism strategy only stands a chance of success if it explicitly recognises that terrorist groups promoting terrorism from Afghanistan and Pakistan are now seamlessly intertwined and mutually reinforcing. Issues of terrorism in the region, therefore, cannot be successfully addressed by dealing solely with those who are regarded as prime targets of the international community at any particular point in time. Domestic, regional and global security rests upon the adoption of a more holistic approach...
to the Afghanistan conflict, which seeks to address
the interplay of security, political, economic and even
social factors, within a framework that encourages
and facilitates multilateral engagement of all the
regional players. Such an approach will represent a
first step towards achieving an effective resolution
of the conflict, contributing to the enhancement of a
peaceful and stable international environment.

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Data on Terrorism

The increasingly transnational nature of terrorism has acted as a catalyst for deepening international cooperation in this area, particularly in the context of the United Nations. Many regional organisations have attempted to develop mechanisms for cooperation on counter-terrorist activities. However, the nature and strength of these has varied greatly in different parts of the world. In South Asia, the counter-insurgency effort in Afghanistan, led by US and NATO forces, is inextricably linked with the security of the wider region.

In 2008, the region registered high levels of terrorist activity, although precise numbers are difficult to specify in light of definitional problems.

### UN counter-terrorism provisions

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<thead>
<tr>
<th>Provision</th>
<th>Date of adoption (entry into force)</th>
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<tbody>
<tr>
<td>International Convention Against the Taking of Hostages</td>
<td>1983</td>
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<tr>
<td>Declaration on measures to eliminate international terrorism</td>
<td>1994</td>
</tr>
<tr>
<td>Security Council Resolution 1373 establishing the Counter Terrorism Committee</td>
<td>2001</td>
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<td>Security Council Resolution 1535 establishing the Counter Terrorism Committee Executive Directorate</td>
<td>2004</td>
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<td>Global Counter-Terrorism Strategy</td>
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### Provisions by regional security organisations

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<td>Association of South-East Asian Nations</td>
<td>Declaration on Joint Action to Counter Terrorism Work Programme to Implement the ASEAN Plan of Action to Combat Transnational Crime Convention on Counter Terrorism (not yet in force)</td>
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<td>Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation</td>
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<td>Shanghai Cooperation Organisation</td>
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<td>Organisation of American States</td>
<td>Resolution Strengthening Cooperation to Prevent, Combat and Eliminate Terrorism Inter-American Convention against Terrorism</td>
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Afghanistan International Security Assistance Force major troop contributions

1. REGIONAL COMMAND NORTH
   Approx. ISAF strength 5,895

2. REGIONAL COMMAND EAST
   Approx. ISAF strength 24,900

3. REGIONAL COMMAND SOUTH
   Approx. ISAF strength 45,100

4. REGIONAL COMMAND WEST
   Approx. ISAF strength 4,600

5. REGIONAL COMMAND CAPITAL
   Approx. ISAF strength 6,300

Total number of troops approx. 86,795

Note: The ISAF mission consists of a total of 43 nations - above are the major troop contributing nations, numbers are based on broad contribution and do not reflect the exact numbers on the ground at any one time. As of December 2009, the Afghan National Army has an actual strength of approximately 100,130 personnel.

Source: NATO - data correct as of 1st February 2010

Terrorist incidents in 2008 (20 most affected countries)

Source: US National Counterterrorism Center - Worldwide Incidents Tracking System
Section four
Ensuring resource security: from a local problem to a global challenge?
Water, food, energy and minerals are highly strategic resources. They are essential to human development and, in the case of water and food, to human survival. Food production is, meanwhile, closely intertwined with water and energy, while water and energy, for their part, are intimately linked to climate change. While the way we produce and consume energy makes up about two-thirds of all human-induced greenhouse gases, the availability of water resources will be directly affected by global warming.

Growing populations, rising affluence, changing diets and the demands of development have already, however, placed significant pressure upon these strategic resources. The global food system is already struggling to meet the present demand for food, yet the World Bank projects a rise of 50 per cent in global demand for food by 2030. To grow more food will require more water – a resource now also under great strain, as pollution is threatening the world’s freshwater resources. The 2030 Water Resources Group, a consortium of private-social sector organisations, has pointed to a growing “water gap” in which global demand for water will be 40 per cent more than supply by 2030. Today, agriculture alone accounts for approximately 3,100 billion cubic meters, or 71 per cent of global water withdrawals; by 2030, without water-efficiency gains, such withdrawals will increase to 4,500 billion m³.

Water withdrawals by industry are projected to rise from 16 per cent of today’s global demand to 22 per cent in 2030, with the greatest growth in use coming from China, the world’s factory.

As for energy, the imperative to combat global warming goes against the current trends of rising consumption of energy, much of it produced with fossil fuel. Such is Asia’s appetite for energy that its share of global consumption is projected to almost double over the next 20 years – to about 48 per cent for oil and 22 per cent for natural gas. Yet, given its limited oil and gas reserves, Asia is particularly vulnerable to sudden supply shortage or disruption.

The quest for energy

Gaining access to resources has historically been a key driver of armed interventions and wars. Today, a new “great game” is underway, centered on building new alliances, ensuring power equilibrium, gaining greater market access, and securing a larger share of energy and mineral resources. Competition over oil and gas resources, driven by rapid economic growth in Asia, constitutes one key dimension of this game. The ongoing global shifts in economic power are manifest from the changes occurring in the energy and materials sectors, with the growth in demand moving from the developed to the developing world, principally Asia. As the Global Trends 2025 report of the US National Intelligence Council – the senior analytic body within the Office of the Director of National Intelligence – has noted, while strategic rivalries in the 21st century will probably centre on issues related to trade, investment, technology innovation and acquisition, “increasing worries about resources – such as energy or even water – could easily put the focus back on territorial disputes or unresolved border issues. Asia is one region where the number of such border issues is particularly

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noteworthy. Even as new energy supplies from Russia, Africa, central Asia and the Caspian Sea basin are being sourced, the Persian Gulf region remains central to the global oil markets. In fact, Asian states are more dependent on energy imports from the Persian Gulf region than either the European Union or the United States. It speaks for itself that India, China, the European Union and the United States source 75 per cent, 60 per cent, 30 per cent and 20 per cent, respectively, of their oil imports from the Gulf states. Yet the perception is that the heavy US involvement in the Gulf region is tied to America’s oil-import needs and the interests of its oil multinationals. The reality is that the American reliance on Gulf oil is low and that most of the hydrocarbons in the Gulf region are owned by local state-owned firms.

The growth in global demand for gas has accelerated at the fastest pace, with the appeal of gas strengthened by the fact that it is generally cleaner-burning than other fossil fuels. With improvements in technology bringing significant reductions in costs associated with cooling and condensing natural gas to a liquid form so that it can be transported in ships, a large global market for liquefied natural gas (LNG) has emerged. While Russia is the top global supplier, she has two rivals in natural-gas reserves: Iran, with 971 trillion cubic feet, and Qatar, with 910 trillion cubic feet.

The US-led sanctions and diplomatic campaign against Iran, however, has impeded the flow of foreign investments and technology to become a major LNG exporter to the world. The spiralling global demand for energy, metals and other raw materials has given rise to a new resource-oriented diplomacy. Employing aid as a diplomatic instrument for commodity reach, China, for example, has signed important resource agreements with commodity-producing states in Africa, central Asia and Latin America. It has also stepped up its financial investments in the Persian Gulf countries.

Petrodollars and resource-rich nationalism

Another factor sharpening energy-related geopolitics is the phenomenon of resource nationalism in oil-rich countries, such as the Arab oil sheikhdoms, which have developed a sense of empowerment due to their soaring energy revenues. In the 1980s and 1990s, oil-exporting states competed for capital inflows in an era of low energy prices, granting western companies favourable terms to bring in new technology and expand their production. But with higher oil and gas prices and the consequent greater inflow of revenues has come increased confidence and assertiveness.

Even if the oil price stays at the current rate of between $70 and $75 a barrel, the oil sheikhdoms of the Persian Gulf will still receive more than $500 billion a year at their current rate of production; and if the price spirals to $150, their annual oil revenue will surpass $1 trillion. Such continuous transfers of immense wealth to the sparsely populated sheikhdoms— which have more foreign (mostly Asian) workers than citizens— hold major long-term strategic implications. Their rising oil revenues, for example, have encouraged the rewriting of the rules of foreign investment, the giving of preferential treatment to national companies, the imposition of higher taxes and royalties, the renegotiation of projects that were drawn up when oil and gas prices were low, and even the repossession of national control of oil or gas.
assets in some cases.

For the first time, the western commercial oil behemoths like Exxon, Chevron and British Petroleum are facing growing competition from Asian companies like China National Petroleum Corporation (CNPC), China National Offshore Oil Corporation (CNOOC) Limited, India’s Oil and Natural Gas Corporation (ONGC) and Malaysia’s Petronas. This is a major shift from the situation after World War II when the so-called “seven sisters” – five US companies, one British and one Anglo-Dutch – monopolised global oil production, refining and distribution and set international prices.

More broadly, there is an inverse correlation between the price of oil and the price of freedom, as has been pointed out by American commentator Thomas Friedman. An oil-price spike not only spurs greater transfer of wealth to the oil-exporting nations, but also undercuts the spread of freedom by instilling or strengthening authoritarianism and arming the Persian Gulf states with greater clout to fund fundamentalism and extremism elsewhere. Soaring wealth, coupled with their control over the world’s most bountiful oil resources, gives these weak, feudal, internally-troubled sheikhdoms a disproportionate influence in world affairs – an influence they have misused. After the oil-price shocks of the 1970s opened the door to rising revenues, several sheikhdoms began funnelling some of their earnings to the promotion of Wahhabi Islam, including the establishment of jihad-spouting madrassas overseas. It was not an accident that the rise of Islamic conservatism and extremism – from Morocco and Sudan to Malaysia and Indonesia – commenced in the 1980s with the aid of petrodollars. Today, funds continue to be channelled from these sheikhdoms to Islamist groups in many countries. Their post-9/11 promises to clean up their alleged philanthropic acts have not been fully honoured.

Resource exploitation and ethnic fault lines can create an explosive mix. Intrastate water disputes in some parts of the world pit a minority ethnic group against a majority community: in Darfur, Sudan, the still-simmering civil conflict flared over water and grazing rights; in resource-rich Baluchistan, Pakistan, the ongoing tribal insurrection has been spurred by the grievance among the native Baluch that the Punjabi-dominated ruling establishment in the country has been plundering the local natural resources and leaving their province underdeveloped.

In several oil sheikhdoms, the link between resource exploitation and ethnic divide is potentially combustible. Saudi Wahhabi wealth, for example, has been built from Shiite resources. The two million Shites of Saudi Arabia may only constitute up to 15 per cent of the national population, but they dominate the oases of Qatif and al-Hasa in the Eastern Province, the source of 90 per cent of Saudi oil production and the seat of the world’s greatest oil reserves. In Iraq, too, the oil resources are concentrated in non-Sunni areas, although the US occupation has helped end, however inadvertently, the Iraqi Sunni domination of the majority Shiite population. Take another Sunni-governed oil sheikhdom, Bahrain, where the Shites form up to 75 per cent of the population. The Bahraini Sunni elites have cozy tribal affiliations with the Saudi elite (to the extent of granting Bahraini citizenship to Saudi Sunnis on demand) but maintain a distance from the majority Shiite population at home.

Shites have historically been suppressed and treated as second-class citizens in a number of societies. Today, there is a Shiite reawakening across west Asia, with Jordan’s King Abdullah II even raising the spectre of a “Shiite crescent” stretching from Iran and Iraq to Syria and Lebanon. Given that the

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Sunni-run sheikhdoms plus Iran hold some two-thirds of the global oil reserves and that Saudi Arabia alone is projected by 2025 to produce more oil than Africa and the Caspian Sea basin combined, the political or ethnic volatility of these states can only be a cause for international concern.

Resource geopolitics
A further aspect regarding the competition over resources is the intensification of resource geopolitics. Europe, for example, has worked hard to shape the direction of some of the Caspian Basin and central Asian oil and gas pipelines because it has a stake in the issue of the routing. If central Asian and Caspian Sea energy supplies are routed to the European market, that would help Europe diversify its imports and ease its dependence on Russia. Within Asia, China has emerged as a key player in pipeline politics. Beijing has built its own pipeline to bring oil from Kazakhstan and is seeking two gas pipelines from Russia. These pipelines are a lynchpin of China’s strategy to diversify its imports away from over-reliance on the volatile Persian Gulf region, the current source of more than half of Chinese overseas purchases. In contrast, energy-poor India and Japan do not have a similar option. Lacking geographical contiguity with central Asia and Iran, India will remain largely dependent on oil imports by sea from the Persian Gulf region.

China, with the world’s most resource-hungry economy, fears that in the event of a strategic confrontation, its economy could be held hostage by hostile naval forces through the interdiction of its oil imports. That same concern has prompted Beijing to build a strategic oil reserve, and China is now seeking to fashion two strategic corridors in southern Asia through which it could transfer Persian Gulf and African oil for its consumption by cutting the transportation distance and minimising its exposure to US-policed sea lanes. The new Chinese-built port at Gwadar, Pakistan, represents China’s first strategic foothold in the Arabian Sea. Gwadar, at the entrance to the Strait of Hormuz, will link up with the Trans-Karakoram Corridor to western China. China is also establishing a similar energy corridor through Burma.

The blunt and incontrovertible truth is that energy demands in Asia are beginning to influence strategic thinking and military planning. For some states, a rising dependence on oil imports has served to rationalise both a growing emphasis on maritime power and security as well as a desire to seek greater strategic space. Concerns over sea lane safety and rising vulnerability to disruption of energy supplies are prompting some countries to explore avenues for joint cooperation in maritime security.

In fact, a central challenge in Asia is to improve regional geopolitics by fostering greater interdependence, especially in relation to energy. Strategic friction over energy can be forestalled and economic growth and commercial competitiveness bolstered through institutionalised arrangements in Asia that seek to safeguard energy supplies and maximise resource conservation and efficiency. The current zero-sum game on energy hampers both the development of new oil and gas fields in a high-potential resource area – the East China Sea – and the potential supply of Russian oil and gas to consumers in northeast Asia, so as to maintain and increase the region’s reliance on the volatile Persian Gulf.

Interstate cooperation on energy can help marshal new resources to aid the development of prosperity. Along with energy, cooperation on the security of sea lanes has become essential to avert strategic friction in Asia. Yet energy and maritime security cooperation cannot be institutionalised or sustained on a long-term basis without expanded political cooperation as well...
as transparency on military expenditures. Building interstate transparency on defense spending in Asia is thus necessary to help set up multilateral maritime security and energy cooperation arrangements.

Water presents a unique challenge. While countries can scour the world for oil, natural gas and minerals to keep their economic machines humming, water cannot be secured through international trade deals. Sustainable and integrated management of national water resources is essential to prevent degradation, depletion and pollution of water. To meet the gap between supply and demand, water conservation, water efficiency, rainwater capture, water recycling and drip irrigation would have to be embraced at national, provincial and local levels. One can hope that advances in clean-water technologies would materialise before water conflicts flare. Low-cost, energy-efficient technologies for treating and recycling water could emerge from the scientific progress on nanoparticles and nanofibers and membrane bioreactors.

Water shortages are already a fact of life for millions of people around the world. As the gap between living standards in advanced economies and developing countries starts to narrow, the sustainability of current patterns of water consumption appears uncertain. Indeed, estimates predict severe water scarcity by 2030. From providing safe drinking water to irrigation to sanitation, water has traditionally been viewed as a local issue and, at the international level, as a development challenge. Yet, with forecasts of scarcity and the transboundary nature of many sources of water, it is starting to be viewed as a security concern as well. There are rising anxieties about tensions over river waters in many different parts of the world and water use is now clearly a global issue with vital consequences for all countries.

The threat of scarcity

The issue of water is especially significant in the evolving relationship between China and India. Indeed, no discussion about Sino-Indian ties is complete without reference to the widening gap between water supply and demand and also to other strategic resources such as energy. Such debates often highlight the high economic costs and security risks associated with water scarcity and the bilateral tensions that are likely to ensue. Indeed, there are good reasons for voicing concern.

China is home to the Tibetan plateau, also known as the ‘water tower of Asia’. This is where the world’s third-largest reserves of glacial water are stored. It is here that the sources of the ten largest rivers in Asia begin, including the Yellow River, the Yangtze, the Mekong, the Brahmaputra, the Salween and the Indus, among others. In addition, discussions about water availability understandably commence and end with considerations about human needs. In a regional context, if we add up the population of China, India, and the remaining countries that have rivers flowing from the Tibetan plateau, it becomes clear that what is at stake is no less than the supply of freshwater for one quarter of the world’s population. In light of this, one of the repeated worries that Indian commentators voice is that there is a real risk of China choking off water supplies to countries south of its border. Indeed, many worry that the Chinese and Indian economies already face water shortages. A rising middle class that consumes more water, the spread of irrigated farming and water-intensive industries are all contributing to a rising demand for water. There is a great amount of scaremongering about how economic growth could slow in the face of severe water scarcity. Comparisons are even made with water shortages in the Middle East, where competition for access to freshwater supplies has historically led to military conflict.

Mischief and myth-making

Warnings about scarcity, although understandable, are often stoked by political prejudices. If one looks at the history of China and India, it is notable for the lack of tension and conflict over water issues. Low levels of access to freshwater on a per capita basis, together with uneven distribution of water within each country, have been a feature of life for centuries. What can make the future so starkly different? Is there a threshold point? If there is, what are the parameters we can rely on?

When approaching these questions, it would be wise to stay clear of myth-making and instead take a more cautious and constructive view of the issue. Although in a completely different context, past
through a billion voices: India's role in a multi-polar world

events can teach us a great deal about the dangers of exaggeration and media misrepresentation in relation to issues concerning national security. The discussions around the installation of Chinese naval facilities in Myanmar are a case in point. For over a decade, a stream of reports in the news media claimed that China had established several naval bases and intelligence collection stations in Myanmar. These reports generated much speculation about Chinese strategic intent in the Indian Ocean. It was also detrimental to efforts launched by Beijing and Delhi to iron out their differences over a number of issues, including the decades-old border disputes. The negative repercussions of such stories only began to subside around 2005, when the reports were proven inaccurate. The unnecessary damage caused to Sino-Indian relations due to this episode ought to serve as a useful reminder for the need to avoid getting carried away with myth-making and exaggerated rhetoric.

Similar stories have emerged with regard to competition over water resources as well. China accounts for 20 per cent of the world’s population, but its per capita water supply is just one quarter of the world’s average. The majority of China’s water supply lies south of the Yangtze, where only half of the population resides. Transferring water from the south to the arid north has therefore become a growing necessity. In response to this, there have been reports about the Chinese pursuit of major inter-basin and inter-river water transfer projects on the Tibetan plateau. More recently, proponents of a new complex western route to link watersheds in Tibet and western China have stated that construction could start as early as the mid-2010s. Given that China has already started the eastern and central routes of its controversial south-to-north water diversion schemes, there is indeed ground for concern that the Chinese authorities and hydro-engineers may be again determined to prevail over the forces of nature.

Water pragmatism

These recent developments have led to concerns in India about losing out in the race for access to freshwater. While anxieties in India are understandable, it should opt for a pragmatic approach in handling the situation. Accusations of China’s ‘intent to aggressively pursue projects and employ water as a weapon’ can hardly contribute to enlisting sympathetic reactions in Beijing. Indian policy-makers and commentators should try to be more aware of and involved in internal debates within China on these issues. In addition to raising alarm and objections, they should try to further linkages with those voices in China that are opposed to such projects. The inter-basin and inter-river water transfer scheme has proved extremely controversial within China itself. Indeed, even the former minister of water resources for China published a comprehensive rebuke of propositions to divert water from the Tibetan plateau to the Yellow river. So far, it is this side that has prevailed in the debate.

It is also important not to let political issues get entangled with debates about water. With India playing host to the Dalai Lama and his followers in exile, political issues relating to the Tibetans can easily get in the way of mutually beneficial cooperation on water. There is sufficient space in China to reason with different voices who believe that an essential part of living in harmony with neighbours – in this case, over the use of water – is to be attentive and sensitive about their concerns.

For many centuries, water has not been a divisive issue between Beijing and Delhi. Even in the future, and in spite of the changing context, water does not have to become a bone of contention. Immediate focus should be given to issues of water and
especially to how the two countries can save water in the years to come. If adequate measures are taken and countries face up to the challenge in a more open and pragmatic manner, there is real opportunity for averting tension. Only this will prevent water-related concerns from turning into self-fulfilling prophecies, which would not be in the interest of either country. A more reliable approach would be to develop better bilateral and regional mechanisms that focus on ensuring the sustainability of water resources.

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Running out: a systems approach to scarcity

Bas de Leeuw*

It is becoming painfully clear that the world is running out of resources. This will not happen tomorrow, or even next year – but at some stage in the not too distant future, we will no longer be able to reconcile our desire for growth and demand for resources, with the available supply of resources. The public debate has shifted in response to this. Once upon a time, if you raised the issue of resource scarcity, you were accused of being a prophet of doom. This is no longer the case.

Physical limits are in sight for some critical metals on which our information technologies are increasingly dependent. Some of these metals may not be scarce in a strictly quantitative sense, but they are only to be found in a very limited number of countries, which raises security of supply concerns. The supply of water is becoming a topic of major concern and a source of potential conflict as well. Economic forces are responding to these limits, with prices going up where there are no alternative resources available, and the social and environmental consequences of resource scarcity are receiving increasing attention. As we deplete resources, our earth is getting dirtier and more dangerous for our health, and despite the promise of growth, poverty is still far from eradicated.

More and more people have more and more needs. Yet despite all the conferences, multilateral agreements and protocols, we are still very far from providing a decent and dignified life to all people on our planet. Is it utopian to want this? I don’t think so – in fact it is a natural human ambition, and it is very possible to achieve. But first we need to accept the reality of our situation, and then work to deliver change that can respond to this reality.

The limits of growth

Unfortunately, up until this point we have been living in denial. This is still the case. Dennis Meadows, co-author of the groundbreaking book “The Limits to Growth”¹, made the following observation about the critical responses to the book, which was amongst the first to identify the resource scarcity problems our modern societies face. In the 1970s, critics argued that there were no effective limits to growth. In the 1980s, they acknowledged that perhaps there were limits, but they were far away. In the 1990s, it was accepted that the limits might be near, but we were told that technology and markets would help us avoid them. In the 2000s, critics noticed that technology and markets had not yet solved the problems of resource scarcity, but they were able to convince us that they would do so as long as we could deliver more growth. In 2010, the critics have finally begun to admit that growth might actually be aggravating the problem, but their answer is… it is too late to do anything!

It is indeed a long bridge to walk, from science to policymaking, from accepting reality to doing something about it. So are we now too late? I get asked this question frequently, usually not in formal panel discussions or “Q&A” sessions with the audience, but rather in the corridors, after stepping down from the podium. Perhaps that is because people are too afraid to ask the question, thinking

* I would like to thank my colleagues Jeanne Veach-Bragdon and Jay Bragdon for their insightful comments on this essay

I will say “yes, it is too late.” But on the contrary, I normally say what I deeply believe in – that it is never too late to change your own life, and therefore it is never too late to change the world. The key is to organise this change effectively.

Currently, we see that many governments at least appear to be stepping up to the plate in terms of acknowledging that something needs to be done if we are to address resource security and deliver sustainable consumption and production. The problem is that not much is coming of this realisation. We are currently locked in a pattern of repetitive rituals where diplomats negotiate without really knowing what they are negotiating about. With secretariats failing to provide clear and timely feedback about the interim results of policies – they are keeping track of statements and side events, but are failing to make clear how those statements fit into the overall picture, how they address the issue at stake. We need to devote more attention to the verifiable outputs of policies, we need to pay more attention to numbers instead of statements.

**International pipe dreams**

There are currently no effective international mechanisms for bringing about this shift. For example, there is little prospect of achieving an international agreement on “consumption” or on “resource use per capita”. On the contrary, such agreements remain a pipe dream; we have not even started the ground work analysis which they would need. Despite a call by leaders at the 2002 World Summit on Sustainable Development in Johannesburg to develop a framework for sustainable consumption and production, we have not yet seen any baseline figures – what were the figures for global and national per capita consumption and production in 2000? What are the trends, what impacts do they have, and what objectives should the world aim to achieve? And if we don’t achieve these, what will happen? In order to bring about a sense of urgency and a spirit of cooperation these types of numbers are needed. The clearer the picture, the better the action will be.

On a more positive note, at the national and local levels there has been tremendous progress. The sustainable consumption and production tool box has been filled better and also used more effectively – there has been considerable innovation in terms of education, marketing, eco-design, eco-labeling and cleaner production. It is however remarkable that the one tool which only governments can use is actually used the least – here I am referring to legislation. I am not talking about a “thou shalt not consume” law, but rather about legislation aimed at producers which prevents suboptimal products and services to be offered to consumers. Too often governments allow these products to be produced and distributed, whilst at the same time calling upon consumers (by way of information campaigns) to make alternative purchases. This is a very indirect, and inefficient, way of regulating. Governments appear very hesitant to regulate directly, but by doing so they could deliver considerable improvements in consumption and production compared with current approaches.

Progress at national and local levels is not enough however. More needs to be done if we are to address the issue of resource scarcity. The sustainability impacts (environmental, economic, social) of our consumption and production patterns are well-known, and scientists have been calculating and modelling the risks and writing and arguing about the solutions for decades. Right now, all the necessary strategies and tools exist to bring about change.

A vital element to this process of change will be adopting a so called “systems approach” to our thinking. This involves recognising, and understanding, how different elements influence one another within the whole. The world is a complex system, but up until this point, any attempts to address global problems have been brought to the level of conferences and meetings, each with their own agendas, practices and networks. We haven’t been focusing on the world as a whole, but rather on its small constituent
Change will be built on three pillars, effective global governance, effective nation states, and effective individual action.

elements. Yet it is increasingly becoming evident that smarter and more holistic oversight and management is needed. Dynamic systems analysis, which shows the “what if…” scenarios, can offer a common platform for all negotiators, demonstrating the real consequences of inaction regarding resource scarcity, and showing what the end result needs to be – so that we can define exactly what “sustainable” consumption and production is and achieve it.

Effective individual action

It is now recognised that enabling more individual action – coordinated, informed, organised – is necessary. We talk a lot about global governance, and about the role of nation states, but we often forget the role of individuals in addressing issues such as resource scarcity. But change will be built on three pillars, effective global governance, effective nation states, and effective individual action. Individuals are increasingly seeing the connections between their own decisions and global problems. As Klaus Töpfer, former Executive Director of UNEP, has pointed out “It is becoming more and more evident that consumers are increasingly interested in the ‘world that lies behind’ the product they buy. Apart from price and quality, they want to know how and where and by whom the product has been produced. This increasing awareness about environmental and social issues is a sign of hope. Governments and industry must build on that.”

Providing individuals with additional information will act to further improve their awareness. But information must be harnessed not just because it helps individuals when making decisions about purchases, but also because it can help devise new and innovative solutions to global problems. Individuals are increasingly connected to the world wide grid. In the past it was important where you were born, where you lived, what education you had, and what networks you were part of. Nowadays it is literally possible for anybody with access to a laptop and internet connection to disseminate and get support for their ideas. Ideas that can save the world. This opens up a huge pool of creativity and potential solutions.

The question is here do we begin, right now? Let’s start by daring to describe the problem in real terms by zooming out and looking at the whole system, identifying where the leverage points in the system are, how the flows within it are directed and how they can be influenced. Let us do this on the basis of clear numbers and speaking the truth. Then various groups who together can deliver the solutions – not necessarily “country delegates” – can meet and zoom in: identify exactly what every stakeholder can do, and bring it about, serving and influencing the quality of life of the billions of people who do not need to think about sustainability on a daily basis, but just need the right products and services, and the right information.

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Data on essential resources

Current consumption patterns vary enormously across advanced and developing countries. As living standards improve, lifestyles change and production patterns evolve, demand for resources will rise. Over the coming decades, energy, food and water consumption is forecast to increase. At the same time, availability of resources is likely to be complicated by climate change. Ensuring access to resources will require international cooperation, but, historically, norms in this regard have been weak. The rising importance of these issues on the global agenda is visible in a number of recent declarations, but there is still no consensus on the way forward.

### Recent declarations on essential resources

<table>
<thead>
<tr>
<th>Declaration</th>
<th>Actions</th>
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<tbody>
<tr>
<td><strong>Declaration of the World Summit on Food Security, 2009</strong></td>
<td>- Increase domestic and international funding for agriculture</td>
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<td>- Improve the functioning of international agricultural markets, including through the timely conclusion of the Doha development round of trade</td>
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<td></td>
<td>- Develop measures to manage the effects of excessive price volatility</td>
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<td>- Promote research for food and agriculture and improve access to new technologies</td>
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<td>- Intensify coordination of all UN agencies and international financial institutions.</td>
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<td></td>
<td>- Adopt measures to mitigate against climate change</td>
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<tr>
<td><strong>Congress of the World Energy Council, 2007</strong></td>
<td>- Increase global cooperation between industry and government</td>
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<td></td>
<td>- Deepen the integration of regional and international energy markets</td>
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<td></td>
<td>- Build a global framework to curb greenhouse emissions that will also ensure a stable carbon price</td>
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<td>- Develop global rules of energy trade and investment</td>
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<td>- Establish new financial schemes for investing in sustainable energy supplies</td>
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<td></td>
<td>- Increase public private partnerships to address increasing global energy interdependence, a key strategy to eradicate energy poverty</td>
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<tr>
<td><strong>Istanbul Declaration of Heads of State on Water, 2009</strong></td>
<td>- Generate a global vision and framework to develop and manage water resources in a sustainable manner</td>
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<td></td>
<td>- Guarantee access to safe water and sanitation for all</td>
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<td>- Evaluate the consequences of the recent economic and financial crisis on integrated water resources management and services</td>
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<td></td>
<td>- Prioritise investments to increase capacity for managing water resources</td>
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<td>- Develop new water management strategies with the effective contribution of local stakeholders, financial mechanisms, technology and innovation.</td>
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Consumption patterns

- Food consumption per capita
- Water use intensity
- Energy consumption per capita

Note: Water use intensity is the amount of water withdrawn for use in the agricultural sector, per hectare of temporary and permanent cropland in the year specified. It shows a country’s dependence on irrigation for agricultural production.

Source: FAO, World Resources Institute, US Energy Information Administration

Water footprint

The "water footprint" of a country is defined as the volume of water needed for the production of goods and services consumed by the inhabitants of the country.

Land Purchases

In recent years there has been a marked increase in farmland acquisition in developing countries by other countries seeking to secure and diversify their sources of food. The trend is not limited to governments, with significant transactions also being initiated by private companies seeking to secure their supply chains. The table below lists some examples of such land acquisitions:

<table>
<thead>
<tr>
<th>Target Country</th>
<th>Investor Country</th>
<th>Details of Deal</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Democratic Republic of Congo</td>
<td>China (ZTE Agribusiness Company)</td>
<td>2.8 million hectares secured for oil palm plantation</td>
<td>2009</td>
</tr>
<tr>
<td>Philippines</td>
<td>Bahrain</td>
<td>10,000 hectares acquired for agro-fishery</td>
<td>2009</td>
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<tr>
<td>Angola</td>
<td>United Kingdom (Lonrho)</td>
<td>25,000 hectares leased for rice</td>
<td>2009</td>
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<tr>
<td>Kenya</td>
<td>Qatar</td>
<td>40,000 hectares leased for fruit and vegetable cultivation</td>
<td>2009</td>
</tr>
<tr>
<td>Sudan</td>
<td>Jordan</td>
<td>25,000 hectares acquired for livestock and crops</td>
<td>2008</td>
</tr>
<tr>
<td>Sudan</td>
<td>South Korea</td>
<td>690,000 hectares acquired for wheat cultivation</td>
<td>2008</td>
</tr>
<tr>
<td>Brazil</td>
<td>Japan (Mitsui)</td>
<td>100,000 hectares acquired for soybean cultivation</td>
<td>2007</td>
</tr>
</tbody>
</table>

Source: Joachim von Braun and Ruth Meinzen-Dick, Land Grabbing by Foreign Investors in Developing Countries: Risks and Opportunities, International Food Policy Research Institute Policy Brief 13, April 2009. Examples are based on media reports, responsibility for accuracy is with the reporting media.