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### India in 2010 : robust economics amid political stasis

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## India in 2010

### *Robust Economics amid Political Stasis*

#### ABSTRACT

The Congress Party, although in a strong position to improve matters in 2010, generally proved disappointing, especially in the realm of governance and public policy. However, Indian authorities did demonstrate the ability to manage the economy well in a challenging international economic climate. President Obama's three-day trip helped to reinvigorate bilateral ties, but India's relations with China and Pakistan remained testy.

**KEYWORDS:** Barack Obama, U.S.-India nuclear deal, Kashmir, caste-census, India

EVERY YEAR, INDIA CELEBRATES Independence Day on August 15. It is a time when Indians reflect on the "state of the nation." In 2010, as the country marked its 63rd birthday, the national mood was ambivalent. On the one hand, there was genuine pride in the country's accomplishments, especially its rising international stature; on the other, growing apprehension existed about myriad lingering domestic problems that were perceived to be increasingly out of control. The fervent expectation that the reinvigorated Congress Party, which had won the 2009 general elections in a convincing manner, would use its new mandate to ameliorate the nation's many challenges, seems to have dissipated. Congress Party leaders including Prime Minister Manmohan Singh, party president Sonia Gandhi, and her son and heir apparent Rahul Gandhi remain popular. But general disgust with the inability of the self-serving "political class" to move beyond "politics as usual" and deal with the nation's many pressing problems remained palpable within the citizenry.

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## THE POLITICAL: MISSED OPPORTUNITIES AND GROWING DISAPPOINTMENT

Although Prime Minister Singh repeatedly described the so-called Naxal menace (e.g., the decades-old Maoist insurgency) as “India’s gravest security threat,” the government’s inept response to Naxalites’ routine acts of violence and lawlessness only underscored the perception that the authorities were ill-prepared to deal with fanatical ideologues.<sup>1</sup> In April 2010, the Naxalites launched a well-coordinated attack on patrolling paramilitary forces in Dantewada District in the state of Chhattisgarh in which 76 security force personnel were killed. In May, the Naxalites killed 27 policemen in another ambush and were suspected of involvement in a train crash that killed 147 in West Midnapore District of West Bengal in late May. In response, Union Home Minister Palaniappan Chidambaram could only pledge that “the problem of left-wing extremism will be overcome in the next three years.”<sup>2</sup> Chidambaram’s vague response failed to instill confidence in the public. The apparatus of the mighty Indian state seemed paralyzed in the face of the Naxalites’ defiance (except for arbitrary arrests, extrajudicial killings, and harassment of their suspected supporters by the security forces). The entire spectacle gave credence to the opposition’s charge that the Singh government is ineffectual in maintaining law and order and protecting the civil rights of all citizens.

The escalating civil unrest and violence in the contested state of Jammu & Kashmir further underscored the problems of worsening internal governance in India and raised fears of a protracted armed insurgency in the troubled region. What began with a few angry students throwing stones at Indian security forces and the accidental death of a teenager as a result of an exploding teargas shell quickly morphed into a broad-based popular mobilization involving huge protest marches, reminiscent of what plagued the region a decade and half ago. In the past summer alone, there were some 900 clashes between protesters and security forces that left more than 100 civilians dead, mostly from gunshot wounds from Indian troops. The armed insurgency

1. The Naxalite movement dates back to a 1967 peasant uprising in Naxalbari, West Bengal. It is estimated that the Maoists’ area of operations (known as the “Red Corridor”) covers some 40,000 square kilometers across central and eastern India, concentrated mainly in the states of Jharkhand, Chhattisgarh, West Bengal, Orissa, and Bihar. Over the past five years, Naxalite violence has claimed the lives of over 10,000 civilians and security personnel.

2. “Will Overcome Maoist Problem in Three Years: Chidambaram,” *Times of India*, July 29, 2010, at <<http://timesofindia.indiatimes.com/articleshow/6233378.cms?prtpage=1>>.

involving indigenous Kashmiri groups and increasingly Islamist jihadi groups also continues.

New Delhi's indifference to the Kashmiris' political aspirations and Indian troops' excessive reliance on deadly force further galvanized the protesters. Although Pakistan was largely behind the insurgency in the 1990s, the current conflagration is home-grown, rooted primarily in widespread anger against the heavy-handed Indian military presence in the state and the Kashmiris' growing sense of disenfranchisement. Despite the fact that both the central and state governments have poured massive amounts of economic assistance into the state, there is very little to show for it. In fact, New Delhi seems to have squandered all opportunities to deal effectively with the Kashmir problem. State elections in Jammu & Kashmir in 2008 witnessed exceptionally high voter participation, with about 60% of the eligible electorate voting. At that time, incoming Chief Minister Omar Abdullah (a scion of Kashmir's leading political family) seemed to have the political wherewithal to finally mitigate Kashmir's many schisms and pull the state toward stability. Yet today, all this seems a long time ago. The political arena increasingly belongs to demagogic separatist leaders like Syed Ali Shah Geelani who enjoy growing support because their secessionist demands have found a new generation of sympathetic ears within the state's Muslim majority.<sup>3</sup>

Political expediency again triumphed in India this year when the Singh administration agreed to add "caste" to the census exercise for the first time in 80 years. Although "caste" has been a pervasive part of India's sociocultural fabric for over two millennia, its politicization has been relatively recent. Caste-based politics received its official sanction when the late Prime Minister V. P. Singh made the divisive Mandal Commission issue (a caste-based affirmative action program) part of official government policy in 1990. Since then, demagogic and self-serving politicians, including those from the two largest political parties in India (the Congress and the Bharatiya Janata Party [BJP, Indian People's Party]), have exploited caste for political gain. This is in spite of the fact that the Indian Constitution, in its attempts to marginalize caste, explicitly outlaws caste discrimination. However, this has hardly prevented political parties from exploiting caste for electoral gain.<sup>4</sup>

3. "Paradise Continues to Crash and Burn," *ibid.*, August 7, 2010, at <<http://timesofindia.indiatimes.com/articleshow/6270801.cms?prtpage=1#ixzzovx666dJq>>.

4. The British enumerated population based on "castes" from 1871 to 1931. After independence in 1947, the government discontinued the caste-based census.

Home Minister Chidambaram announced in early September 2010 that the enumeration of caste—recording the names, addresses, and caste of some 1.2 billion citizens at an estimated cost of 30 billion–40 billion rupees (US\$645 million–\$860 million)—will be carried out in June–September 2011. This raised fears that the caste-based politics of “quotas” and “reservations” would be further legitimized. Ostensibly, the rationale for the official enumeration of caste is to garner more-reliable data to help target government assistance programs to deserving groups. Nonetheless, the concern was raised that the exercise would be an invitation to political parties, in particular caste-based parties, to demand even more quotas at the expense of the truly disadvantaged. There is, in fact, legitimate reason to fear that parochial caste and communal identities will become further reinforced at the expense of common citizenship as more caste-based political players enter the political scene.

Although chronic corruption and the abuse of power in high places have long been commonplace, allegations of widespread corruption in the venerated world of Indian cricket captivated the nation in 2010 because they involved an unlikely protagonist—Shashi Tharoor, the new “golden boy” of Indian politics.<sup>5</sup> Valued at an estimated \$4 billion, Indian Cricket’s Premier League (IPL) has long had its share of scandal and malfeasance. However, when two new IPL teams were sold at auction for a total of 32 billion rupees (\$703 million) in March to well-connected insiders, the problem of illegal betting came to light as never before. At the center of the storm was Tharoor, a former United Nations Undersecretary-General for Communications and Public Information, a Congress Party member of Parliament (MP) from the Thiruvananthapuram constituency in Kerala, and a minister of State for External Affairs. Brash, attention-seeking, and known for his bourgeois tastes, Tharoor was alleged to have misused his office to get lucrative shares in the IPL cricket franchise of Cochin worth an estimated \$16 million for his girlfriend. As the extent of the malfeasance and audacity of privileged insiders became public, Tharoor was forced by the prime minister to resign from his External Affairs post in April. The following day, Finance Minister Pranab Mukherjee announced that an investigation would be launched.

5. According to Transparency International’s 2010 ranking of nations based on the “level of corruption” in the public sector, India was ranked 87 out of the 178 countries surveyed. In 2009, India ranked 84 out of 178. China ranked ahead of India at 78. See [Indianexpress.com](http://www.indianexpress.com/news/india-falls-deeper-into-the-corruption-cauldron/703347/0), “India Falls Deeper into the Corruption Cauldron: Report,” October 27, 2010, at <<http://www.indianexpress.com/news/india-falls-deeper-into-the-corruption-cauldron/703347/0>>.

## A RESILIENT AND ROBUST ECONOMY

The one area where the Singh administration gets good grades is its handling of the economy. India's economy, which proved resilient during the global financial crisis of 2007–09, returned to its pre-crisis growth rate of 8.6% in January–March 2010, making India one of the world's fastest growing economies.<sup>6</sup> The faster than expected recovery was the result of strong domestic consumption, expansion in private and public investments, a sharp rebound in manufacturing, and growth in farm output.<sup>7</sup> As of June, India's foreign exchange reserves stood at \$271 billion, an increase of \$9.88 billion over the same period in 2009. Not surprisingly, a jubilant Mukherjee noted that the country's overall economic growth "would be not less than 8.5% in fiscal 2010," and that it "would not be difficult to achieve 9% growth as being projected in my Budget from the year 2011–12."<sup>8</sup>

Yet, it should be noted that policymakers have not used the economic rebound to rein in the central government's deficit, which has grown to 7% of gross domestic product (GDP)—one of the highest levels in the developing world. If left unchecked, such large deficits and high levels of national debt will make it exceedingly difficult for the government to meet its desired expenditures in education, health care, poverty alleviation, and modern infrastructure.<sup>9</sup> Similarly, the authorities have not adequately tackled inflation, which for months has hovered in the range of 8.5% to 10.5%. Rising food prices caused by growing demand and a poor monsoon have a particularly negative impact on the poor. Moreover, contrary to expectations, the Singh administration has done little to reform financial services, especially the banking sector. India's public sector banks, which dominate the marketplace, lack both the resources and expertise to meet the needs of the country's sophisticated private and corporate sectors. Without reforms, India's economic expansion could potentially stagnate. Despite the Singh administration's oft-stated goal of strengthening the financial sector, including expanding the

6. During 2003–08, India's economic growth averaged 8.8% a year, before slumping to 6.7% during the global credit crisis.

7. "India's Surprising Economic Miracle," *Economist*, September 30, 2010, at <<http://www5.economist.com/node/17147648/print>>.

8. "Indian Economy to Grow at 8.5 Per Cent Rate in 2010–11, Says Pranab," September 16, 2010, *Economic Times*, at <<http://economictimes.indiatimes.com/articleshow/6628300.cms>>.

9. International Monetary Fund, "India Rebounds, Needs to Return to Reform Agenda," *IMF Survey* online, February 5, 2010, at <<http://www.imf.org/external/pubs/ft/survey/so/2010/CAR020810A.htm>>.

corporate bond markets and enhancing the role of foreign investors, little of substance has actually been implemented.

### THE SAGA OF THE U.S.-INDIA NUCLEAR DEAL

Although Prime Minister Singh invested much energy toward a successful conclusion of his signature contribution to foreign policy—the U.S.-India nuclear agreement—its problematic outcome was disappointing. Even with the signing of the landmark U.S.-India civilian nuclear agreement in October 2008, implementation was contingent on resolving three technical and bureaucratic issues.<sup>10</sup> These included (1) a “reprocessing arrangement” specifying how India could use spent nuclear fuel originating from the U.S., (2) setting up a “Civil Nuclear Liability Regime” to limit the liability of American companies operating in India (especially those planning to build reactors) in case of nuclear accidents, and (3) a written assurance by the Indian government on non-proliferation as stipulated under U.S. Department of Energy rules. Once these three issues were resolved bilaterally, the entire agreement was to be sent to the International Atomic Energy Agency (IAEA) for confirmation and to set up supervisory arrangements for the reprocessing facility, including guidelines on handling and transporting spent nuclear fuel.

Eight months of contentious negotiations on “reprocessing arrangements and procedures,” concluded in March 2010 when the Obama administration announced that it had successfully resolved the nuclear fuel reprocessing agreement with India pursuant to Article 6 (iii) of the U.S.-India civilian nuclear cooperation agreement—also known as the “123 agreement.” The reprocessing agreement was signed by Meera Shankar, India’s ambassador in the U.S., and U.S. Undersecretary for Political Affairs Bill Burns on July 29. With this out of the way, the two countries came one step closer to implementing the 2008 U.S.-India civilian nuclear deal. The unexpectedly long negotiations involved the “precise arrangements and procedures” for reprocessing U.S.-origin spent nuclear fuel.<sup>11</sup> The major sticking-point that caused the delay had to do with differences over the termination clauses in the

10. For details on the U.S.-India nuclear deal, see Shalendra D. Sharma, *China and India in the Age of Globalization* (New York: Cambridge University Press, 2009), esp. ch. 6.

11. Reprocessing involves the separation of plutonium from the spent fuel. However, because plutonium can be reused as the fissile core for nuclear weapons, access to the reprocessing technology or the right to reprocess is strictly monitored. The U.S. has granted reprocessing rights only to the EU and Japan.

agreement and the fact that the U.S. wanted a single reprocessing facility, whereas India correctly pointed out that the original “123 agreement” envisaged multiple facilities. Although India made a spirited case, arguing that France and Russia (with which India has similar arrangements) have not imposed any restrictions on the transfer of enrichment and reprocessing technology, the U.S. was not moved. Instead, a more modest compromise was struck. The agreement allows India to reprocess spent nuclear fuel at two facilities, and to make “further additions and modifications” in the future. Clearly, this provision is a significant gain for India, allowing it to augment and modernize its reprocessing capacity without having to reopen negotiations if the need arises for more reactors.

Because nuclear reprocessing involves separating and processing spent fuel, including that which is potentially weapons-grade, the Obama administration insisted on putting in place an inspection regime designed to prevent India from ever diverting U.S.-supplied nuclear fuel to its military program. Under the agreement, India would be able to reprocess U.S.-supplied nuclear material under safeguards instituted by the IAEA. India will have to clearly separate operation of its civil and military reactors and also make certain that reprocessing takes place in the civilian facilities under IAEA safeguards and supervision. India, in collaboration with the U.S., has already designated two sites—one in Andhra Pradesh and the other in Gujarat as “nuclear parks” with state-of-the-art facilities for the use of U.S. commercial nuclear technology. Even though the U.S. will not provide any technology for reprocessing, it will allow India to use its own technology to reprocess spent American fuel. More important, reactors designated as military facilities and the nuclear fuel produced in them will be exempt from inspections or safeguards.

The second obstacle to implementing the 2008 U.S.-India civil nuclear agreement—legislative passage of a “Civil Nuclear Liability Regime” to limit the liability of American companies operating in India—also proved difficult. U.S. Assistant Secretary of State for South and Central Asian Affairs Robert Blake publicly stated in late March 2010 that the U.S. hoped the Indian government would proceed quickly on the passage of the nuclear liability legislation. He was subsequently “gratified to learn that the President of India had announced India’s intention to introduce this Bill in Parliament” as soon as possible.<sup>12</sup> The U.S. made it clear that it was in India’s interests to

12. Narayan Lakshman, “U.S., India Complete Reprocessing Negotiations,” *The Hindu*, March 29, 2010.

move expeditiously because American companies would not be able to sell state-of-the-art nuclear technologies to India unless the bill limiting their liability became law. For its part, India stressed the urgent need to operationalize the nuclear deal because lifting the three-decade-long U.S. moratorium on nuclear trade with India would enable American companies to participate in India's booming civil nuclear energy sector and let India modernize its ailing civil nuclear energy capabilities.

However, the Singh administration inexplicably withdrew the "Civil Nuclear Liability Bill," after listing it for introduction. On March 15, the government abruptly announced its decision to postpone it by referring it to the Parliamentary Standing Committee on Science and Technology. Apparently, the Lok Sabha (People's House, the lower house of Parliament) Speaker had received numerous objections from opposition parties and felt that the government needed more time to fully respond. To the opposition, the Civil Nuclear Liability Bill was grossly unfair because it excluded foreign suppliers from liability in case of an accident, making only the operators liable—albeit with a relatively low cap of Rs 500 crore (around \$110 million). Moreover, because the bill stipulated that no compensation could be claimed after 10 years following an accident (which is actually an international legal norm), the opposition charged that the government was caving in to American pressure in trying to push the bill through without necessary changes.

On May 7, the Civil Nuclear Liability Bill was finally brought to floor of the Lok Sabha. The opposition BJP-led National Democratic Alliance (NDA) coalition and the Left parties labeled the government's decision "illegal" and "unconstitutional," further characterizing the bill as being "anti-people." However, this did not prevent it from being introduced. The main sticking point—the liability cap for the operator—was seen as grossly inadequate. In fact, even as the government was seeking permission to introduce the bill, MPs from the opposition including the BJP, Communist Party of India (CPI), and Communist Party of India-Marxist (CPI-M) were alleging that the bill violated Article 21 of the Constitution, guaranteeing the right to life.

The June 7 verdict by a trial court in the city of Bhopal further complicated matters. The verdict held seven Union Carbide officials guilty of criminal negligence in the 1984 gas leak from the company's manufacturing plant in Bhopal that killed and maimed thousands. Nonetheless, the court

sentenced these company officials to only two years' imprisonment and imposed light fines of Rs 100,000 (about US\$2,200).

This verdict and later sentencing gave new fodder to the bill's critics. Drawing parallels with the Bhopal tragedy (the long delay in getting justice and the relatively minuscule fine), the BJP demanded that the government withdraw from the nuclear agreement, saying it was aimed at "pleasing the Americans." This marked a significant shift in the BJP stance. The government indicated it was willing to review the Rs 500 crore cap on liability for operators, and behind-the-scenes negotiations with the opposition continued.

On August 18, the Standing Committee on Science and Technology responsible for reviewing the Civil Nuclear Liability Bill presented its report to both houses of Parliament. The bill seemed on its way to approval because the report had explicitly addressed the BJP's major concern by recommending "clear-cut" accountability of suppliers and raising the compensation cap to Rs 1,500 crore (\$330 million), but this did not happen. The following day, the BJP announced that it was going to reject the proposed bill, accusing the government of unilaterally changing its wording. Apparently, *The Hindu*, one of India's leading dailies, discovered that the report had diluted the provision on supplier's liability by "making some changes" that were not a part of the original draft, thus leaving BJP leaders red-faced. Specifically, it was pointed out that the standing committee report provided a potential loophole for suppliers of nuclear technologies by specifying that "the right to recourse" depended on a supplier-operator agreement to this effect, and not necessarily on general Indian law. On August 20, even as the government dismissed the opposition's actions as "political grandstanding," it also agreed to amend Clause 17 of the report. With this hurdle out of the way, it was assumed that the legislation would go to the Lok Sabha for consideration; yet, another fresh controversy was brewing.

On August 21, the BJP and Left parties once again accused the government of clandestinely diluting the potential liability of suppliers with another unilateral wording change, and threatened to block the legislation. This time, the offending word was "intent" placed into Clause 17, which could potentially make suppliers immune from legal liability unless it could be demonstrated that a nuclear incident occurred as a result of an "intent to cause nuclear damage"—defined broadly to include defective equipment or substandard services. Sensing political gridlock, Prime Minister Singh personally

intervened to assure Parliament that the Civil Nuclear Liability Bill did not compromise India's interests, and the word "intent" was deleted.<sup>13</sup>

On August 25, the Lok Sabha finally gave its approval to the Civil Nuclear Liability Bill, after months of political wrangling and the inclusion of 18 amendments into the legislation. For Singh, passage marked the "completion of a journey to end the apartheid against India in the field of atomic power."<sup>14</sup> Five days later, the bill was also adopted by the Rajya Sabha (upper house). The ceremonial signing of the legislation into law by the president of India finally made it more possible for India to engage in civil nuclear commerce with other countries.

Yet, just when it appeared that closure was finally achieved on the contentious nuclear issue, American nuclear energy companies raised concerns about India's new liability law and demanded that India amend the law further to bring its nuclear liability regime in concert with international norms. Specifically, they demanded that India establish an unambiguous civil nuclear liability regime to further limit supplier liability in case of a nuclear accident before agreeing to do business in India. In its efforts to allay such concerns, India, on October 27, signed the Convention on Supplementary Compensation for Nuclear Damage—an international convention on nuclear energy accident liability designed to establish a uniform international legal regime for victim compensation. Although, India claims that its national laws are consistent with the international framework, not everyone, in particular American nuclear industry representatives and businesses, is fully satisfied. Thus, whether India's new liability law is in keeping with international norms will ultimately be determined by the nuclear industry—both international and domestic.

## INDIA AND THE U.S.: OBAMA'S VISIT

U.S. Secretary of State Hillary Clinton reiterated the Obama administration's unequivocal commitment to improving ties with India during the inaugural U.S.-India Strategic Dialogue held in Washington, D.C., on June 3,

13. "LS Passes Nuclear Bill after Govt Drops Contentious Clause," at <[http://in.news.yahoo.com/20/20100825/1416/tnl-ls-passes-nuclear-bill-after-govt-dr\\_3.html](http://in.news.yahoo.com/20/20100825/1416/tnl-ls-passes-nuclear-bill-after-govt-dr_3.html)>.

14. Vinay Kumar and J. Balaji, "Intent Dropped: Lok Sabha Adopts Nuclear Liability Bill," *The Hindu*, August 26, 2010, at <<http://www.thehindu.com/2010/08/26/stories/201008263670100.htm>>.

2010, co-chaired by India's External Affairs Minister S. M. Krishna. President Obama, in a rare and dramatic gesture, attended a reception held at the State Department to honor the Indian delegation, in an attempt to ease India's concern that his administration was viewing bilateral ties through the prism of Pakistan and China. Obama not only announced his plans to visit India in November but also described the country as "a responsible global power." He heralded Indo-U.S. relations as "one of the defining partnerships of the 21st century" and said the ties were "at the highest of priorities for my administration and for me personally as president."<sup>15</sup>

On November 6, Obama arrived in India's financial capital, Mumbai. He made a symbolic first stop at the Taj Hotel (the target of bloody terrorist attacks in November 2008), paid homage to Mohandas Gandhi at the home-turned-museum where Gandhi once lived, engaged in a town hall-style discussion with young students, and in New Delhi, gave a ceremonial address to Parliament. Obama also made no secret that his top priority was to strengthen the U.S.-India economic partnership by "promoting trade, boosting exports, and creating jobs at home."<sup>16</sup> With American business leaders and chief executives at his side, Obama highlighted a list of trade deals with India totaling some \$10 billion. These included a \$4.1 billion agreement for the Indian Air Force to purchase 10 C-17 military transport planes from the Boeing Corporation, and an \$822 million deal for General Electric to provide the Indian Aeronautical Development Agency with 107 F414 engines for the Tejas light-combat aircraft, among others. In a decision welcomed by both Indian and U.S. business interests, the president announced that the U.S. would relax long-standing restrictions on sending India "dual-use" technologies, whose export had been banned after India's nuclear tests in 1998.

If the Indian officialdom remained obsequious, it was the students at the town hall meeting who asked Obama questions on the minds of many Indians: Why did he not mention Pakistan as home to the gunmen responsible for the 2008 terrorist attack in Mumbai? Why has the U.S. failed to label Pakistan "a terrorist state?" Is the Obama administration holding negotiations with the

15. See Narayan Lakshman, "After Strategic Dialogue, Big Push to U.S.-India Cooperation," *ibid.*, June 4, 2010, <<http://beta.thehindu.com/news/international/article446469.ece?css=print>>; Chidanand Rajghatta, "Obama Pledges to Make History with India in November Visit," *Times of India*, June 4, 2010, <<http://timesofindia.indiatimes.com/articleshow/6010228.cms?prtpage=1>>.

16. Julianna Goldman and Hans Nichols, "Obama, Visiting India, Promotes Trade, Democracy on First Asia Tour Stop," *Bloomberg News*, November 7, 2010, <<http://www.bloomberg.com/news/print/2010-11-07/obama-says-u-s-congress-elections-may-spur-some-midcourse-corrections-.html>>.

Taliban and what does this mean for India?<sup>17</sup> The president avoided direct answers but stuck to his script, saying that the U.S. would not “impose” itself on Indo-Pakistan relations (e.g., the Kashmir dispute) and that Pakistan’s progress in fighting terrorism “was not quick enough.”

While all these surely pleased his hosts, Obama reserved his most dramatic announcement for later in his trip. In his speech to Parliament, the president announced that India is not “emerging” but has “emerged,” and that the U.S. was prepared to support India’s bid for a permanent seat on the U.N. Security Council (UNSC).<sup>18</sup> Obama noted that “the just and sustainable international order that America seeks includes a United Nations that is efficient, effective, credible and legitimate. . . . That is why I can say today—in the years ahead, I look forward to a reformed U.N. Security Council that includes India as a permanent member.”<sup>19</sup> Not surprisingly, this announcement brought the loudest applause during Obama’s speech. Of course, this does not mean that India will automatically join the Security Council, a process that could take years. To India’s delight, Obama also agreed to push for its membership in a number of key multilateral institutions that control global trade in nuclear and “dual use” technologies, including the Nuclear Suppliers Group and the Missile Technology Control Regime.

## RELATIONS WITH PAKISTAN AND CHINA

Shortly after President Obama endorsed India’s bid for a permanent seat on the UNSC, Pakistan expressed “serious concern and strong disappointment.” Officials said it was “incomprehensible that the U.S. has sought to support India, whose credentials with respect to observing the U.N. Charter principles and international law are at best chequered.” Islamabad warned that, given India’s “disregard of Security Council Resolutions on Jammu and Kashmir and gross and systematic violations of the fundamental human

17. Sheryl Stolberg, “In India, Obama Faces Questions from Students,” *New York Times*, November 7, 2010, <<http://www.nytimes.com/2010/11/08/world/asia/08prexy.html?src=me&pagewanted=print>>.

18. Unlike both the U.K. and France, the U.S. had never provided unequivocal support for India’s claim for a permanent seat on the expanded Security Council, prior to Obama’s announcement. The best the U.S. could afford in the past was a consolation prize, supporting a “bigger role” for India in the U.N.

19. Erica Werner, “Obama Backs India Bid for UN Security Council Seat,” Associated Press, November 8, 2010, <[http://news.yahoo.com/s/ap/20101108/ap\\_on\\_re\\_us/obama\\_asia/print](http://news.yahoo.com/s/ap/20101108/ap_on_re_us/obama_asia/print)>.

rights of the Kashmiri people,” the endorsement would have “grave implications” for peace and stability in South Asia.<sup>20</sup>

The Pakistani position is a good reflection of the current state of Indo-Pak relations, characterized by acrimony and deadlock. Nevertheless, despite Pakistan’s complicity in the Mumbai attacks and its refusal to crack down on some terrorist groups operating within its borders, India has repeatedly said it is ready to discuss all issues with Pakistan, under the conditions that there is no third-party intervention on Kashmir and that terrorist activity be deterred.<sup>21</sup>

Over the past year, Sino-Indian relations have been on a roller coaster, swinging from tension and acrimony to dialogue and diplomatic engagement. Senior officials from both countries visited each other’s capitals. The highlight of these visits was Indian President Pratibha Patil’s six-day trip to China in late May, during which she had discussions with President Hu Jintao and other senior officials. In an attempt to ameliorate Chinese concerns, Patil reiterated that India considers Tibet an integral part of China, while renewing New Delhi’s commitment to deter “anti-China activities.”<sup>22</sup> For her part, Patil sought China’s support for India’s Security Council bid. Chinese leaders said they “supported India’s aspirations and desire to play a greater role” and agreed to “strengthen their co-operation on Security Council reforms.”<sup>23</sup> But they stopped short of offering clear support.

The warmth of these visits aside, tensions between the two neighbors reached their zenith in August when China refused to grant a visa to India’s northern army commander, General B. S. Jaswal, on grounds that he also commanded security operations in Kashmir—a territory China considers in dispute. India suspended all defense cooperation with China. High-level dialogue resumed only after a brief meeting between Prime Minister Singh and Chinese Premier Wen Jiabao during the ASEAN summit in Hanoi in late October. Nonetheless, the on-again, off-again relationship has not

20. “Pak Slams U.S. for Backing India’s UNSC Bid,” *The Hindu*, November 10, 2010, <<http://www.thehindu.com/news/international/article878341.ece?homepage=true&css=print>>.

21. “India Willing to Discuss All Issues with Pakistan,” *Economic Times*, September 26, 2010, <<http://economictimes.indiatimes.com/articleshow/6628300.cms?prtpage=1>>.

22. Saibal Dasgupta, “China Seeks Assurance from Patil on Tibet Issue,” *Times of India*, May 28, 2010, <<http://timesofindia.indiatimes.com/articleshow/5986186.cms?prtpage=1>>.

23. Vidya Subrahmaniam, “Pratibha Seeks China Backing for Permanent UNSC Seat,” *The Hindu*, May 28, 2010, <<http://www.thehindu.com/2010/05/28/stories/2010052854791200.htm>>.

severely impacted bilateral economic relations. Since 2008, China has been India's largest trading partner, and India is China's seventh largest export market and tenth largest trade partner. Bilateral trade of \$43 billion in 2009 is expected to reach \$60 billion by the end of 2010. Clearly, growing economic interdependence does not automatically translate into political cooperation.