

# India's Foreign Policy toward East Asia and the Neighborhood under Modi:

Implications for Europe

NFG Policy Paper No. 10/2015 Daniel Twining



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Series Editor: May-Britt U. Stumbaum

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NFG Policy Paper Editor: Tim Oliver

Layout and Design: Roland Althammer, [m-unique.com](http://m-unique.com), Johanna Günther

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Twining, Daniel, 2015: India’s Foreign Policy toward East Asia and the Neighborhood under Modi: Implications for Europe. NFG Policy Paper Series, No. 10, February 2015, NFG Research Group „Asian Perceptions of the EU“ Freie Universität Berlin.

ISSN (Print) 2194-184x

ISSN (Internet) 2194-1858

This publication has been funded by the Federal Ministry of Education and Research.

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# India's Foreign Policy toward East Asia and the Neighborhood under Modi: Implications for Europe

Daniel Twining

## Executive Summary

The new Indian government of Prime Minister Narendra Modi has revitalized the country's economic and foreign policy prospects after years of drift under the previous Congress Party-led administration. India today is showing a new intensity of engagement with East Asian powers like China and Japan, and with its South Asian neighbors. The Modi administration is also incrementally but tangibly reforming the country's statist economy in order to seed growth and produce the jobs necessary to employ what is becoming the world's biggest workforce. To date, European focus on Asia has primarily been on China; it is time for Europe to seize the moment in relations with Asia's other emerging giant to promote peace, pluralism, and prosperity.

## Policy Recommendations

- EU-India negotiations over a comprehensive free trade agreement have been in the doldrums for several years, in part due to the absence of economic reform and the protectionist/interventionist instincts of the previous Indian government. Now that India is generating rapid economic growth under a reformist new leadership that is opening new sectors of the Indian economy to trade and foreign investment, EU officials should prioritize conclusion of an FTA as the centerpiece of Europe-India relations.
- Europe and India also share a compelling set of domestic security concerns, particularly with respect to home-grown radicalization and terrorism. Both Europe and India are also buffeted by the extremist currents emanating from parts of the greater Middle East. The two sides therefore should launch a regular strategic dialogue on terrorism, homeland security, and counter-extremism – including how to protect and enlarge internet freedom.
- The EU and the United States should cooperate more systematically to develop a new transatlantic strategy for Pakistan. Closer US-European collaboration to strengthen Pakistani civil society, improve the rule of law and civilian government administration, and expand nuclear weapons safeguards would not only support Western interests; it would ease India's security conundrum vis-à-vis a neighbor that sponsors terrorism against it.

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# India's Foreign Policy toward East Asia and the Neighborhood under Modi: Implications for Europe

Daniel Twining

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## 1. Introduction: The New Dynamism of Indian Foreign Policy

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What does India's foreign policy under Narendra Modi hold for relations with its South Asian neighborhood and East Asia? On the campaign trail before India's pivotal national elections in May 2014, Modi suggested that his economic revitalization agenda would require an external focus on relations with key global trade and technology powers, including Japan, China, Germany, and the United States. Yet Modi surprised both his own Ministry of External Affairs and his neighbors by inviting the leaders of eight South Asian nations to his inauguration (a first in the history of the Republic of India), holding bilateral meetings with them as one of his earliest acts of official business, and making early official visits to Bhutan and Nepal. Similarly, the first official trips by Indian Foreign Minister Sushma Swaraj were to Bangladesh and Nepal. Prime Minister Modi made an early trip to Japan and, just before an inaugural visit to Washington, DC, hosted Chinese President Xi Jinping in New Delhi.

These early moves in foreign policy suggest an intense focus on India's South Asian neighborhood as well as on the giant northern neighbor with which it shares a 2500-mile border. As Ministry of External Affairs spokesman Syed Akbaruddin put it last summer, "The prime minister's inbox relating to foreign policy is very crowded. India's foreign policy priorities are in the neighborhood" (Reuters 6 June 2014). Far from being a problem for leaders in Europe and the United States who covet closer ties with a resurgent India, a foreign policy that starts close to home may be a good thing. India cannot rise to become a world power if it does not tend to its own backyard.

India can neither achieve its development potential nor rise to become a respected world power as long as its neighborhood remains a morass of suspicious and fragile states – rather than one in which security and prosperity are mutually reinforcing foundations for India's global ambitions. Modi himself has made the point that foreign policy starts at home, and that only a strong and vigorous India that gets its

domestic house in order will be respected abroad (Jaishankar 2014).

This is true not only with respect to India's lesser neighbors and to the world's developed nations but also with regard to China. It is India's primary peer competitor and the growing concern of its strategic establishment. On the campaign trail, Modi lambasted the previous Congress-led government for not standing up to Beijing sufficiently in defense of Indian interests. He promised a robust policy to push back against China's claims to Indian territory. Prime Minister Modi's administration has increased India's defense budget by over 12 percent and is overseeing a focused build-up of military and civilian infrastructure along the contested India-China border to enhance India's ability to police it. Despite these moves to improve India's position in the regional balance of power, to observers like Coomii Kapoor, Modi also seems "enamored" of China given its development record and the possibility of harnessing – or even replicating – it to serve India's own growth requirements (Kapoor 2014).

On the other hand, Modi is keenly aware of the competitive nature of India-China relations and, as demonstrated by his early moves in foreign policy, his focus on the South Asian neighborhood is partly a function of the India-China contest. India's leadership understands that lesser regional states' penetration by China undermines India's security and traditional economic hinterland – and that both Indian security and development require New Delhi to be suzerain of the subcontinent, as it was before 1947.

This paper will assess the prospects for India's foreign policy towards its neighborhood under Narendra Modi, with a focus on China, Japan, Pakistan, and Afghanistan. The goal is to give European readers a picture of how India's economic and security prospects are tied to East Asia and the South Asian neighborhood – and how European policymakers can act on these understandings to deepen cooperation with India across the economic and security spectrum.

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## 2. The Economic Imperative

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India under Modi has embraced a multi-vector approach to foreign policy that includes not only a neighborhood strategy but a far-reaching effort to enlarge trade and investment relations with the West, Japan, and China. The overarching objective of this grand strategy is to fuel economic growth at home so that India can improve both its people's welfare and its security.

According to economic historian Angus Maddison, the Indian economy was the world's largest in the early 17th century, comprising some 25 percent of global GDP (Maddison 2006, p. 638). South Asia was historically a natural economic space that was shattered by the 1947 partition and the hostility that developed between India and several of its immediate neighbors, starting with Pakistan, in the decades that

followed. Similarly, the old trading networks between northern India and Tibet were closed off when the Chinese army invaded Tibet in 1950 and again in 1959, and following the Sino-Indian conflict of 1962. Today South Asia is the world's least economically integrated region, with only 5% of total trade being intra-regional (World Bank 2014). India-China trade is more developed but is unbalanced, politically controversial, and falls far short of matching the obvious complementarities between these large Asian economies.

We should not forget how poor the average Indian still is – and how Modi's task is not simply satisfying an urban middle-class' aspiration for the good life, but uplifting an “aam aadmi” (common man) that still dreams of making it into the consumer class. The average Indian has a per capita income of only \$1500 – compared with \$6200 in China, \$10,700 in Turkey, and \$11,300 in Brazil (World Bank 2013). Nearly one out of every two Indian children is malnourished. A quarter of the population lives on less than \$2 a day. Over half of Indians do not have access to modern sanitation or regular electricity supply (Harris 2014).

Modi's campaign promise of “toilets over temples” speaks to the humdrum but essential needs of the majority of Indians. His decisive electoral victory underlines the failure of previous Indian governments to deliver even the basics of rudimentary development. Strategists focused on India's great power rise and its implications for India and the world must remember this home truth: a forward policy of military and diplomatic leadership abroad is not politically sustainable in India's democratic system unless the government can tie foreign policy partnerships to domestic development goals. This applies in the positive sense (for example, relations with Japan can deliver technology and infrastructure for India) but also in the negative sense (for example, India's encirclement by China in its neighborhood could stymie India's development by producing dangerous insecurities).

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### 3. China: Protracted Contest

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The history of Indian foreign policy and Sino-Indian relations suggests that India will not concede to live under Chinese dominion in a unipolar Asia. The success of national revitalisation policies by Narendra Modi in India (and Shinzo Abe in Japan) will do much to determine the degree of multipolarity in 21<sup>st</sup> century Asia. In that sense, the best thing Prime Minister Modi can do for the Asian balance of power, and India's position within it, is to get the economy growing as rapidly as possible.

Unlike in 1962 when the balance of capabilities between them was quite even, China today has a military budget four times larger than India's – and which is qualitatively superior by a larger multiple than that on account of China's advanced technological lead and focused investments in asymmetric and power-projection capabilities (Twining 2014c). China has pulled ahead decisively over the past decade, making it more accurate to talk about the “imbalance of power” between them than any kind of stable balance of power. This is dangerous for India and destabilizing

for the region. Modi has explicitly linked his agenda of economic revitalization to the need to modernize India's defense base, pointing out that a lackluster economy cannot provide a resource base adequate for India's armed forces.

Like the military budget, the Chinese economy is also four times larger than India's – with the result that even lower Chinese growth in the current 7.5 percent range, given its broader base, produces “a new India” in GDP terms every two years, as former Goldman Sachs executive Jim O'Neill likes to point out (O'Neill 2013). In economic terms, India is not yet any kind of peer to China; Chinese officials look down on their southern neighbor's underdevelopment and the ineffective delivery of government institutions. Prime Minister Modi needs to regenerate the kind of rapid economic growth India enjoyed in the 2000s – when it managed consistent annual GDP expansion in the 8-10 percent range (and even grew faster than China for several quarters) – to prevent China from pulling further ahead. Ultimately, however, India may be able to close the gap as its demographic dividend combined with China's middle-income-trap slowdown reverses the momentum. Already, India is set to grow faster than China from 2016 and is likely to sustain superior growth thereafter, given its lower base and assuming continued economic reform. In the near term, the magnitude of China's economic and military lead reinforces the contention that China could become Asia's dominant power. A key question is whether Chinese superiority makes Modi's India more likely to bandwagon with it – or to balance against it more vigorously. Former National Security Advisor Shivshankar Menon identified the key to a stable China-India relationship along their disputed border as the result of an Indian policy “to maintain an equilibrium (or prevent the emergence of a significant imbalance)” (Menon 2013). This is balance-of-power logic acknowledged about as candidly as a public official can.

Modi is likely to be even more frank in defining a future that makes India a peer to China rather than a satellite of it. His own instincts appear to lean in this direction, as do those of his constituency in the Rashtriya Swayamsevak Sangh (RSS), the Hindu nationalist civic organization in which Modi was once a volunteer. The General Secretary of the ruling BJP, Ram Madhav, a close advisor to Modi in foreign policy, argues that India and China are destined for competition, and that India should take steps including more strongly supporting Tibetan autonomy in order to maintain strategic pressure on Beijing (Madhav 2014). There is an ideological basis in favor of Shreshtha Bharat (Strong India) that animates Hindu nationalist supporters of the ruling BJP, as expressed in its 2014 campaign manifesto.

The Sino-Indian power mismatch has important strategic consequences – including that India cannot rely purely on internal balancing against China but must pursue external alignments to compensate for India's relative weakness. Yet Indians are wary of entrapment in any US design to “contain” China – and, conversely, of any Sino-American “G-2” condominium that prejudices New Delhi's interests in favor of Beijing's. Hence the continued development under Modi of a deepening India-Japan strategic axis in particular, in which structural pressures to align are reinforced by the hawkish nationalism shared by leaders in Tokyo and New Delhi (Twining 2014a).

In 2014 Prime Minister Modi took office after a campaign in which he cannily challenged Chinese territorial revisionism even as he promised to boost India-China business ties. During the campaign, he promised to resist China's “mindset

of expansion” and accused the previous Indian government of “making a mockery of itself with its limited and timid approach” to India’s primary strategic competitor (Twining 2014b).

While there may be differences in tone, in fact, India’s previous Congress Party-led government sought to build up India’s military power against China. Steps taken included stationing a new combat air wing along their contested border, standing up a new mountain division to help secure it, and improving the road infrastructure that would enable rapid reinforcement of Indian positions in the northeast against any Chinese incursion. The previous government also put in place a plan to develop three aircraft carrier battle groups by the 2020s – a larger number than China currently possesses – and tested missiles capable of hitting Shanghai and Beijing. Modi is likely to continue these policies, and to accelerate them as a growing economy provides a larger resource base for military modernization.

China-India trade relations are complicated and as much a source of friction as of cooperation. Bilateral trade totaled \$65.5 billion in 2013, down from \$66.5 billion in 2012 and nearly \$74 billion in 2011 (Embassy of India, Beijing n.d.). India’s trade deficit with China reached a record \$31.4 billion in 2013 as Indian exports to China declined by nearly 10 percent year-on-year (Krishnan 2014).

China is India’s single largest national trading partner in goods (the United States is India’s largest national trading partner in goods and services combined). However, the composition of Indian exports to China is almost entirely raw materials, whereas Chinese exports to India consist mainly of cheap manufactured goods. This creates an imbalance that fuels political controversy within India as an element of growing security competition with China. India has raised steep barriers to Chinese direct investment in sensitive sectors such as telecommunications, again because of a perceived threat from a less-than-transparent China. Indians have protested at the importation of Chinese workers, rather than the hiring of Indian ones, for Chinese infrastructure projects in India.

For all these reasons, Sino-Indian trade has been more a source of rivalry than reassurance. Prime Minister Modi has made clear that India under his leadership will do business with China, given the development imperative. As Chief Minister of Gujarat, he visited China several times to generate trade and investment in his state. The Chinese Communist Party’s English newspaper *Global Times* has predicted that Modi, often depicted as a nationalist firebrand in Western media, is “likely to be pragmatic towards China” (Yang 2014). China’s Foreign Minister has played up the developmental synergies with Modi’s India that could deepen their economic interdependence to mutual benefit. On his official visit to India last September, President Xi Jinping pledged \$20 billion in new Chinese investments in India (Times of India 2014).

Chinese analysts expect Modi to take a tougher line on political disputes, including the border and the future of Tibet, even as he seeks to enlarge economic exchange. At the same time, Modi appears to understand that replicating China’s development miracle in India will require reducing barriers to Chinese direct investment. Although India will remain sensitive towards Chinese investment in sectors like telecommunications and infrastructure, it is also true that leaving the sectors

underdeveloped through foreign investment restrictions may constitute an equal or greater source of insecurity by constraining India's development. The new BRICS Bank and the Asian Infrastructure Investment Bank offer India avenues to secure Chinese capital and direct investment without the complicated politics of the bilateral channel (Harding, 2014).

This dualism is likely to be the defining feature of Sino-Indian relations in the period ahead: an intensifying security competition between the two Asian giants combined with deeper economic interdependence between them. Like other Asian leaders, Modi will thus need to balance a growing security dilemma vis-à-vis China against the magnetic appeal of its market as a spur to domestic economic growth. Indeed, Modi's hawkishness may provide him the political cover to open India further to Chinese business.

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## 4. The India-Japan Entente

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In Asia, New Delhi has moved from its "look east" policy to one of "acting east," particularly with regard to forging the foundations of a potentially far-reaching economic and strategic partnership with Japan. The obvious economic complementarities between Japan, as East Asia's technology leader, and India, with its vast human capital and developmental requirements, make India-Japan trade and investment ties among the more exciting, if underappreciated, economic relationships in 21<sup>st</sup> century Asia.

The convergence of concern over managing China's rise and protecting the security of sea lanes further unites Japan and India. So does their joint engagement of Southeast Asia, where both countries are actively supporting Myanmar's political and economic opening while systematically engaging strategically important emerging players like Indonesia and Vietnam. Both Tokyo and New Delhi are also playing a greater role in institutions led by the Association of Southeast Asian Nations (ASEAN) to prevent these forums from tilting in a Sinocentric direction and to boost regional webs of economic connectivity. The current nationalist leaders in Tokyo and New Delhi, similarly focused on revitalizing economic growth and managing the China challenge, look set to push forward their far-ranging economic and security partnership.

Prime Ministers Abe and Modi have declared that an Indo-Japanese axis of interests and values could redraw the strategic map of Asia, ensuring the freedom of the sea lanes knitting the Indian and Pacific oceans together and creating a democratic counterweight to authoritarian challengers (for more on this subject see Twining (2013) "The Indo-Japanese Strategic Partnership: Asia's Response to China's Rise" in Asan Forum). Japan's investment in port, road, rail, and pipeline infrastructure in Myanmar is expressly designed to build a land-and-sea bridge connecting India and Japan across mainland Southeast Asia. The Japanese and Indian navies have exercised together in the Western Pacific and the Indian Ocean. Partnership with an

increasingly powerful India may in fact be essential to Japan's continued leadership in Asia in the shadow of Chinese power, giving Japan a quasi-alliance option with Asia's other emerging giant. Absence of such an alignment could, in the event of US retrenchment, relegate Japan to strategic isolation or "Finlandization."

For all China's economic dynamism, Japan may ultimately prove more important to India's modernization drive than China. It is Japan's investment in developing vast Indian industrial corridors that could lay the foundation for the mass-manufacturing base India lacks. It is Japanese companies, more so than Chinese, that view India as a platform for industrial production, both for what eventually will become the world's largest internal market (in population terms) and for export.

Nor do Japanese industrial titans present the same political risks to India as the state-owned enterprises which sit at the summit of the Chinese economy. Chinese foreign direct investments and (sometimes failed) acquisitions have created well-deserved controversy in India on national security grounds – precisely because the Chinese private sector is not always "private" but can act as an arm of the Chinese state. By contrast, the comfort level between New Delhi and Tokyo not only renders such concerns irrelevant but could even lead to Japanese export of defense technologies and military co-production arrangements of a kind difficult to imagine between India and China.

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## 5. India's South Asian Neighborhood

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In many respects, India has less a global foreign policy than a "neighborhood policy" given its intense focus on the troubled lesser states of the subcontinent. The general problem historically has been India's disproportionate power relative to these smaller South Asian neighbors, as well as New Delhi's imperial inheritance of exercising suzerainty over the subcontinent. India's own complicated domestic politics further complicate its foreign relations. Under the previous administration, a historic water-sharing agreement with Bangladesh was nixed due to opposition from the ruling Trinamool Congress in West Bengal. Tamil politics in southern India limited New Delhi's engagement with the previous Sri Lankan government of President Mahinda Rajapaksa. Modi's large governing majority makes his foreign policy less susceptible to such coalition calculations, but they will remain a factor.

In turn, at least until recently, domestic politics in neighboring states have been driven in part by political actors' degree of opposition to India. In Nepal, a Maoist insurgency enjoying Chinese support toppled the pro-Indian political order leading to the abolition of the monarchy in 2008. In Sri Lanka, India's censure of the Rajapaksa government over the mistreatment of its Tamil minority helped encourage Colombo to build a privileged relationship with Beijing; Sri Lanka's new president, Maithripala Sirisena, won the January 2015 election partly on the platform of restoring the island nation's traditionally close relationship with India. In Bangladesh, domestic politics

revolve around the legacy of the 1971 war of independence, in which India decisively intervened to secure the country's secession from Pakistan; how to manage border controls and trade relations with Bangladesh's giant Indian neighbor; and the struggle against violent extremism in Bangladesh, which has in the past been used as a launchpad for attacks on India.

Prime Minister Modi's revitalized neighborhood policy signals a new focus in New Delhi on resolving conflicts in South Asia in order to economically integrate the region and mitigate security challenges within it. Restoring the strategic unity of the subcontinent through economic enmeshment and positive-sum security ties is a compelling requirement for India's emergence as a genuine global power. As former Foreign Secretary and current Chairman of the National Security Advisory Board Shyam Saran argues:

*"It is India's neighborhood that holds the key to its emergence as a regional and global power. If India's neighborhood is politically unstable and economically deprived, there will be bigger challenges to India's security and its own economic prospects. India's security is inseparable from that of the Indian subcontinent. Its economic destiny is likewise enmeshed with that of its neighbors. Here is an opportunity to clear the decks in our neighborhood, so that India is able to break out of its subcontinental confines and expand its footprint beyond its borders"* (Saran 2014).

This is an urgent task. India punches below its weight in world affairs, and shows a strange insularity on issues like the conflict in Syria which should centrally concern a nation with nearly 200 million Muslims, in part because of the need to play defense to manage the pathologies of its neighborhood. These not only threaten India's security by producing terrorism, refugees, and weak states along its borders. They also invite penetration by outside powers like China, eroding India's natural leadership of its wider region. To become a world power, India will need not only to transform itself but to transform its neighborhood into one that is an asset to its development and security rather than an obstacle to them.

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## 6. Pakistan: Triumph of Experience over Hope

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Candidate Modi praised the last BJP government's foreign policy for blending *shanti* and *shakti* – peace and power. The hawkish Atal Bihari Vajpayee, who ruled from 1998-2004, combined these elements in his outreach to, and military buildup against, Pakistan. Modi surprised many when, during the campaign, he cited the 1999 Lahore Declaration, a visionary statement by Indian and Pakistani leaders of support for a normalized relationship, as an example of how his BJP predecessor reached out to a hostile neighbor. Vajpayee's search for détente with Pakistan was possible because he was bullet-proofed by his hawkishness against charges of appeasement – as is Prime Minister Modi, whose outspokenness against the dangers of Pakistan-based terrorism is well-established.

Modi said during the campaign that he would prefer to have good relations with a Pakistan that did not export terrorism to India or escalate tensions along the Line of Control. Rather than simply calling on Pakistan to end terrorism against India for the sake of friendly relations and its own security, Modi linked the rollback of Pakistan-based extremism to the country's development prospects – arguing that Pakistan cannot modernize as long as it produces such internal insecurity and exports it to India. To escape poverty, argued candidate Modi, Pakistan must end terrorism for 10 years rather than targeting India through conventional and sub-conventional means. “Bombs, guns and pistols have failed to do any good for the people of Pakistan. If ... Pakistan has to fight a war, it should be a war on poverty, illiteracy and superstition” (Mandhana 2013).

Modi also argued that, as with China, the first priority for management of bilateral relations is building up Indian strength and vigorously defending Indian interests. No amount of diplomatic ingenuity can avert India's security dilemma with each country if India itself is weak and flailing rather than strong and clear-headed. “Every other day, we face new threats from our neighbors, Pakistan and China,” candidate Modi said in September 2013. “But the problem is not on our borders, the real problem is in New Delhi. Until we have a strong, patriotic government in Delhi, we can't guarantee the security of this country” (Mandhana 2013).

Modi has promised to get tough on terrorism. One way to do so will be to build bridges to Pakistani political forces who oppose militant violence against India – starting with Prime Minister Nawaz Sharif, who also happened to be the prime minister who joined Vajpayee in making the Lahore Declaration. A thriving Indian economy more open to Pakistani trade and investment could help uplift all of South Asia and enlarge the Pakistani constituency for peace, if Modi is bold enough to move forward with an economic integration agenda that undercuts the power of the Pakistan Army in the country's political life – particularly at a time when the Pakistani state is under assault from home-grown terrorism.

Here Modi's efforts to breathe life into the Indian economy could help. The more a rapidly growing, dynamic India pulls away from its failing neighbor – and the more India's nearly 200 million Muslims share in the fruits of modernization – the greater a magnetic effect it will have on Pakistani society beleaguered by lack of opportunity, a predatory state and armed forces, and various forms of violent Sunni extremism. This is where Modi's no-nonsense developmentalism could become a significant national security asset, as Indian growth and promises to uplift its region enlarge the internal constituency within Pakistani society for normal relations.

But several cautions are in order. First, the *détente* under Vajpayee and Nawaz was rapidly aborted by two other Pakistani stakeholders: the Army and Punjabi militant groups. In the 1999 Kargil War, the Pakistan Army undercut the nascent Indo-Pak peace process without the sanction of Nawaz's civilian government, which was subsequently deposed in General Musharraf's 1999 coup. In the 2001 attack on the Indian parliament, Lashkar-e-Taiba and Jaish-e-Mohammed played the role of spoilers, leading to another near-war on the subcontinent as India massed a million soldiers on the Pakistani border.

Second, Pakistani society has changed drastically since that period. Sectarian

violence is far worse; a range of extremist militants have been strengthened by the experience of attacking Western forces and Indian civilians in Afghanistan, as well as by their own success in high-profile strikes like the Mumbai attacks of November 2008. Moreover, the global currents of Islamic radicalization look stronger in some ways than in the pre-9/11 era, given their dispersion out of Afghanistan, the turmoil following the Arab revolutions, and the collapse of the Syrian state at the hands of marauding sectarian extremists. Liberal Pakistani political leaders like Benazir Bhutto and Salman Taseer have been assassinated. The Pakistani media General Musharraf liberated from state control has become more nationalistic, anti-Western, anti-Indian, and broadly illiberal; murder rates of journalists remain alarmingly high, with the few TV personalities who uncompromisingly defend liberalism living under armed guard.

Along with the continuing strong role of the Army, these trends have shrunk the space for peaceful civil society in Pakistan. The leadership of the Army, currently engaged in a major counter-insurgency campaign in North Waziristan, continues to define India as the archenemy and prepares to intensify the “Great Game” in post-NATO Afghanistan – even as violent extremists step up attacks on military and civilian targets in Pakistan’s urban core. In short, Modi confronts a very different Pakistan than did Vajpayee. Rather than asking the civilian prime minister in Islamabad to deliver more than he can given the Army’s veto, Modi’s best approach may be to grow the Indian economy as rapidly as possible, modernize the armed forces as fulsomely as he can, and project a message of toughness against terrorism designed to deter at least the Pakistan Army, if not all of its assets, from risking an attack on India via its proxies.

Modi does not need normalization of relations with Pakistan to achieve his economic goals, but he does need time and (relative) peace. The strategy must be to change the equation both between India and Pakistan – by extending India’s economic lead through sustained growth – and within Pakistan. The latter will require convincing key social groups and the Army that there is no future for their country if a permanent cold war cuts Pakistan off from an enormous market that should uplift its neighbors over time as powerfully as China’s growth has catalyzed the industrialization of Southeast Asian nations.

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## 7. Afghanistan: Back to the 1990s?

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To the considerable extent that Pakistan is complicit in supporting the Taliban and anti-Indian militant groups in Afghanistan – and given Rawalpindi’s acute insecurity about New Delhi’s warm ties with Kabul – Afghanistan’s status as a cockpit of Indo-Pakistan rivalry will only intensify as the US military drawdown proceeds. On the one hand, Afghanistan since late 2001 has in many ways been a positive story for Indian interests: NATO forces eradicated Al Qaeda there, rolled back Pakistani influence by deposing the Taliban, and put in place a government extremely friendly to India.

Indian policy must also be judged in many ways a success. It has been one of

Afghanistan's largest donors; its assistance projects and training of civil and security personnel have contributed importantly to democratic state-building; the Karzai government signed a wide-ranging strategic partnership agreement with New Delhi; the new government led by Ashraf Ghani and Abdullah Abdullah is friendly to India, and its top officials have strong personal ties to it. On the other hand, all these gains are put at risk by the US withdrawal. Modi's India faces an intensifying set of challenges from the Taliban's resilience with Pakistani sponsorship, the continuing strength of Afghan-based Pakistani assets like the Haqqani network, and the encouragement these and other unfortunate developments have given to India's (and the United States') adversaries.

That India has much to play for in Afghanistan is attested by the number of attacks against its personnel and facilities there at the hands of the Haqqani network, Lashkar-e-Taiba, and other assets of Pakistan's ISI. Given its proximity, Modi has perhaps more of a stake than the United States does in the country's future disposition. This was underlined when a terrorist attack on the Indian consulate in Herat in the run-up to his inauguration as prime minister seemed intended to produce an Indian hostage crisis that would embarrass his government. It echoed the hijacking of an Indian airline in 1999 and its diversion to Taliban-controlled Kandahar by Pakistani-based terrorist group Harkat-ul-Mujahideen. India's adversaries would indeed have benefited from a hostage standoff in May 2014 that made Modi look weak – essentially calling a bluff on his tough talk against terrorism – right out of the box.

Modi's pragmatism makes him likely to pursue in Afghanistan a course similar to that of the previous BJP government before the September 2001 attacks changed the game – that of working with Russia and Iran to support the Afghan government in Kabul, the Afghan National Security Forces (ANSF), and non-Taliban armed elements outside it. The strategy can now be complemented by intelligence-sharing and other forms of cooperation with the United States, an option not available to India before 2001.

If the unity of the ANSF weakens or the security forces fracture as withdrawal of foreign financing and on-the-ground partnership erodes their cohesion, Modi's government – including its special services – will have a powerful incentive to support the "good" warlords and their militias which emerge against the Afghan Taliban and Afghan-based Pakistani allies like the Haqqanis. Unlike in the 1990s, the correlation of forces in Afghanistan even in the event of weakening central authority and the fracturing of the ANSF should be far more favorable to India, given the positive legacies of the last decade-plus of Western intervention in Afghanistan. Of course, India's preference would be for the United States to overturn its declared policy of total withdrawal by 2016 and instead maintain a residual security force in Afghanistan to work alongside the ANSF to preserve the gains of the past 14 years. AUS-Iranian nuclear deal that allows Tehran to come in from the cold will also make Indian collaboration with Iran in Afghanistan more straightforward and acceptable to partners like the United States. Such cooperation will be reinforced by Modi's focus on accelerating India's economic growth, incentivizing him to increase reliance on an internationally-normalized Iran's energy supplies after the previous government in New Delhi prudently decreased Iranian energy imports in response to international sanctions and direct pressure from Washington.

Modi is also likely to unsentimentally cooperate with Russia in Afghanistan given their common interests. Indeed, the strange vigor with which sections of the Indian strategic establishment not only excused but defended Russia's invasion of Crimea reflected the continuing belief that Indo-Russian partnership in areas like Afghanistan could become even more important in the vacuum left by the US retreat. India also wants to draw Moscow away from a nascent axis with Beijing, epitomized in their recent 30-year, \$400 billion energy deal, by demonstrating the virtues of cooperation with India in areas like Afghanistan.

Modi's administration will also have an interest in closely monitoring and if possible blocking the expansion of China's penetration of Afghanistan (for more on China's penetration of Pakistan and Afghanistan see Small 2015). Thus far this has mainly taken commercial form through an enormous Chinese contract to mine copper and build associated infrastructure at Mes Aynak. But as China has demonstrated through its expanding presence in the Indian Ocean, Gulf of Aden, and Western Pacific, where commercial interests lead, greater security engagement can follow. This is particularly the case when China is protecting state-owned industries and assets rather than purely private concerns. However, the security and commercial problems confronting the Chinese mining project suggest that Afghanistan's internal complexities may prove more of a barrier to an expanded Chinese footprint than anything India's intelligence services can throw up (O'Donnell 2014).

Overall, the Modi government confronts a new security landscape in Afghanistan in many ways fundamentally different from its disposition in the 1990s. Indian assets are more entrenched there under what remains a very friendly political regime. The ANSF should hold together – and even were it to degenerate into component parts, many of them would remain disposed to Indian interests. Iran could be a better partner for India in Afghanistan if it is less internationally isolated and enjoys a more normal relationship with the United States. On the other hand, new and unfriendly actors like China complicate the calculus for India. So does the greater potency of violent Islamic extremist groups operating out of Pakistan or enjoying Pakistani support in Afghanistan.

As India gears up for the next phase of the “Great Game” – having in some ways outsourced it to the United States for the past decade – one target for Modi could be realization of the Afghan-Pakistan-India transit agreement to essentially deliver an India-Afghan FTA. Should Modi wish to follow in Vajpayee's steps to Lahore to declare a new agenda for Indo-Pakistan cooperation, the transit agreement should be one objective.

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## 8. Implications for Europe and Recommendations for Policy

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The European Union has a compelling interest in an India that is economically dynamic and that is opening its economy further to international trade and investment. EU-India negotiations over a comprehensive free trade agreement

have been in the doldrums for several years, in part due to the absence of economic reform and the protectionist/interventionist instincts of the previous Indian government. Now that India is generating rapid economic growth under a reformist new leadership that is opening new sectors of the economy to trade and foreign investment, EU officials should prioritize conclusion of an FTA as the centerpiece of EU-India relations. Such a move would reinforce Prime Minister Modi's emphasis on promoting job growth at home and making India's economy more competitive internationally. It would also help ensure that Europe is on the radar screen for an administration in New Delhi otherwise more focused on relations with East Asia, South Asia, the Persian Gulf, and the United States.

Europe and India also share a compelling set of domestic security concerns, particularly with respect to home-grown radicalization and terrorism. Both Europe and India are also buffeted by the extremist currents emanating from Pakistan, Syria and other parts of the greater Middle East. The two sides therefore should launch a regular strategic dialogue on homeland security and counter-extremism. This could include intelligence exchanges, transfer of surveillance technologies, sharing of best practices for domestic security, and an intimate dialogue on how to manage home-grown radicalism in the context of governing an open, pluralistic society. This dialogue should include a focus on how to protect and strengthen global internet freedom, including striking a balance between freedom of information and access online, on the one hand, and protecting religious and cultural sensitivities, on the other.

Finally, Europe and the United States should cooperate far more closely and systematically to develop a new transatlantic strategy for Pakistan. This would be in the West's self-interest. Pakistan is engaged in the world's fastest buildup of nuclear weapons, threatening transatlantic non-proliferation goals. Elements within its security establishment employ terrorist groups like Lashkar-e-Taiba as proxies against Western forces in Afghanistan and against India. Extremist groups operating in Pakistan have been known to inspire terrorist attacks in Western capitals and in India. Closer US-European collaboration to strengthen Pakistani civil society, improve the rule of law and civilian government administration, and expand nuclear safeguards would not only support Western interests; it would also ease India's security conundrum vis-à-vis a neighbor that sponsors terrorism against it.

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## 9. Conclusion

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India, the European Union, and the United States are the world's three largest democratic polities. Together, they can help ensure that the 21<sup>st</sup> century international system remains peaceful, pluralistic, and prosperous. Many European officials will readily admit they focus far more on relations with China than with India. This is in one sense logical: China has a larger economy and is a more important trade and investment partner. But it is also perverse: the values and interests of China and Europe clash in fundamental respects on issues like freedom of the seas and

internet, on human rights, and on the nature of the emerging international order, with China seeing itself as an emerging superpower that would subjugate every other nation except the United States to its preferences. Just as the EU should engage far more closely with India, Asia's other emerging giant, to preserve common interests and values, so the United States and Europe should concert more closely to ensure that the West and friendly nations like India – rather than China – make and sustain the rules that will preserve and expand the liberal international order.

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### **The NFG Research Group**

“Asian Perceptions of the EU” is funded by the German Ministry of Education and Research (BMBWF).

The NFG is an associated project of the **KFG** research college “**The Transformative Power of Europe**” [www.transformeurope.eu](http://www.transformeurope.eu)

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