Vivek

Issues & Options

October - 2012

Issue: I   No: X

Should PM Visit Pakistan?

Military Modernisation Programme Of China

Chinese Economy Facing Challenges

Sudden Prosperity Of Robert Vadera

and many more ....

Published By : Vivekananda International Foundation

3, San Martin Marg, Chanakyapuri, New Delhi – 110021, info@vifindia.org, www.vifindia.org

Contents

ARTICLES

EVENTS

Conceding Pakistan The Upper Hand

- ***Kanwal Sibal***

Another round of the India-Pakistan dialogue has been completed with the External Affairs Minister, Krishna's visit to Islamabad on September 8. The agreement on relaxing the visa regime and holding the meeting of the Pakistan-India Joint Commission after a gap of 5 years seems consistent with our policy of making progress step-by-step in normalising our relations with Pakistan.

Dialogue

Pressing Pakistan again at Islamabad to expeditiously bring to justice those responsible for the Mumbai massacre apparently conveys that we are not relenting on this key demand for determining the pace at which our relations will move forward.

In reality, rather than this implying that India has the upper hand in dealing with Pakistan, it is actually the reverse. Pakistan has put us on the defensive, certainly vis a vis its own public opinion, by claiming that it has taken several steps to reach out to India, that it has moved away from its traditional positions in significant ways, but that it is India that is not reciprocating. This explains the Pakistani Foreign Minister's spurious talk about "serious signals", "breaking away from many positions we have held" and "big leaps forward" and the "need to change the mindset". The sub-text of such pronouncements is that India has entrenched attitudes.

Such claims by Pakistan are without substance. With its parliamentary resolution in April this year, Pakistan has retreated to its old mantra that the Kashmir issue should be resolved on the basis of the UN resolutions. Pakistan wants us to withdraw from Siachen, without a binding delineation on the Actual Ground Position Line, it will not agree to a rational compromise on Sir

** Kanwal Sibal - Member Advisory Board, VIF*

Creek and it will not end its decade old opposition to the Tulbul Navigation project/Wullar Barrage. It covers up its unwillingness to act against the anti-India jihadi groups on its territory by the phony argument that it is itself a victim of terrorism. It will not put curbs on Hafiz Saeed as sufficient evidence to arraign him in a law court is supposedly lacking. Its record of legal inaction against the perpetrators of the Mumbai carnage is there to see.

The irony is that barring India's demands on terrorism, the agenda of normalisation rests on India satisfying Pakistan's demands. Pakistan wants us to demonstrate our commitment to peace by conceding what it wants, failing which the "naysayers" in Pakistan will presumably continue to consider India a threat.

The irony is that barring India's demands on terrorism, the agenda of normalisation rests on India satisfying Pakistan's demands. Pakistan wants us to demonstrate our commitment to peace by conceding what it wants, failing which the "naysayers" in Pakistan will presumably continue to consider India a threat. We should ask Pakistan to act on the basis of the glib statement by the Foreign Minister, Khar, at Islamabad that "whatever has happened today is the past". Pakistan should, accordingly, cease making untenable territorial claims on J&K and stop calling for- in the face of India's known position- associating the "Kashmiri people" with the Indo-Pakistan dialogue on Kashmir. One would hope that the next time she or the Pakistani Foreign Secretary comes to Delhi, she will, abiding by her own sane advice, shed past habits of confabulating provocatively with the Hurriyet leaders in Delhi.

The joint statement says, somewhat cryptically, that the two sides reaffirmed the importance of abiding by the provisions of the Indus Waters Treaty (IWT). Pakistan would have wanted this inclusion, but India seems to have worked on the language to deflect any finger-pointing in its direction. Pakistan has created an impression amongst its public that India is depriving it of its due share of water, making the issue another focal point of hostility towards India. It is determined to prevent India from constructing run of the river projects on Jhelum provided for by the IWT by seeking international arbitration on the Kishenganga project. Again, it is Pakistan that is objecting to what India is legally doing, not India raising contentious issues with Pakistan about its projects on the rivers allocated to it.

Terrorism

India is legitimately asking Pakistan to curb terrorism from its soil directed at India. It is right in asking Pakistan to prove the anti-terrorist credentials it claims for itself by not endlessly delaying the trial of those responsible for the Mumbai attack. It is truly astonishing that the Pakistani Foreign Minister should be "appalled" when told terrorism continues to be an issue, that this is "old time" stuff, that "terrorism was a mantra of the past", not of the future and that India should view the Mumbai attack trial "realistically" and "not emotionally". Equally extraordinarily, she spoke about terrorism as a dated issue on the day the US declared the Haqqani group sheltering in Pakistan and linked to the ISI a terrorist outfit.

PM Visit

Disconnect at the political level in Pakistan between the reality of the country's terrorist affiliation and any honest recognition of it is staggering. She, of course, failed to mention the word terrorism in her joint press conference with Minister Krishna, laying bare the scant regard Pakistan pays to our claim that we raise the issue at "every conceivable opportunity".

Minister Khar's position on terrorism hardly opens the door for PM's visit to Pakistan, as he wants Pakistan to make credible progress on trying those guilty of the Mumbai attack, besides some substantive results such as an agreement on Sir Creek. While the trade opening has occurred because of Pakistan's dire economic situation and the visa regime relaxation benefits Pakistan much more, progress in both areas should be welcomed. Time is not, however, ripe for PM's visit, as Pakistan wants to close the terrorism and Mumbai chapter without real delivery. Minister

Khar's egregious statements make this abundantly clear. Even with regard to PM's visit, by pressing for it Pakistan has put us on the defensive. We are now squirming to explain why, despite his keenness to visit Pakistan; he cannot do so for the moment. We are both laying conditions for the visit and denying that any are being laid.

Back to contents

Prepare Against Pakistan Nukes

- ***Satish Chandra***

The rapidity of Pakistan's nuclear weaponisation in recent years has been under constant scrutiny in the United States and has been well-documented in articles in the 'Bulletin of Atomic Scientists and the Nuclear Threat Initiative' as well as in numerous reports of the Congressional Research Service (CRS). Regrettably, this does not appear to have been the subject of as much independent analysis and comment in India as in the US despite the fact that Pakistan's nuclear weapon programme is clearly India-centric. Accordingly, the CRS' latest report of June 26, 2012 titled 'Pakistan's Nuclear Weapons: Proliferation and Security Issues' merits attention.

Addressing widespread apprehensions, particularly in the US, about the possibility of Pakistani nuclear weapons falling into the hands of jihadi elements, the report suggests that Pakistan has put in place adequate security systems to obviate such a development. It, however, concedes that 'the collapse or near-collapse of the Pakistani government is probably the most likely scenario in which militants or terrorists could acquire Pakistani nuclear weapons'. It may be recalled that much the same point had been made by former president Pervez Musharraf. The attacks by jihadi forces with inside help on Pakistani military bases, most notably at the Mehran Naval Base in May 2011 and more recently at the Kamra Air Base on 16 August 2012, would suggest that the possibility of nuclear weapons falling into the hands of militants is much higher than the CRS report would have us believe.

Significantly, the report places the Pakistani nuclear warhead stockpile at 90-110 as against 60-80 for India and suggests that vigorous moves are underway in order to effectuate a 'quantitative and qualitative

** Satish Chandra - Distinguished Fellow, VIF* improvement in Islamabad's nuclear arsenal'.

These assertions echo those made in a 2011 Hans Kristensen and Robert Norris report published by the Bulletin of Atomic Scientists which, inter alia, said that Pakistan has the world's fastest growing nuclear stockpile and at current rates of expansion its 90-110 warheads could, over the next 10 years increase to 150-200 warheads; its stockpile of highly-enriched uranium and weapons-grade plutonium, as estimated by the International Panel on Fissile Material in 2010, were sufficient to produce 160-240 warheads; its current rate of production of fissile material is sufficient to produce 10-21 nuclear warheads annually. This capability will be enhanced as it is building two new plutonium production reactors and an additional plutonium reprocessing facility; its two squadrons of F16 A/B aircraft with a range of 1,600 kms have, for long, been earmarked for delivery of nuclear bombs. In March 2011 a new squadron of F16 C/D was also acquired for this role; it has three operational ballistic missiles: the Ghaznavi (Hatf-3, range under 400 kms), the Shaheen (Hatf-4, range over 450 kms) and the Ghauri (Hatf-5, range over 1,200 kms). In addition, it has three other ballistic missile systems likely to see early induction notably the Shaheen II (Hatf-6, range over 2,000 kms), the Abdali (Hatf-2, range 180 kms) and the Nasr (Hatf-9, range 60 kms). Pakistan is also developing two nuclear capable cruise missiles namely the ground launched Babur (Hatf-7, range 600 kms) and the air/sea launched Ra'ad (Hatf-8, range over 350 kms).

Unlike India, Pakistan does not have a 'no-first-use' policy and not only is its nuclear arsenal India-specific, but also the threshold for its use is disturbingly low. This is corroborated by Pakistan's focus on short range nuclear capable ballistic and cruise missiles. One may also refer to the interview given to the Landau Network, an Italian arms control organization, in January 2002, by General Khalid Kidwai, the director general of the Strategic Plans Division of the National Command Authority of Pakistan, wherein he indicated that Pakistan's nuclear weapons were 'aimed solely at India' and would be used against it if India attacked Pakistan and conquered a large part of its territory, or if India destroyed a large part of either its land or air forces, or if India sought to strangle Pakistan's economy, or if India attempted to destabilize Pakistan's polity, or created large-scale internal subversion.

The rapidity of Pakistan's India-centric nuclear weaponisation, the low threshold at which it is likely to resort to a nuclear attack, its propensity to military adventurism, and its readiness to act as China's cat's paw, makes it incumbent upon us to ensure that the credibility of India's nuclear deterrent is never in doubt. This calls for speedily undertaking a host of measures.

The rapidity of Pakistan's India-centric nuclear weaponisation, the low threshold at which it is likely to resort to a nuclear attack, its propensity to military adventurism, and its readiness to act as China's cat's paw, makes it incumbent upon us to ensure that the credibility of India's nuclear deterrent is never in doubt. This calls for speedily undertaking a host of measures. India should think of enhancement and upgrade of its nuclear weapon arsenal with a view to inflicting unacceptable damage simultaneously on both Pakistan and China as they may well act in collusion. This would call for a nuclear warhead arsenal running at least into the low hundreds that can be launched from air, land and sea both by surface craft and submarines. Land-based missiles should be mobile and located in camouflaged and hardened shelters. A sufficiently large, diverse, and survivable nuclear arsenal is essential in order to deter an enemy from contemplating the resort to a nuclear attack.

The creation of a chief of defence staff, in order to provide 24/7 leadership, guidance and oversight to our strategic forces' command, and the speedy development of an effective nuclear force must be done. Fail-safe procedures for the effective deployment and operation of our nuclear deterrent in all situations should be established. Alternative chains of command should be made fully functional so as to ensure an element of automaticity in the effectuation of a prompt and a devastating retaliatory nuclear strike in the event of decapitation of our nuclear command authority.

Importantly, our 'no first use' policy needs to be tweaked by suggesting that, if India is subjected to a nuclear attack by a country aided by a nuclear weapon state, it would not merely react with nuclear weapons against the country which initiated the attack, but may also do so against the abetting nuclear weapon state. Hopefully such a move may cause China to refrain from such collusive action with Pakistan and perhaps even induce it to act as a restraining influence on it.

Importantly, our 'no first use' policy needs to be tweaked by suggesting that, if India is subjected to a nuclear attack by a country aided by a nuclear weapon state, it would not merely react with nuclear weapons against the country which initiated the attack, but may also do so against the abetting nuclear weapon state.

Finally, the fact that India's nuclear arsenal is being assiduously nurtured and that India has the political will to use it needs to be clearly signaled. The former can be achieved by holding regular meetings of the nuclear command authority and publicizing the same as also the upgrade of our nuclear arsenal. The latter would be automatically signaled if we are uncompromising in addressing all the security-related issues with firmness and dispatch.

Back to contents

The Economic Dynamics Of The Asia-Pacific Region After The Cold War

- ***PP Shukla***

Centre of gravity shifts to China from Japan in the 1990s

The period since the end of the Cold War has seen significant changes in the economic dynamics and structure of the region, and this essay will attempt to highlight the nature of these changes.

At the end of the Cold War, in the late 1980's and the early 1990's, the dominant economic presence in Asia was Japan. With a GDP of $3.02 trillion, it was the second largest economy in the world, and the largest in Asia, by a wide margin. More importantly, and contrary to the common impression, its GDP growth did not stagnate after the dramatic collapse of its stock market in 1989, when it peaked at 40,000 [today, on a good day, it crosses 9,000]; indeed, its GDP continued to grow rapidly up to 1995 – from $3.0 trillion in 1989, it reached $5.3 trillion in 1995. The total value of its exports in 1990 was $288 billion, larger than all of ASEAN combined. It was only after 1995 that the stagnation set in.

This was also the time that China was beginning its spectacular rise. The starting point was the devaluation of the Yuan in early 1994 by 40% against the US $. At the same time, Japan was coming under sustained US pressure to raise the value of the Yen. As a result, the Japanese went along with the US advice and their currency hit one of its highest values ever, rising below 80 Yen to the Dollar for the first time in history. What this did for the flow of investments is shown in the table below, which is taken from the ADB:

**PP Shukla – Joint Director, VIF*

Table 1 Foreign direct investment, total net (US$ million)

		1990	1995	1997	1998	2003	2005	2007
East Asia								
	China, People's Rep. of	2657.0	33849.0	41673.7	41118.1	47229.0	67821.0	121418.3
	Hong Kong, China	...	...	...	-2220.0	8132.0	6417.0	6712.0
	Korea, Rep. of	-263.1	-1776.2	-1605.2	672.8	100.0	2010.4	-13696.7
South Asia								
	India	96.0	2143.0	3562.0	2480.0	2388.0	3034.0	15545.0
	Sri Lanka	41.6	53.1	429.8	193.0	201.4	235.0	548.0
Southeast Asia								
	Indonesia	1093.0	3742.0	4677.0	-241.0	-597.0	5271.0	1164.2
	Malaysia	2332.0	6642.0	6787.7	2708.0	1103.7	995.8	-2561.7
	Philippines	528.0	1361.0	1113.0	1592.0	188.0	1665.0	-514.0
	Singapore	3541.0	4748.0	2849.1	5148.9	8969.3	6987.3	11837.0
	Thailand	2402.0	1183.0	3298.0	7360.0	4614.0	7545.0	7819.4
	Viet Nam	120.0	1780.0	2220.0	1671.0	1450.0	1889.0	6550.0
Developed Member Countries								
	Australia	4272.4	2792.5	3819.2	1889.0	6391.6	34041.0	1624.7
	Japan	- 48968.9	-22591.0	-22767.8	--20960.2	--22477.6	-43004.8	-50999.5
	New Zealand	...	4984.3	2120.1	-131.7	967.2	4671.7	821.3

There is a marked rise in the FDI flowing into China, and a sharp decline in Japan. The fall in the value of assets and labour costs in China as a result of the weak Yuan, and, in contrast, the rise in asset values and labour costs in Japan, consequent upon the sharp rise of the Yen, ensured this result. Equally noteworthy is the effect of this currency realignment on FDI in Southeast Asian countries too, as well as in Korea. Most of them saw a decline in their FDI in either absolute or relative terms, as more and more of the FDI was diverted into China.

The second important development, and the second turning point in this narrative, was the Asian Financial crisis that followed. The table merits a second look from this perspective: until 1997, at least some of the South-East Asian countries managed to retain a growing or steady trend in their respective FDI figures. However, after the Asian Financial Crisis, there was another sharp change in the capital inflows. It reinforced the FDI trends outlined above, and China emerged with still higher rates of FDI growth, while

Japan remained a net exporter of capital. Among Southeast Asian countries, Singapore alone managed to maintain FDI levels, while all the other major economies suffered a decline. The same applies to South Korea too.

The third major marker in the shifting pattern of trade and investment was the entry of China into the World Trade Organisation in December 2001. From this point on, there was yet another jump in the FDI into the country, as the last of the uncertainties over whether it would be able to draw in FDI and re-export the manufactured goods that would be produced were removed. The importance of FDI for China and its export performance may be gauged from the fact that, even as early as 1997, the share of foreign-owned affiliates in China's total exports had climbed to 41%. It only grew stronger over the next few years. The UNCTAD World Investment Report for 1998 put this out in some detail.

The importance of FDI for China and its export performance may be gauged from the fact that, even as early as 1997, the share of foreign-owned affiliates in China's total exports had climbed to 41%. It only grew stronger over the next few years. The UNCTAD World Investment Report for 1998 put this out in some detail.

The effect of this change in investment patterns in Asia was reflected in the changed patterns of trade that followed and was shaped over the two decades or so following the end of the Cold War. The following table, also from ADB reports, shows the change over the period 1990 to 2007, the last normal year, just before the global financial collapse. It brings out clearly that China switched roles with Japan as the principal Asian exporter to the US and the EU. Alone among all the major Asian economies, its relative exposure to these two markets went up significantly – nearly doubling to the EU and more than doubling to the US [in terms of percentages of total exports]. All the other economies, with the partial exception of Indonesia and Malaysia, showed exactly the opposite trend.

In these countries, the share of Asia in their exports went up while that of the EU declined; in most cases the relative weight of the US also declined, including for countries like Japan and Australia. The rise in exports to the rest of Asia is a confirmation of the export of intermediate goods to China that were finished and re-exported from China to the rest of the world. Many Asian companies set up finishing assembly lines in China to save on costs. India provides a partial exception, in that its exports to the US showed a marginal increase, though its exports to the EU showed the same decline recorded for other Asian countries ex-China.

It would be important to add the picture of import patterns as well, and this is shown in Table 3 below, again from the ADB. This shows that for China alone, Asia dropped in importance as a source of imports; for all the other countries covered here, Asia grew in importance – meaning, of course, that imports from China came to be increasingly important for these countries. Another noteworthy point is that for China, in 1990, the three main areas in the Table – Asia, Europe, and North America – accounted for close to 90% of its total imports; by 2007, this figure was down to 65%, as it sought raw materials in other parts of the world, notably Africa and South America, to meet its industrial needs.

To sum up, the period after the Cold War saw a marked shift in the pattern of investment and

Table 2: Direction of trade: merchandise exports
(percent of total merchandise exports)

From \ To	Asia 1990	Asia 2007	Europe 1990	Europe 2007	North and Central America 1990	North and Central America 2007
China, People's Rep.	67.7	40.8	14.7	23.5	10.0	22.9
Korea, Rep. of	34.0	51.4	15.5	16.1	33.4	17.5
India	21.0	32.6	47.2	23.4	16.3	17.6
Indonesia	64.3	60.8	12.8	13.3	13.9	12.5
Malaysia	58.0	57.1	16.6	13.5	18.1	17.3
Singapore	47.1	64.7	17.2	11.3	23.0	11.6
Thailand	37.8	54.1	25.3	15.5	25.3	14.5
Viet Nam	39.1	36.8	48.1	23.1	0.6	25.0
Australia	50.4	60.5	17.1	12.5	12.9	7.6
Japan	26.1	42.8	23.0	16.8	36.3	24.9
New Zealand	30.4	32.4	21.7	15.3	16.9	15.7

Table 3: Direction of trade: merchandise imports
(percent of total merchandise imports)

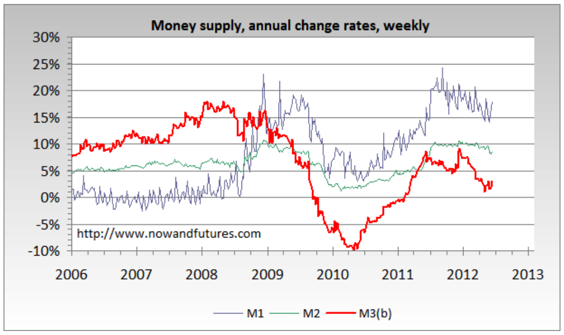
To \ From	Asia 1990	Asia 2007	Europe 1990	Europe 2007	North and Central America 1990	North and Central America 2007
China, People's Rep. of	48.4	40.4	24.1	14.5	15.8	9.4
Korea, Rep. of	33.5	46.7	13.1	12.6	25.3	12.0
India	17.3	29.9	41.3	21.6	12.9	9.2
Indonesia	43.4	70.7	22.5	8.4	13.7	5.1
Malaysia	50.6	60.3	17.9	13.2	18.1	11.6
Singapore	48.2	54.4	15.9	14.1	16.9	13.5
Thailand	53.3	56.4	19.7	11.0	12.1	7.6
Viet Nam	34.1	69.1	21.3	10.4	0.4	3.9
Australia	32.4	49.0	27.5	23.8	26.4	14.8
Japan	25.1	40.8	19.8	13.4	27.2	14.0
New Zealand	24.0	42.0	25.0	17.7	20.0	11.5

trade, which placed China at the centre of the money flows (capital and trade flows, rather) linking Asia with the rest of the world, especially Europe and North America. In a sense, the pre-Cold War pattern of economic interaction in Asia, which had Japan at the centre, was displaced by one that brought China into that role. There were three important turning points in this process: the first was the devaluation of the Chinese Yuan, and its dollar peg, coupled with the pressure applied on Japan by the US to push up the value of the Japanese Yen; the second was the Asian Financial Crisis, which effectively set back the investment-export model for most of the ASEAN countries; the entry of China into the WTO in 2001 was the third factor that boosted both FDI and its trade exchanges – and again, the US was one of the principal promoters of this development.

Most of the data given in the tables above are percentages – only the FDI figures are actual magnitudes. When we bring in the actual figures for all these activities, we see also the explosive growth that actually took place. The investment figures for China alone show a 400% increase between 1995 and 2007. Trade figures show a similar explosive growth. Between 1990 and 2007, global trade, dominated as it was by Asia and the OECD area, grew 300%; global GDP grew just 50% over this period.

The 'Triffin Dilemma' and the Dollar

These figures bring in the so-called Triffin dilemma: that the currency required for financing trade will become debased over time, since the country that issues this currency must run current account deficits, and hence the value of that currency must steadily depreciate. That has been the story of the US dollar and of the US economy. Financing the demand for trade was thus a major challenge – and one that the US Federal Reserve took the lead in meeting, though the European and even Chinese central banks also contributed.



Source: www.nowandfutures.com

This led to very high rates of monetary expansion in the US, rates that were certainly higher than the GDP growth rates would have justified. Under normal circumstances, one of the results of this would have been inflation, but this period saw, instead, a rapid rise in asset values – particularly equities and real estate. In addition, there has also been a consumer boom, fed again by easy money. In the chart above, it is important to point out that the figures for M3 after 2006 are derived from other data, because the Fed stopped publishing these figures from early 2006, the time that a new Chairman, Ben Bernanke, took over.

But there is another very significant aspect that needs to be highlighted. Fed data on M3 go back to at least 1959, and the Fed also shows M3 figures after removing M2 values ["Non M2 M3"]. This in effect, gives a broad indication of the role of foreign money in the overall money supply in the US economy. The data show that this value – non-M2 M3 as it is called in the Fed data – was 1% of the total in 1959, but by 2006, it stood at 35% of the total money supply.

In order to understand the process of finding an outlet for the vast sums of money and savings being generated in this process, a little history would be useful. The kind of rapid growth and concentration of wealth generation in a few countries that the 1990's and the 2000's produced, had happened once before – in the 1970's, after the rapid rise in oil prices. The US archives of the late 1960's and early 1970's bring out the dilemma that the country faced then. Demand for liquidity to finance global trade was growing much faster than the Federal Reserve could meet. The reason was that the US dollar was on the gold standard and that placed a strict discipline on the amount of liquidity that could be generated.

In the event, the Nixon Administration took the dollar off the gold standard in 1971, in order to be able to finance the growing demand for liquidity for global trade; it also agreed, reluctantly, to the issue of SDR's as a supplement to the global liquidity. However, both the demand for further liquidity and the pressure on the Dollar continued; and finally, in 1973, the US allowed the dollar to free-float, thus removing the last restraints on the Federal Reserve to loosen the monetary aggregates. This allowed the four-fold jump in oil prices to be absorbed, and for trade to continue to expand rapidly, for otherwise such a jump in the price of oil would have caused a severe recession. The sharp rise in oil, and other commodity, prices led to the well-known accumulation of large surpluses by the OPEC member-states. At that time, i.e., in the 1970's, Western banks transferred the surpluses generated to East Europe and to Latin America. Of course, it had also led to the high inflation that the Reagan-Volcker team was determined to fight.

The sharp rise in oil, and other commodity, prices led to the well-known accumulation of large surpluses by the OPEC member-states. At that time, i.e., in the 1970's, Western banks transferred the surpluses generated to East Europe and to Latin America. Of course, it had also led to the high inflation that the Reagan-Volcker team was determined to fight.

It was not hard for Reagan and his team [chiefly the Chairman of the Federal Reserve Volcker] to squeeze Money supply in the late 1970's and early 1980's because the affected parties were the Eurodollar markets [which did involve many US banks, mainly commercial banks] and the recipients of the loans were in East Europe and Latin America. The result of the monetary tightening was a sharp recession in the early 1980's. This period also saw a decline in oil prices, and a slowdown in global trade. In turn, this shows that an accommodating monetary stance in the early 1970's was a necessary condition for world trade to continue its rapid growth, and to absorb the higher oil prices.

A similar boom in trade [and oil prices] started again in the late 1990's, but this time the big trading power, as shown above, was China. And once again, the US monetary policy accommodated the requirements of the booming trade and the consequent rise in commodity prices. And once again, huge surpluses began to be accumulated by the major exporters. Thus was born what Alan Greenspan was to call the global savings glut. But, this time round, the recycling was done within the US itself – in various financial instruments and the housing sector, including mortgages to customers who were unable to pay off those mortgages – and the most exposed were the US investment and commercial banks themselves. Hence, when the sub-prime crisis broke, the US financial authorities had no option but to do everything to contain the knock-on effects of this crisis. This is why the cycle this time is playing out differently and the outcome is still uncertain. At least as far as America is concerned, there is no clear consensus even on the diagnosis. Fixing the problem is still some distance away.

Export-led China economic boom now over

The foregoing provides the backdrop to the current economic situation. It is now possible to take stock of the situation as it stands today. The most important conclusion that may be drawn is that the Chinese economy is facing two major structural challenges. The first is that the period of easy money in America is coming to an end, and is providing diminishing returns. Even though the Fed has embarked upon another round of quantitative easing, and it is open-ended, its results will be disappointing, as they have been for the two earlier rounds. True, interest rates are effectively zero, as they are in Japan and the EU. However,

It is now possible to take stock of the situation as it stands today. The most important conclusion that may be drawn is that the Chinese economy is facing two major structural challenges. The first is that the period of easy money in America is coming to an end, and is providing diminishing returns.

the two rounds of quantitative easing have not been universally welcomed and their results, as mentioned above, are definitely mixed. What is more, despite the QE, as the graph above shows, all the money aggregates have fallen in the period up to the middle of 2011. Necessarily therefore, the Chinese central bank has had to step up its liquidity injection, and it has done so with a will. Chinese M2 figures today have reached close to 200% of the GDP. This monetary expansion is causing inflationary pressures, since the asset markets in China are not as well developed as in the West. Secondly, they are also causing asset prices to go up, especially in real estate, which accounts for some 20% of the Chinese GDP.

The second major structural challenge before the Chinese economy is to cope with the declining export markets. The US market has held up well, and US imports are now higher than in 2007, the last normal year before the financial upheavals began. Nonetheless, China's export performance has suffered: since its record trade surplus in 2007 of $295 billion, it has seen a consistent decline to the point where in 2011 it was down to $155 billion – or a near 50% decline in four years. The Chinese leaders are clearly aware of this challenge and have been trying to shift to domestic consumption as the driver of the economy. But, the results so far have not been encouraging. In 2010, the level of domestic consumption was just 33% of GDP, though it had risen somewhat in the last year.

One could go so far as to say that this model of economic growth – heavy reliance on FDI, and export-led growth spurred by that foreign investment, plus an accommodating monetary stance in the US – has run its course. There is nothing surprising in this. In their time, this was precisely the model adopted by Japan and Korea and then by the Asian Tigers. The fact is that this model gives very rapid rates of growth, but cannot be sustained for more than two decades or so. The Chinese are now facing the same limitations, and it would be fair to say that this model has run its course.

The above analysis also allows us to draw the conclusion that

China remains more dependent on America for its continued growth than the other way round. The clearest evidence for this may be seen in the fact that, but for the surplus in trade with America, the Chinese trade balance would be negative. It is also worth noting that, in the period after 2008, Chinese markets bounce whenever the Fed signals an easing, and slip when the reverse happens – the causal relationship goes one way only.

Equally important, the real economy in China is clearly running into trouble. Not only are the figures for exports, imports and GDP growth indicating a clear slowdown, there are troubling signs of growth of inventories of industrial products, unsold housing and commercial units, and even declining sales in the auto industry. These are the biggest sectors in the Chinese economy, and together add up to serious dangers to the Chinese growth model in the future.

Equally important, the real economy in China is clearly running into trouble. Not only are the figures for exports, imports and GDP growth indicating a clear slowdown, there are troubling signs of growth of inventories of industrial products, unsold housing and commercial units, and even declining sales in the auto industry. These are the biggest sectors in the Chinese economy, and together add up to serious dangers to the Chinese growth model in the future.

India faces different challenges

A discussion of these two hurdles facing the Chinese economy is a natural prelude to a brief discussion of the Indian economy. It has the advantage of being driven by domestic demand, with a level of domestic consumption of 65% of GDP. For many years, it was argued that India was not doing enough to develop its exports. In retrospect, the fact that its exports – while growing at a healthy pace – still did not dominate its GDP has turned out to be a plus. Equally, its monetary policy has been restrictive rather than expansionary in the past few years. As a result, it has the option of reducing interest rates when the time is right – i.e., when the fiscal deficit is under better control and better managed by the Government. In fact, the fiscal deficit is the most important weakness in the Indian economy now and it is admittedly hard to tackle for political reasons.

The Indian economy is in need of infrastructure more than anything else and this is where the Governmental effort really needs to be focused. Unfortunately, the pace of progress here has been slow. This has been the most important factor holding back Indian growth and is tied to the fiscal deficit, which is crowding out investment in infrastructure. There is a clear understanding among Indian policymakers that this needs to be addressed. The largest items contributing to the fiscal imbalance are subsidies and a start has been made in the petroleum sector to lower these. Food and fertilisers are the other major items and these will clearly be the last to go.

In the Asian setting, what this means is that India remains less exposed to international trade and capital flows than the East Asians were, and hence better equipped to deal with any economic downturns that the global economy may face. This will change over time, but the process will be slow, presenting a degree of insulation to the Indian economy from global headwinds for quite some time. Put differently, India's challenges are mostly domestic and political.

Back to contents

Strategic Posture Along The India-China Border: Is India Prepared?

- *Gen. NC Vij (retd.)*

The Context – Strategic Scenario

China's rise as a major international actor is certainly a defining feature of the strategic landscape of the 21st Century. It certainly has ramifications for the entire world but most definitely for the Far East and for India. If China has to emerge as a global power, it must first establish its unchallenged supremacy in its immediate neighborhood. India is the only country in the region, which is somewhat of a competitor on both economic and military fronts. So it has got to be put in place; the only question, is when.

As far as offering a justification to the rest of the world, they have evolved a widely publicized strategy of "Self Defense Counter Attack", which is a multipurpose formulation that they use to describe most instances where China has initiated the use of force; that means that the PLA will launch the "first strike". China's 1962 War with India and Border War with Russia of 1969 fall under this category. Some people may still argue that China gains nothing by attacking India but the same was said even before the 1962 war.

Militarily, economically, or politically, what time slot suits Chinese the most? This could be within the next 3-5 years block; wherein the Indian Armed Forces' level of preparedness and readiness for war are issues of hot and active debate in the country or later. Presently, the saving grace is that the Chinese themselves are no-where close to their desired level of modernization and are only half way through to their modernization programme. Alternatively, this could take place after 2020-25, when they will be fully ready and the capability gap would have increased exponentially

** Gen. NC Vij (retd.) - Distinguished Fellow, VIF* between the two forces – if we should continue our modernization progamme at this sluggish pace!

To understand the level of threat posed by the Chinese in either of these two contingencies, we need to first analyze their level of preparedness.

China – Level of Modernization

Goal – Mission of the PLA

China is pursuing a long term comprehensive military modernization programme designed to improve the capacity of the PLA to fight and win, what they call local wars of short duration under conditions of informatization, or high intensity, information –centric military operations (Note the word – short duration because it has implications for us). Local wars can also be interpreted as "Regional Wars" as the character used for local wars can also mean regional wars.

China is pursuing a long term comprehensive military modernization programme designed to improve the capacity of the PLA to fight and win, what they call local wars of short duration under conditions of informatization, or high intensity, information –centric military operations (Note the word – short duration because it has implications for us). Local wars can also be interpreted as "Regional Wars" as the character used for local wars can also mean regional wars.

It is President Hu Jintao, who had articulated the new guidance for the PLA in 2004 to include missions extending beyond China's immediate territorial interests. The aspect of readiness to operate beyond the immediate territory has its obvious portents.

Even more importantly, Chinese leaders see this modernization as a central component of their strategy to advance China's national development goals in the first two decades of the 21st century. The implications are obvious.

Since Taiwan remains their principal priority focus, the Chinese modernization programmes assign priority to the forces deployed opposite Taiwan, the South China Sea (SCS) and the East China Sea. Work on troops deployed in the

Tibet Autonomous Region (TAR) comes next but almost concurrently.

The desired time line of the Chinese to attain full preparedness level is 2020, but there are slippages, so it can easily go on to 2025 or so.

Budgetary Allocations

This is the most important part. The estimates about China's Defense Budget, as per the US and Taiwan are pegged at approx 180 Billion US dollars for the year 2011.

Even if one was to overlook the widened gap over the last few decades and make an assessment only from here onwards, the budgetary gap between the two sides will increase to over a trillion dollars worth of equipment in the next six years i.e., 2018 and subsequently even more at the present rates of allocations.

Three aspects which merit emphasis in this regard are:-

(a) Our budget is in the range of 36 Billion US dollars. Funds for modernization, amount to only 12.87 Billion US dollars.

(b) Even if one was to overlook the widened gap over the last few decades and make an assessment only from here onwards, the budgetary gap between the two sides will increase to over a trillion dollars worth of equipment in the next six years i.e., 2018 and subsequently even more at the present rates of allocations.

(c) And even more significantly, the Chinese are incurring this level of expenditure when---

(i) More than 80 percent of their weapon systems are being produced indigenously at much lower cost.

(ii) On the other hand, with virtually no indigenous production, India is paying two to three times the cost of the equipment because of imports.

So the conclusion is obvious, that the gap between the two countries will exponentially increase with the passage of time. Now, a quick analysis of the individual force structures of the Chinese follows.

Ground Forces

These forces were quite antiquated in the nineties. Even today -

(a) They suffer from significant shortcomings in command and control, air defence, communications and lack of combat experience.

(b) From mid-2011, they have begun the process of transforming parts of their forces into modular combined arms brigade focused force structure. This concept is yet to be tested on the ground, especially in the mountains.

They can concentrate up to seven divisions in TAR within one week; 12 divisions in 20-30 days because of the QTR (Golmud to Lhasa – 1142 Km and passes over 16-640 ft at Tanggula pass in Kunlun mountain range). Both the QTR and the oil pipe line will be vulnerable to interdiction operations from both ground and air.

(c) Presently growing numbers of modern heavy-armour, long range strike artillery and increased range air defense weapons are entering service in selected units, primarily those which may be deployed opposite Taiwan. The up-gradation includes T-99, third generation Main Battle Tanks, new generation amphibious assault vehicles and multiple rocket systems. The Z-10 attack helicopter is a significant addition, even though the Aviation Wing itself with the Army formations is of recent origin.

Total Force Levels Available in TAR for Operations. 13 and 14 Group Armies from Chengdu Military Region and 47 and 21 Group Armies from Lanzhou military region can be deployed. 21 Group Army is designated as an offensive mobile force.

Infrastructure

(a) They can concentrate up to seven divisions in TAR within one week; 12 divisions in 20-30 days because of the QTR (Golmud to Lhasa – 1142 Km and passes over 16-640 ft at Tanggula pass in Kunlun mountain range). Both the QTR and the oil pipe line will be vulnerable to interdiction operations from both ground and air.

(b) What is equally significant is that they can mobilize a

"Rapid Reaction Division" into Lhasa within 24-36 hrs and deploy up to two to three heli-lift battalions. This is a sizeable threat and needs to be catered for, provided they can attain the air superiority of the kind required to carry out heliborne operations.

(c) At the Nagqu logistics base, they are in the process of building up a handling capacity of 3.1 million tons, which is sizeable.

Second Artillery Corps

This force is peculiar to the Chinese Armed Forces, wherein they have concentrated, most of their rocket artillery and missiles systems. We have these types of force under different organizations but in much lesser numbers, which is a crucial shortfall.

This force also has between 450-500 nuclear weapons. The Taiwanese estimate that this number will increase to 800 in this decade. These nukes are over and above what the Navy and Air Force have. This force will also be used for what they call, the resolute counter attacks in both the conventional and the nuclear type of scenarios. They have also acquired Tactical Nuclear Weapons in large numbers.

There are many conflicting views about the use of Tactical nuclear weapons. The NATO forces had found during the Cold War that the numbers required for various contingencies were exorbitant and also that the results were not commensurate with the desired outcomes and thus, their employment remained somewhat questionable. In our case, in the mountains, the efficacy of these tactical nukes may be further restricted, but this aspect needs to be studied in depth by the Indian Army. It is quite on the cards that the adversary may have very little compunction in the use of the tactical nuclear weapons.

Navy

They are primarily focusing on anti-air and anti-surface warfare capability, and are also developing a credible "at – sea" nuclear deterrent. This force is being transformed into a leaner force equipped with more modern multi-mission platforms.

They have 79 Destroyers/ frigates and 50 submarines. The Air Craft Carrier (KUZNETSOV – now Liaoning) will be functional by end 2012, but the air component will take at least 5-7 years more. In the long run, they will develop this capability, but for the present, their capability for carrier based operations will remain limited in nature. It will, thus, limit them to operations only in the South China Sea and the East China Sea, up to first and second chain of islands. The Indian Ocean will be outside their capability for the foreseeable future, provided the Indian Navy develops as per the plans and in the desired timeframe.

The Chinese submarine fleet is also developing fast and JIN Class (JL2) submarines (2-3 years away yet) will provide its Navy the first credible sea based nuclear capability. This program has faced many delays already. They have presently two nuclear submarines and five more will be added in the next 5-7 years.

The Chinese submarine fleet is also developing fast and JIN Class (JL2) submarines (2-3 years away yet) will provide its Navy the first credible sea based nuclear capability. This program has faced many delays already. They have presently two nuclear submarines and five more will be added in the next 5-7 years.

They are developing DF-21D, the so called 'Carrier Killer' and the anti-ship ballistic missile (with a range of 1500-2700 Km) which will also be part of China's nuclear deterrent forces. It can also fire chemical warheads and Electro Magnetic Pulse (EMP). It will, however, take quite some time before they are operationally effective.

They have also developed extensive mines and torpedo denial programme under the 'Anti Denial and Anti Access Doctrine' for a Taiwan scenario. Overall, the Navy is still a work in progress.

Air Force

The PLA Air Force is in the nascent stages of developing ballistics missile defense and air-space integration needed for early warning. One most noteworthy point is that in the nine airfields that they have in the Lanzhou and the Chengdu

Military Regions, there are no worthwhile hardened shelters for their aircraft and they will thus be vulnerable.

They are also continuing to modernize their ground based air defense 'forces' with the introduction of new medium range Surface to Air Missile (SAM). They have acquired multiple battalions of S-300 (latest Russian SAMs) and are also negotiating for SAM – 400 in large numbers.

In the foreseeable future, they will have the capability for net-centric operations and a robust electronic protection. This is an area, in which India needs considerable improvement.

They have a sizeable air fleet of 490 aircrafts of Second and Third Generation, which includes J-10, SU-27 and SU-30. J-20, a fifth generation stealth aircraft, is being propagated as a game-changing offensive weapon in the making. However, it is still in its proto-type model. Badger TU-16 Bombers from Russia are being upgraded and UAVs are being imported from Israel. AWACs and mid-air refueling capabilities are still being built up.

The levels of education of the pilots, the leadership qualities, etc. are under serious debate in the Chinese Air force. At present, they lack the capability to take on forces with good standard of training like the IAF, but are fast moving in that direction.

Their Areas of Excellence for Asymmetric Warfare

C4I2SR. Is being developed in a big way to:-

(a) Enable commanders to respond to complex battle field conditions with high level of agility and synchronization.

(b) Will also lead to greater integration amongst the three services.

(c) They will continue to enjoy an edge over us in this field for quite some time.

Space and Counter-space Capabilities

(a) Have deployed satellites which enable real time transfer of data to ground stations.

(b) Are also developing multi-dimensional programmes to limit or deny the use of space-based assets by adversaries. These provide them the capabilities of laser and micro-wave jamming.

(c) Their effort will be to jam the adversary's, command and control and the fire-control systems.

(d) These programs are, however, still facing challenges and their satellites are generally suffering from malfunctions and inadequate performance.

Intrusion and data theft are being used to collect strategic intelligence. They can also try and disrupt enemy's essential services like air, railways, banks, etc. (Business Continuity Process). This is causing great concerns to the US and all other countries in the region.

Cyber Warfare Capability.

Intrusion and data theft are being used to collect strategic intelligence. They can also try and disrupt enemy's essential services like air, railways, banks, etc. (Business Continuity Process). This is causing great concerns to the US and all other countries in the region.

Threat from Electro Magnetic Pulse. The US fears the possibility of tactics of nuclear warhead bursts in the atmosphere from an "electro magnetic pulse" attack with the intention to temporarily or permanently disable the electronic circuits. They are looking at this seriously and India also needs to build up counter capabilities in this regard expeditiously.

Nuclear.

(a) While the US, NATO countries and the Russians have exercised great reductions, the Chinese continue to build up their arsenal. Even more worrisome is the fact that the use of nuclear weapons is being built up as a part and parcel of their strategy for furtherance of operations.

(b) Their stated "No first use" policy is not explicitly stated and it commits them, in practical terms, to nothing.

(c) There are questions as to whether 'demonstration strikes' or 'high altitude bursts' world constitute a first use or not.

(d) It appears that they will have no hesitation in the first use of tactical nuclear weapons. In any case, there is hardly a doubt that against Taiwan, this policy of 'No first use will not be applicable'.

Indian Scenario

Role Envisaged for the Armed Forces

It is learnt that both China and Pakistan are fine-tuning their strategies to impose a war on two fronts against India. Thus, in case a war breaks out, a two front scenario will be almost a certainty.

It is learnt that both China and Pakistan are fine-tuning their strategies to impose a war on two fronts against India. Thus, in case a war breaks out, a two front scenario will be almost a certainty.

In such a contingency, the Indian Armed Forces will need to generate a punitive deterrence capability vis-à-vis Pakistan and an optimal dissuasion vis-à-vis China. More simply put, it means that we must have a 'superiority ratio against Pakistan and optimal parity against China'. With our present force levels, it is a far cry and that is why it is high time the Government of India issues the directive for raising the Strike Corps. Arguments that any raise in our force levels will cause concern to the Chinese, is naïve and puzzling to the say the very least, especially in view of the fact that the Chinese have built up far more potent and threatening capability in TAR.

We also need to prepare for unified operations in all five domains i.e., Land, Sea, Air, Space and Information/Cyber. The preparatory work on operational plans also needs to be carried out jointly.

We must also build up reserves in ammunition, missiles, spares and ancillaries for a minimum period of 60 days at an intense rate in crash time frame. This remains one of the biggest areas of weakness. All other aspects warranting improvement have been projected by the three Services to the Ministry of Defense and work on them must proceed with a sense of urgency.

Conflict Scenarios – Possibilities

Let us very briefly examine the two possible conflict scenarios and the possible outcomes.

A War in Next 3-5 Years

A balanced analysis of the Chinese Armed Forces will show that :-

(a) Their Armed Forces are still in varying stages of transition.

(b) Since their priority focus of development is towards Taiwan, there are still many facets of weaknesses in TAR.

(c) Their Navy does not presently have the capability to take on the Indian Navy in the Indian Ocean. This capability is not likely to be achieved over next 10-15 years.

(d) We can certainly choke them in Malacca Straits, with some changes in our Navy's priority of allocation of forces opposite the two adversaries. The proximity of Andaman and Nicobar islands to Malacca Straits offers us tremendous advantages in terms of effective air-sea operations against the Chinese.

(e) Our Air Force has the advantage of operating from the ground level in the North-East, which provides us far greater endurance. We also have a huge advantage in terms of number of air fields. There is a strong possibility that the IAF may inflict heavy losses on the Chinese Air Force in TAR in the first 72 hours itself, as they are lying in the open

(e) Our Air Force has the advantage of operating from the ground level in the North-East, which provides us far greater endurance. We also have a huge advantage in terms of number of air fields. There is a strong possibility that the IAF may inflict heavy losses on the Chinese Air Force in TAR in the first 72 hours itself, as they are lying in the open

(f) The Chinese capabilities in the asymmetrical operations are still developing, especially in the mountains. Also, the efficacy of the modular mountain brigades in the mountains is still to be tested.

(g) Finally, the Chinese themselves are seriously examining and attending to the problems of their lack of combat experience and also leadership abilities at junior and senior levels. This acts as a huge 'force multiplier' for us.

Progress of Operations. The assessment being offered here **pre-supposes that the Strike Corps** will be in place over the next two years and **all the shortages in ammunition, missiles and spares would have been made up.** These are operational imperatives and not open to questions. In such a case:-

(a) The terrain and the ground offer us the biggest advantage.

(b) For the first **twenty-thirty days,** we can generate near equal parity in forces, which will deny them the required force superiority as an attacker and render their operations most difficult and sluggish.

(c) With some changes in the **'Grand Strategy'**, in the mid-term, there is a possibility of being able to create upto two "Dual Tasked Divisions" for the North-East and Ladakh Sectors in a certain time frame, e.g., after their task on the other front is done. Similarly, the Artillery allocations will have to be planned afresh.

However, most importantly, there is an urgent requirement to carry out a **"Joint Planning"** for such operations on priority by all the three Services together in the same fashion, as we have done for some other contingences. With all such preparations, we should be able to hold our own and leave the adversaries stymied.

A Conflict Scenario after 2020-25

By this period, the Chinese modernization programmes would have fully fructified. On our side, if the projected shortfall of equipments worth 155 billion US dollars for the three Armed Forces is not made up in these 8-10 years, the potential gap between the opposing sides would have increased exponentially, posing grave risks to Indian security.

Even more than the Conventional Operations, the asymmetric warfare will pose a grave threat. Therefore, we must focus on the following aspects with renewed vigor:-

(a) Technology must be the watch word.

(b) A much higher degree of proficiency in aspects related to the informatization, like C4I2SR, counter cyber operations, optimum utilization of space assets and Counter EMP measures will be a pre-requisite.

(c) Ballistic Missile Defense must be built up.

(d) Improvement of infrastructure in the North East.

A greater degree of jointness in the functioning of the three Services, on the lines of the recommendations of the 'Group of Ministers' is sine qua non. Some of the patch work solutions offered by the Naresh Chandra Committee, in this regard, are like a cure which may be worse than the malady, and must be discarded without further ado.

Road Ahead

Alongside the operational preparedness, there are certain other improvements which need to be brought about in our National Security apparatus. These have been pending for many decades:-

(a) A greater degree of jointness in the functioning of the three Services, on the lines of the recommendations of the 'Group of Ministers' is sine qua non. Some of the patch work solutions offered by the Naresh Chandra Committee, in this regard, are like a cure which may be worse than the malady, and must be discarded without further ado.

(b) The Services must be made a part of the National Strategic Planning Structure of the Govt. The prevailing system of the Ministries of the Government of India and the Services working in isolated compartments needs to be shelved for the good of the country.

(c) The requisite fund allocations (155 billion US dollars in next 10 years exclusively for modernization) and equally importantly the ability to utilize these funds are an inescapable MUST.

(d) We must seriously move towards indigenous production by our DRDO – Industry combine and acquire at least 50-60 percent capability over the next 10-15 years.

Conclusion

These are challenging times. The Armed Forces have been crying hoarse about the gaps to be covered. Our national leadership needs to take decisive steps and not bank upon the mirage of hope and possibilities of better relations developing between us and our adversaries. The history has proved that preparedness alone ensures security. The friendships, develops only amongst equals. Any weakness on our part can only provide temptations to our adversaries to be adventurous. Eternal optimistic that I am, I certainly believe that India has the sagacity and the requisite will power to rise up to the challenge.

Back to contents

Defence Reforms and Naresh Chandra Task Force Review

- *Vinod Anand*

In May last year, the government appointed a Task Force led by Naresh Chandra and composed of 14 members to go into the recommendations and reassess the reforms required for improving the national security system. Over a decade back, the Kargil Review Committee had made many recommendations regarding the defence reforms, revamping of India's intelligence set up, internal security and border management. A large number of recommendations have been implemented over the years. However, some of the key recommendations like creating a Chief of Defence Staff have not been implemented; other recommendations like integrating Service HQs with the Ministry of Defence have only been paid lip service. The impetus for the defence reforms and some other reforms connected with intelligence and the internal security had petered out when another strategic shock in the shape of the Mumbai terror attacks of 26/11 was delivered. The Parliament's Standing Committee on Defence (SCD), in their report of February 2009, had lamented the lack of a unified concept of command and the lack of integration of intelligence effort besides making a host of other observations.

It also needs to be noted that the government has as yet not declassified the Naresh Chandra report. However, brief details of some of the recommendations made by the panel have appeared in the media.

Is Permanent Chairman of COSC an optimal Solution?

The Naresh Chandra panel has recommended a permanent chairman for the Chiefs of Staff Committee which is expected to bring a certain degree of stability to this post as the senior most chief used to be in

* *Vinod Anand - Senior Fellow, VIF*

the chair with, on many occasions, a limited tenure in his job. The post is to be staffed by a four star general for two years. This recommendation is definitely a climb down from the earlier GOM recommendation of the Chief of Defence Staff. The UPA government has been mentioning that a political consensus is being obtained after having written to all the political parties regarding instituting the post of CDS. The SCD of the 15th Lok Sabha in their second report (2009-2010) had again dwelt upon the need for CDS. Some relevant excerpts from the report are given below:

" In the light of the fact that the Chairman of the COSC has no command and control authority over the Services other than his own, the Committee had expressed doubts over the efficacy of the system in emergent situations by ensuring quick response and coordinated action…. The Committee had recommended to take timely and appropriate steps to revise the composition of the COSC by creating a post of CDS to act as Chairman of COSC by evolving consensus on the issue. .. The Committee had also recommended to give appropriate authority to the Chairman COSC in the present set up to command and control the resources of the Defence Services whenever the situation so demands till such time the post of CDS is created."

Therefore, it is quite evident that Naresh Chandra report's recommendation should be treated only as an interim recommendation as the ultimate goal as suggested by the SCD and the earlier GOM report is to institute a CDS. On the other hand, there is also a view that due to lack of political consensus the recommendation for the CDS can not be implemented in times to come and a permanent Chairman of the Chiefs of Staff Committee would be an optimal solution. However, as the Naresh Chandra report is not in the public domain and it is not clear as to what powers would be entrusted to the incumbent of the new post. Unless the permanent Chairman has appropriate budgetary and certain other command, control and coordination powers, giving a fixed tenure of two years may not serve much purpose.

Further, the SCD had also observed that merely writing of letters by the Defence Minister to political parties was not enough; the issue could also be deliberated in the Parliament through various mechanisms available under the rules.

Integration of Services with the MOD merely Cosmetic

The Naresh Chandra Committee (NRC) has also recommended deputation of the Army, the Navy and the Air Force officers to the MOD. This is, by no means, a new suggestion; this suggestion was given by the GOM Report and has been time and again pushed by the SCD. However, the record of implementation of such a recommendation has been less than satisfactory. For instance, the SCD of 14th Lok Sabha (the current one is the 15th Lok Sabha) had 'strongly" recommended the change in MOD staffing patterns to ensure that the Armed Forces were "*intrinsically involved in national security management and apex decision-making process*".

Further, even the new SCD (of the 15th Lok Sabha), in its first report of December 2009 (after the current UPA government had taken over), had passed strictures against the non-representative nature of the cross-staffing pattern in the structure of the HQ IDS in which the Department of Defence (DoD), DRDO and MEA are not represented.

The staffing pattern in the MOD was recommended to be suitably modified so that the Armed Forces personnel of requisite expertise at the level of Joint Secretary/ Additional Secretary could be appointed. This was to ensure that the Service HQs become intimately involved in the national security management at the apex decision making processes. Thus, the NC report has merely repeated what has been earlier recommended many times. The moot point is whether the 'babudom' would implement this recommendation in letter and spirit. It also needs to be noted that a MOD official deposing before the SCD had categorically remarked that "*Renaming of Army and Naval Headquarters as Integrated Headquarters is merely cosmetic, in the absence of posting of DoD cadre officers to*

Service Headquarters and vice versa, for participation in policy formulation."

The NC panel has also stressed the need for IAS and other officers running the MOD, the National Security Council and other departments responsible for the internal and the external security being specially trained for the purpose. The practice of generalist officers running everything under the sun needs to be stopped. This recommendation is full of merit and needs to be seriously put into practice.

Defence Planning; the Problems Persist

The Report has made a number of recommendations regarding defence procurement, defence preparedness and connected issues. However, most of the details of such suggestions have not been revealed to the public as yet. In April 2012, the Defence Acquisition Council headed by the Defence Minister, for the first time had approved the 12th Services Capital Acquisition Plan (SCAP) and the 15 years Long Term Integrated Perspective Plan (LTTIP, 2012-2027) for the modernization of the armed forces. It needs to be noted that the 10th and the 11th FYDP had lapsed without being approved and the LTIPP approvals were also not forthcoming. Since the previous Army Chief brought to the notice of the Prime Minister the lack of defence preparedness to include deficiencies in equipment and ammunition, the government shifted gear and embarked on plan approvals and has planned for the fast track acquisitions of artillery guns, helicopters and other equipment and ammunition. The pressure on the government was also felt in the Parliament when both the opposition leader and the ruling party leaders expressed similar views on the need for shoring up the national security and the defence acquisitions.

Since the previous Army Chief brought to the notice of the Prime Minister the lack of defence preparedness to include deficiencies in equipment and ammunition, the government shifted gear and embarked on plan approvals and has planned for the fast track acquisitions of artillery guns, helicopters and other equipment and ammunition.

However, the above measures do not absolve the government/MOD from the charge of resorting to ad-hocism in defence planning. The SCD, in its report of August 2011, had expressed its unhappiness over the ad-hocism in the whole planning process in the Defence Ministry; the Committee had strongly recommended that the LTIPP should be finalized without any further delay.

Further, the Defence Minister and the MOD had averred that a National Security Strategy document would be made from which would flow the Defence Guidance and thereafter a National Military Strategy would be formulated that would be reflected in our defence plans. But, this promise remains only on paper; the SCD of the 14th Lok Sabha had deliberated on the issue however, now even the current SCD of the 15th Lok Sabha has gone silent on it.

Another issue which has not been paid adequate attention is the question of an 'integrated' perspective plan as it is well known that the LTIPP is not an integrated plan, but merely an aggregation of the different services' plans. Integration would mean sacrificing one service's budget perhaps for another service which cannot really happen given the current organizational structures. That is why a CDS with suitable authority is essential. As mentioned earlier, even the NC report's recommendation of a permanent COSC could be useful if he was given appropriate budgetary and coordination powers. For instance, a proposal for raising a Mountain Strike Corps in the North East by the Army has been recently sent back (after one year of consideration at the MOD/government level) for reappraisal by the COSC so that the requirements of other services can also be taken into account. Under the present system, this is bound to cause further delay and this delay would be further compounded by the fact that there is no common view on the NSS and threat perceptions; every service considers its own concerns to be important and it is only in some rare case that there could be some via media or agreement.

Defence Procurement: Bedevilled by Delays

Our defence procurement system has been modified and improved many times without resulting in any appreciable improvements on the ground. Our procurement system, organisations, procedures and mechanisms have not been able to fast track the acquisitions which the armed forces need to narrow the capability gap which exists with our potential adversaries. Last year, the Comptroller and Auditor General castigated the entire arms procurement process and cited several incidents of inordinate delays. There have been unacceptable delays in obtaining critical air defence equipment and spares for damaged Israeli aerostat radars; the weapon packages for the MIG-29Ks meant for our aircraft carrier were not finalised, and as a result they were delivered without weapon systems and because of poor monitoring and inadequate attention to contractual clauses, additional problems arose in acquisition of the Low-Level Transportable Radars.

Our defence procurement system has been modified and improved many times without resulting in any appreciable improvements on the ground. Our procurement system, organisations, procedures and mechanisms have not been able to fast track the acquisitions which the armed forces need to narrow the capability gap which exists with our potential adversaries.

As mentioned above, the SCAP and the LTIPP have been approved in April this year along with the enhancement of the financial powers of the acquisition authorities, in order to inject speed and flexibility in the procurement process. The Defence Minister has also stated on the floor of the Parliament that functionaries at the Service HQ level have been delegated with the financial powers to process procurement cases upto Rs.50 crore, the capital cases above Rs.50 crore and upto Rs.75 crore are approved by the Defence Secretary. There is a proposal also to increase the amount further.

It is yet to be seen how the above proposals will fast track the proposed acquisitions.

However, in one of the controversial recommendations by the Naresh Chandra Committee, it was proposed that the practice of blacklisting firms of suppliers should be discontinued. It has also suggested that the Prevention of Corruption Act be modified to give a certain degree of protection to officers dealing in defence purchases as there are possibilities of making 'an error of judgement'. This flies in the face of the procurement procedures which are based on the principles of probity, integrity, transparency and so on. Without doubt, there is a need to streamline the procedures but including the above provisions would only add to more flaws and possibilities of wrong doing in the defence purchases.

> The NC report has also recommended that the situation where we need to import 70 percent of our military hardware needs to be rectified. These include a greater role in indigenous production for the private sector.

The NC report has also recommended that the situation where we need to import 70 percent of our military hardware needs to be rectified. These include a greater role in indigenous production for the private sector. The Defence Research and Development Organisation should work in closer cooperation with the armed forces than is the case at present. Not that these are original recommendations but nevertheless being a report to the government reiteration of such requirements possibly would motivate the decision makers earmark funds and efforts for achieving such long term goals.

Special Operations Command

The Naresh Chandra panel has also recommended forming a Special Operations Command to take under its wing the special forces of the Army, the Navy and the Air Force. The objective is to have a synergetic application of forces for strategic tasks by bringing them together in a unified command and control structure; the SOC would be placed under the COSC. The NC panel is of the view that India needs to enhance its unconventional and special warfare capabilities to execute politico-military and connected operations to meet non-conventional challenges. According to the report, the full potential of the Special Forces is not being utilised, therefore, the need for bringing them together and employing them for effective covert operations including counter-terror tasks. After the raid by the American Navy Seals on Osama Bin Laden's hideout, some of our military leaders had mentioned that similar raids could be carried out by our Special Forces. Perhaps with better training, technical and special equipment, weapon systems and ISR support, our forces would be in a position to carry out such tasks.

Coordination of the intelligence and presenting one joint intelligence picture to the apex decision makers has been a major challenge for our intelligence processes, procedures and organizations. The Naresh Chandra report has recommended a post of intelligence adviser to assist the National security Adviser; in addition it has recommended a National Intelligence Board (NIB) for coordination of intelligence.

Revamp of Intelligence and Cyber Space Protection

Coordination of the intelligence and presenting one joint intelligence picture to the apex decision makers has been a major challenge for our intelligence processes, procedures and organizations. The Naresh Chandra report has recommended a post of intelligence adviser to assist the National security Adviser; in addition it has recommended a National Intelligence Board (NIB) for coordination of intelligence. It needs to be noted that erstwhile the Joint Intelligence Committee had been merged with the National Security Council Secretariat (NSCS). The moot point is how would the functioning of the new NIB be different from the existing set up in the NSCS?

Another issue, which is acquiring alarming proportions, is the question of cyber security with our critical infrastructure and other systems having already faced many cyber attacks over the last one year or so. The National Technical Research Organisation, the Defence Intelligence Agency and the Computer Emergency Response Teams at various levels need to be strengthened to face the challenges of Cyber War which goes on even during peace time. Cyber Jihad launched by some of the Pakistan-based militants and terror groups in July-August 2012, to spread hate against the people of the North-East working in the rest of India, created panic and disruption. Our response was slow and limited. While the need for a Cyber Command (on similar lines to that of the U.S. Cyber Command) to look after the military aspects of Cyber warfare has been felt, there is also a requirement of a central entity/organization to coordinate the civilian efforts to protect the cyber space. At present, there are over a dozen entities/organizations like the Ministry of Home Affairs, the Ministry of Communications and Information Technology, the National Disaster Management Authority, the National Information Board and the Computer Emergency Response Teams at various levels besides some other have been tasked with looking after the cyber security. They are inadequately staffed and insufficiently funded; needless to say there are turf battles and their mandates are inadequately defined. Thus, coordination of their efforts would lead to efficient management of and timely response to the challenges in cyber space.

Other Recommendations by the Naresh Chandra report

The report recommends many other measures to be taken to improve the internal security mechanisms. For counter terrorism, it has recommended a National Counter Terrorism Centre (already recommended by the MHA), a National Intelligence Grid, strengthening of policing and distributed deployment of the NSG.

The panel has emphasized the early setting up of the much delayed Indian National Defence University (INDU) and the creation of a separate think-tank for internal security. The Kargil Review Committee and the GOM Report had also made similar recommendations for the INDU; despite the allotment of funds and the land for the project, nothing substantive seems to have been achieved so far even after a lapse of over a decade.

Conclusion

Largely, the Naresh Chandra Committee has made recommendations which have already been made by either the KRC or the GOM or by the Parliamentary Standing Committee on Defence. Possibly, there are other recommendations which are new but as the report is not in the public domain it would be difficult to evaluate the new aspects included in the report. However, the record of implementation of the recommendations by the government has been mixed. The report does serve the purpose of bringing into focus once again the inadequacies in our national defence and security system and thus, the imperatives to rectify them. At the geo-political and geo-strategic level, it does talk about challenges being posed by China and Pakistan on the military and security front and thus, the need to be fully prepared to meet such challenges and threats arising from that direction. Periodic review of our defence preparedness and formulating our National security Strategy, the Defence Planning Guidance and the National Military Strategy in a formalized manner along with reappraisal of all the processes, structures and the associated aspects is a must. Strengthening our military capabilities and internal security efforts are intricately linked with our broader political and economic objectives. If India has to progress as a modern and developed nation that wishes to achieve its long-cherished goal of strategic autonomy, defence and security reforms have to be ushered in at a faster pace than hitherto before.

Back to contents

In Bludgeoning Balochistan, Is Pakistan Army Losing Support In Punjab?

- ***Sushant Sareen***

After the huge furore in Pakistan caused earlier in the year by the Congressional hearing on Balochistan organised by US Congressman Dana Rohrabacher who also moved a resolution in the US Congress calling for the right to self-determination in Balochistan, the restive province was once again the flavour of the week in Pakistan's political circles and media when the former Chief Minister Akhtar Mengal returned for a sojourn from a four year self-imposed exile to depose before the Supreme Court of Pakistan which was hearing a petition on the abysmal state of law and order and blatant violation of human rights in the province.

As was to be expected, Mengal's presence in Islamabad provided grist for the mills churning conspiracy theories in the capital city – did he return as part of an understanding with the establishment; is he positioning himself for becoming Chief Minister in the forthcoming elections; was he representing the Baloch separatist leadership that is currently in exile and paving the way for a reconciliation between the establishment and the separatists; was he only testing the political waters to see if he could return to mainstream politics; did he come to make a last ditch effort to keep the Pakistani federation intact etc. Regardless of his real motives for appearing before the Supreme Court and presenting his arguments, what he has managed to do (whether wittingly or otherwise is hardly the point) is to jolt the military establishment and perhaps also cause a tremor which could

* Sushant Sareen Senior Fellow, VIF

potentially lead to tectonic changes in Pakistan's political system.

Mengal's appearance before the Supreme Court wasn't something that happened out of the blue. He had applied months back to become a party in the missing persons case that was being heard by the apex court. Clearly then, this was a well-thought out move. Of course, the details of the political game-plan under which Mengal decided to use the Court to make his pitch and queer that of the military establishment and the civilian government is shrouded in mystery. Without indulging in any histrionics, harangues or hysterics, Mengal, in his own soft-spoken manner, adopted quite a hard-line, not only before the Court, but also in his various TV interviews and joint press briefings which followed his meetings with top opposition politicians. What was most surprising, however, was that instead of outrage, Mengal's tough and biting words invoked understanding and sympathy among his interlocutors like Nawaz Sharif, Imran Khan and the Jamaat Islami chief, Munawwar Hasan, who endorsed almost everything he demanded.

While Mengal very ably articulated the myriad grievances of the Baloch with Pakistan in his interviews and meetings – he cut the Pakistani establishment to the bone by calling the situation in Balochistan worse than that in Palestine and Kashmir (in other words, pointing out that not even the Hindus and Jews are as oppressive as Pakistani Muslims are to fellow Muslims) and even went to the extent of calling for a peaceful parting of ways rather than a bloody divorce – it was his Six Point charter of demands, or recommendations, that he placed before the Supreme Court which seem to have caught everyone in Pakistan in a quandary. These Six Points are as follows: suspension of all overt and covert military operations against the Baloch; producing all missing persons before a court of law; disbanding all death squads being operated as proxies by the ISI and MI; ending political interference by the intelligence agencies in Balochistan and allowing all political parties to function freely; bringing those responsible for torture and murder of Baloch political activists to justice; rehabilitating the Baloch displaced by the conflict.

On the face of it, these recommendations are unexceptionable because they seek nothing more than application of fundamental and legal rights enshrined in the constitution of Pakistan. But in the context of Balochistan which has been facing a very heavy-handed and brutal crackdown by the Pakistan military establishment, asking for due process of law is akin to rebellion against the Pakistani state. Not surprisingly then, these innocuous looking Six Points are not only as unacceptable, but also as un-implementable, as the famous Six Points of Sheikh Mujibur Rehman of the erstwhile East Pakistan.

But in the context of Balochistan which has been facing a very heavy-handed and brutal crackdown by the Pakistan military establishment, asking for due process of law is akin to rebellion against the Pakistani state. Not surprisingly then, these innocuous looking Six Points are not only as unacceptable, but also as un-implementable, as the famous Six Points of Sheikh Mujibur Rehman of the erstwhile East Pakistan.

Akhtar Mengal seemed to be quite aware of this and that is precisely the reason why he equated his Six Points with those of Sheikh Mujib. Mujib's Six Points, had they been accepted, would have ended up restructuring the Pakistani federation; Mengal's Six Points, if implemented, will effectively emasculate the Pakistan Army and inalterably shift the balance of power in favour of the civilians.

That such a thing will never be allowed by the military establishment is a no brainer. This is so partly for what the army would call 'reasons of state' – i.e. it simply cannot countenance taking a back seat and allowing Baloch nationalists a run of the place, even less so because these demands are only a 'confidence building measure' that is expected to pave the way for a more substantial dialogue on the future status of Balochistan.

And partly, the army will oppose these demands for 'reasons of person' – i.e. from top generals, including army chief Gen Ashfaq Kayani, to foot soldiers, scores, if not hundreds, will face prison, or worse – if these Six Points were to be implemented in earnest. At least, this is what Mengal expects because he has made it clear that his demand for bringing to justice those guilty of crimes committed in Balochistan is not limited to only Gen Pervez Musharraf but also all those officers who were directly or indirectly responsible for the killing and kidnapping of Baloch political activists. Small wonder then that the very next day, the military and law enforcement agencies submitted a statement before the court and quite brazenly denying any involvement in either 'enforced disappearances' or in running death squads that 'kill and dump' the bodies of Baloch activists. The Army also activated its proxy agents to file a petition seeking a judicial enquiry into the events surrounding the death of the iconic Baloch leader, Nawab Akbar Bugti.

> While the Chief Justice and his colleagues are all sound and fury on the issue of missing persons in Balochistan, they have just not been able to show the same steely determination against generals and colonels serving in Balochistan that they displayed when they convicted an elected Prime Minister on charges of contempt of court.

Of course, Mengal would never really have harboured any illusion that his Six Points will be implemented. He knows well that the civilians, whether in government or in the judiciary, neither have the power nor the will to deliver on these very constitutional demands. Take, for example, the judiciary, on which Mengal claims to have placed some faith because of its ostensible assertiveness. While the Chief Justice and his colleagues are all sound and fury on the issue of missing persons in Balochistan, they have just not been able to show the same steely determination against generals and colonels serving in Balochistan that they displayed when they convicted an elected Prime Minister on charges of contempt of court. Forget about throwing some of these persons in prison, the judges have had to show enormous forbearance on the non-appearance of many of these officials despite summons and threats having been issued.

But the support, even if only verbal at this point in time, that Mengal has received from opposition parties like Nawaz Sharif's PMLN, Imran Khan's PTI and the Jamaat Islami signals a big shift in Pakistan's politics. All these parties receive the bulk of their support from Punjab, the province which has traditionally blindly backed the army's version of national interest. Today, these parties which are expected to attract the bulk of votes from Punjab are challenging the army's definition of national security and national interest. On the other hand, parties like the PPP, and to an extent the MQM and ANP, which have all traditionally been seen as anti-establishment parties and which derive the bulk of their support not from the heartland of Punjab (i.e. the politically powerful Central Punjab and the military's recruiting ground, North Punjab) but from smaller provinces like Sindh and Khyber Pakhtunkhwa and the marginalised part of Punjab (South Punjab) have today become the biggest supporters of the military establishment's conception of national security and national interest.

One explanation for this sort of a stance by these parties is that the PMLN, PTI and Jamaat Islami are in opposition and as such they have much greater latitude for taking a contrary stand from that of the military establishment. The PPP, ANP and MQM, on the other hand, are part of the coalition government and hence cannot afford to take a stand that is anathema for the Pakistan Army because if they were to do so they would never be able to deliver. Of course, some Pakistani analysts have also pointed out that despite its reputation as an anti-establishment party, the PPP has always been far more obedient, subservient and supportive of the army – whether it be during the Bangladesh crisis in 1971 or in Balochistan in 2012 [or earlier]– than the so-called pro-establishment parties like PMLN. Indeed, parallels are being drawn with the posturing of Zulfikar Ali Bhutto during the Bangladesh crisis and that of the PPP on Balochistan today.

> Already, the army did not seem to be very comfortable with the prospect of having either Nawaz Sharif or Imran Khan running the next government. Their endorsement of Mengal's Six Points would have only added to the army's discomfiture with them.

Equally important is the political implication of this shift in the approach of the main political parties in Pakistan. To be sure, the PPP's calculation would be that both Nawaz Sharif and Imran Khan would have spooked the army quite badly with their support for Mengal's Six Points. Already, the army did not seem to be very comfortable with the prospect of having either Nawaz Sharif or Imran Khan running the next government. Their endorsement of Mengal's Six Points would have only added to the army's discomfiture with them. The PPP senses an opportunity to ingratiate itself further with the military establishment and derive the benefit of this in the forthcoming elections. But what if the PMLN or even the PTI manage to get the numbers in the next election to form the government in Islamabad? If these predominantly Punjab based parties renege on the support they have extended to Mengal, they will only end up further alienating the Baloch and reaffirming the extremely negative perceptions among the Baloch about the Punjabis. But if the PMLN or PTI actually live up to their commitments, then it will pit them directly against the army. This will tantamount to a Punjab versus the Army conflict, something that the army will not find easy to handle especially if popular support in the province is with these parties.

In a sense then, Mengal has set the cat among the pigeons with his Six Points. At the same time, he has taken a high risk gamble of his own by appearing before the Pakistani Supreme Court. Although by and large most Baloch nationalists who remain pro-federation have welcomed Mengal's demands, the reaction from the separatists and anti-federation nationalists (arguably representing the predominant sentiment in the province) has been more nuanced. While people like Hyrbyar Marri and Brahmdagh Bugti have so far maintained a studied silence, others (which includes those who are either fighting the Pakistani state or are lending moral, financial, and at times even physical support to those who are doing the fighting) have been quite critical of what they see as Mengal's 'last ditch' effort to save the Pakistani federation. Unless Mengal has decided to ditch the separatist bandwagon and make his peace with the Pakistani state, something that he has consistently denied, he will have to play his political cards very deftly to keep himself politically alive in his core constituency that swears by Baloch nationalism and which has all but burned its boats as far as Pakistan is concerned. Any misstep and he stands to lose his core constituency. But, if he manages to play this hand well, then he could well emerge as the rallying point for all Baloch nationalists and create the elusive 'single party' that so many Baloch nationalists say is required to spearhead the demand for independence of Balochistan.

Back to contents

Indian Economy – Still On The Precipice

- ***Dr. V Anantha Nageswaran***

The Indian government has generated a lot of excitement and controversy in the last few weeks with its foreign investment liberalisation measures and other measures aimed at curbing the fiscal deficit. The Trinamool Congress withdrew its support; the government still did not roll back its measures. The Prime Minister spoke to the nation and declared that money did not grow on trees. He hinted that focusing on the *aam admi* could go against the country's long-term interests. The government went ahead and announced a restructuring of bank loans to the State-level power distribution companies, with an aim of achieving healthier finances for the SEBs in the long run.

In the meantime, on 28 September, an expert committee, led by Shri Vijay Kelkar, recommended short-term and medium-term measures to bring India's fiscal deficit under control. It had recommended, among other things, monetisation of the government's land holdings, phased elimination of petroleum subsidies, an immediate reduction in fertiliser subsidy and a phased introduction of Food Security. The government has distanced itself from the last recommendation. The Kelkar Committee has warned that, without immediate steps, the fiscal deficit for the financial year ending March 2013 could be as high as 6.1%.

The government is on the right track in some aspects. But, its commitment to see through tough reforms is still untested. With the Samajwadi Party supporting the government from outside, the government is technically in a majority. The majority, however, is fragile. Many allies (e.g., DMK) are sitting on the fence and might extract their pound of flesh on legal proceedings pending against former Cabinet

* *Dr. V Anantha Nageswaran - Visiting Fellow, VIF*

Ministers belonging to the party as a compensation for supporting the government. Limited reform measures announced by the Government have hardly touched the corruption 'surplus' and the governance deficit. The fiscal deficit is but a symptom of these two.

In the meantime, India's second quarter GDP growth was a rather modest 3.9% (y/y). This is expenditure based. On a quarterly basis, the growth rate contracted. However, India's quarterly numbers are not seasonally adjusted. On a sectoral basis, the growth rate was 5.5% (y/y). Growth rates in construction and electricity generation were reportedly stronger at 10.9% and 6.3%, respectively. Of course, these two have a combined weight of only 10% in the GDP composition. Finance and allied services have a weight of 19.1% and 'Community/Social services' has a weight of 12.0%. It is difficult to comprehend the measurement of growth contribution by this sector. These two sectors had allegedly grown at a rate of 10.8% and 7.9%, respectively.

JP Morgan notes that 'Community and Social Services' is a proxy for government spending. We should note here that this 'sector' has declined sharply in the second quarter after a big jump in the January-March quarter. That could be due to the end-of-the-financial year ramp-up in the government spending. Hence, the growth rate recorded by this sector on an annual basis is unlikely to be sustained.

Sector-based GDP growth numbers clearly indicate that the economy is soft and softening further. All but two sectors contracted sequentially in the second quarter of 2012. The two sectors that defied the contraction were Electricity, Gas and Water, and Finance, Insurance and Real Estate. Hence, it is hard to be upbeat about the 5.5% growth number. Of course, we have to note here that even this number is a long way off from the growth rates of 8% to 10% recorded before the global crisis and its aftermath in 2008-10.

Net exports made a positive contribution to growth because imports declined faster than exports. However, that could change in the coming months with exports dropping faster. Therefore, net exports will not contribute to economic growth in the next few quarters, at least. In fact, they may well bring down the growth rate. Investment spending barely registered growth in the April-June quarter at 0.7% (y/y). In sum, the second quarter growth report presages more slowdown in the quarters ahead.

Other economic data underscored the possible stagflation that confronts India. The growth rate of production in the index of eight core industries dropped to 2.1% in August from 3.8% in June. This index was growing at the rate of 7.8% in November last year.

While both imports and exports have slowed in the current financial year compared to the last, the case of oil import bill is interesting. Year-to-date up to August, the oil import bill was US$66.69bn. In 2011-12 for the corresponding period, the amount was US$64.87bn. The slowdown in economic activity is not reflected in oil imports because of India's oil subsidies that result in higher fiscal deficit but mutes price signals for the end-user. Brent crude oil price is to the north of $110 per barrel. Petroleum products need to be priced appropriately for more reasons than addressing the fiscal deficit alone. Raising the price of diesel by five rupees per litre or capping the number of subsidised cooking gas cylinders per family are good but small steps.

The Bernanke-led Federal Reserve committed to an open-ended asset purchase programme in mid-September, ostensibly to boost economic growth in the United States. Unfortunately, these do not bode well for India's growth and inflation. Risks to the former are firmly to the downside, while for the latter, it is on the upside. It is not just the monetary policy of the American Federal Reserve (we note here that Bernanke is visiting India in the second week of October) that would create headaches for India. Other central banks emulate the Federal Reserve out of conviction or compulsion. The Swiss National Bank is trying to keep the Swiss franc from appreciating. The Reserve Bank of Australia is explicitly concerned about the strength of the Australian dollar and cut interest rates early in October. Cumulatively and collectively, the monetary stimulus of the West will wash up on our shores. The chief consequence will be a rise in the cost of living through a rise in the prices of essential goods. Both the public and the government have to abandon their profligacy and embrace prudence.

Notwithstanding the recent spurt of activity, it is unclear if the government is prepared to take and is ready to prepare the nation for tougher measures. Credible leadership that communicates effectively and actively can carry the nation along during these difficult times. Suffice to say that policy measures in the last two weeks do not go far enough in restoring the credibility (lost in the previous eight years) of the nation's leadership. Tough times are not behind us, but still lie ahead.

Notwithstanding the recent spurt of activity, it is unclear if the government is prepared to take and is ready to prepare the nation for tougher measures. Credible leadership that communicates effectively and actively can carry the nation along during these difficult times. Suffice to say that policy measures in the last two weeks do not go far enough in restoring the credibility (lost in the previous eight years) of the nation's leadership. Tough times are not behind us, but still lie ahead.

Back to contents

The Justice System And The Secular State

- ***Dr. M.N. Buch***

Gujarat has been touted around as a State steeped in communalism, with a government which is right wing, extremist Hindu, anti Muslim and totally communal in outlook. The Congress, on the other hand, projects itself as the party which is secular, pro-minority and, in particular, totally protective of the Muslims. The pro-Muslim secular stance of the Congress formed the main plank of its election campaign in the recent elections in Uttar Pradesh, the end result of which was that the Congress got only twenty-six seats in the State Legislative Assembly and trailed behind BJP to emerge as number four in the electoral race. By contrast, in the allegedly communalized State of Gujarat, the Mephistopheles of Indian politics, Narendra Modi gave tickets to and was able to have elected over a hundred Muslim candidates in local government elections. Anti-Sikh riots took place all over the country in 1984 and at that time the Congress ruled at the Centre and in many other States in India. Not a single conviction has been obtained for these horrendous riots in which, in Delhi alone, three times more Sikhs were killed than the number of Muslims allegedly killed in Gujarat in 2002. The entire Hindu Pandit population of the Kashmir Valley was driven out and they became refugees in their own country. Not even one of the culprits of this ethnic cleansing has even been prosecuted, leave alone been convicted. The Pundits, even today, are either living in refugee camps or are scattered throughout the country. Neither the activists who claim secular credentials nor government has raised a finger to help these refugees.

In 1992-93 the worst rioting post Babri Masjid demolition occurred in Maharashtra, most notably in the city of Bombay. The State was then under Congress rule. No one has been

* Dr. M.N. Buch - Visiting Fellow, VIF

convicted for these riots and the Commission headed by Justice Shri B.N. Srikrishna gave a very categorical report, in which officers who failed in their duty were identified and named, but has been completely ignored by government. Both the Congress and NCP in their election manifestos promised to implement the recommendations of the Srikrishna Commission, but nothing has happened in this behalf despite the fact that it is a coalition of the Congress and NCP which is in power in Maharashtra.

The latest in the series is the complete break-down of law and order in four districts of Assam, with the Bodo tribal being in direct conflict with the Bangladeshi Muslims. Allegedly, these Muslims are illegal migrants from Bangladesh, whose presence is resented by the Bodos, which has resulted in direct ethnic conflict. Several hundred villages have been burnt down and lakhs of people displaced.

The latest in the series is the complete break-down of law and order in four districts of Assam, with the Bodo tribal being in direct conflict with the Bangladeshi Muslims. Allegedly, these Muslims are illegal migrants from Bangladesh, whose presence is resented by the Bodos, which has resulted in direct ethnic conflict.

There have been Bodo casualties also, but as it happens in many communal conflicts, it is the Muslims who had suffered the most. Even the international community has taken note of what has happened in Assam, with unfavourable comments about how we have handled the situation. The Chief Minister of Assam, who is a Congressman, had at an early stage reacted to press reports that Assam was burning by stating that the media had exaggerated as usual and that only three districts were aflame. Considering the size and population of an Indian district the Chief Minister virtually confessed that an area containing a population of five to six million people was seriously affected and that he considered this as a fairly minor event. This could only be expected from a Chief Minister who, in order to win the election, had played the contrary communal card by ignoring the Muslims to win the

Hindu votes which otherwise might have gone to the BJP. Can such a government be considered secular?

What about our friends from the Left? Undoubtedly, the Left Front Government in West Bengal had a popular image of secularism, so much so that in 1984-85 the Sikhs as a community publicly honoured the then Chief Minister, Jyoti Basu, for ensuring security for the Sikhs and maintaining communal harmony. It is also a fact that West Bengal remained relatively free of Hindu-Muslim conflict during the Left Front rule. Towards the end, this image had begun to change and that is because massive land acquisition in Nandigram largely affected Muslim cultivators and the Trinamool Congress was able to project this, at least partially, as the anti-Muslim policy of the Left Front. The fact that this was not true is not really relevant in the electoral politics of the India of today. However, in Kerala the Left Front had no inhibition whatsoever in playing the communal card and when it suited the LDF, it allied itself with the Indian Union Muslim League. Surprisingly, in a State in which the BJP has a poor political presence, RSS is quite strong, partly because of communal Muslim politics¸ which is why there have been a number of communal clashes in Kerala, especially in the old Madras Presidency Malabar District (now divided into several districts). LDF did little to oppose such communalism, which does not speak well for its secular credentials.

However, in Kerala the Left Front had no inhibition whatsoever in playing the communal card and when it suited the LDF, it allied itself with the Indian Union Muslim League.

Let us revert to Gujarat. No one can be an apologist for what happened in 2002 and in one letter to the Prime Minister I have said that had I been Governor of the State I would have strongly advised the Chief Minister and actually ordered the Chief Secretary and the Director General of Police to restore order immediately. I would have also gone around the State and if I saw any rioting I would have ordered my escort to fire on the mobs and disperse them. This would not have gone down well with the Government of India and would have probably resulted in my immediate removal, but nevertheless, this is how I would have interpreted Article 154 of the Constitution which vests the executive power of the State in the Governor and also acted according to the oath sworn by me under Article 159 which required me to preserve, protect and defend the Constitution and the law. I would have seen it as my duty to remind the Chief Minister that the law required him to maintain law and order and I would certainly consider it a breakdown of the Constitution if the State itself became a party to lawlessness. At the same time, it is equally a fact that neither in Delhi, nor in Maharashtra, nor in Assam, nor in Rajasthan during the recent conflict between the Jats and the Meos has any worthwhile judicial action been initiated and large-scale conviction of wrongdoers obtained. No doubt, Nitish Kumar in Bihar, who is truly secular, has been able to take effective legal action. Otherwise, Gujarat is the only State in India where six successful cases have been fought against the perpetrators of the 2002 riots and a large number of people have been convicted. This is as true of the Best Bakery case as it is of the Naroda Patiya case in which thirty-two persons, including an ex-minister, have been convicted. A great deal of credit must go to the Supreme Court, which has forced the Gujarat Government to act, has activated the Gujarat Police which bore the brunt of the investigation, and set up an impartial Special Investigation Team (SIT) which has spearheaded the investigation. Everyone is considering the convictions as a set back to Narendra Modi. I disagree with this because the Gujarat Government has, however reluctantly, gone along with investigations and has neither obstructed them, nor interfered with the course of justice. Even in the Sohrabuddin case, where the ex-Minister of State for Home, a DIG and other police officers are facing murder trials, the Gujarat Police has not destroyed the evidence and, therefore, the relevant SIT has been able to proceed with the investigation. The encouraging thing about Gujarat is that a largely Hindu Supreme Court, an overwhelmingly Hindu

Gujarat Police and the SIT set up by the Supreme Court, Hindu judges such as Jyostna Yagnik have brought justice to the victims of the 2002 riots and convicted a large number of persons involved in these riots. So long as we have this example we can be assured that India has institutions which are secular, though unfortunately one cannot say this about the political parties. Real secularism requires the political class to also be on board.

How communal is Narendra Modi? To his opponents he is the communal devil incarnate, who is unrepentant about what happened in 2002, who refuses to apologize to the Muslims and whose ministers interfered with the maintenance of law and order during that crucial period. But is there another side to Modi? In the State of Gujarat in 2002 the whole of Saurashtra remained largely peaceful and the district administration and the police intervened strongly and effectively to keep the area peaceful. This was true of Kutch as well. North Gujarat, mainly the Sabarkantha and the Banaskantha Districts, remained peaceful despite the substantial Muslim population there. The Central and Southern Districts of Gujarat, in particular Ahmedabad, Kheda, Baroda, Panchmahals, Bharuch and to some extent, Bulsar and Surat, were the focus of the rioting. This region has had communal conflict even during British days and the worst communal riots in the history of Gujarat occurred in 1969 in Ahmedabad when Hitendra Desai was the Chief Minister. I had written to Dr. Manmohan Singh when he became Prime Minister that the history of this part of Gujarat is such that regardless of which party in power, this region will remain prone to communal tension. I suggested that a person of the calibre of P.S. Appu, IAS should be asked to hold a free ranging administrative enquiry into the causes of communal unrest in these districts and to look into why the district administration and the police did not react strongly and positively to a communal situation. If the root cause of Hindu-Muslim animosity could be identified and then removed Gujarat would be peaceful. Narendra Modi was a phenomenon, but he was not the cause of communal strife in these districts of Gujarat. The underlying cause is much older and deeper. The Prime Minister responded favourably but did nothing and, therefore, we still do not know why this region of Gujarat has Hindu-Muslim animosity.

Narendra Modi has not reached out to the Muslims as such, but he has kept RSS, VHP, BKS and the Bajrang Dal under strict control since 2002, which is one reason why rabble rousers such as Pravin Togadia dare not open their mouths in Gujarat. Since 2002 there have been no communal riots in Gujarat and whatever his detractors might say, Gujarat is a relatively corruption-free State with a service oriented, efficient government which has accelerated the pace of development. Although there is no special effort to bring the Muslims on board, Muslims have not been denied the fruits of development and many of them have prospered. Even though the Muslims are hardly ever likely to forgive Narendra Modi for the 2002 riots, there are many of them who believe that one must not remain in a period of mourning for the past and must move forward to a new future. That is why paradoxically Gujarat is the one State with a BJP Government where at least some Muslims have participated in local government elections and a small section has even voted for Narendra Modi's party. They certainly did not do so for Sonia Gandhi's allegedly secular Congress in Uttar Pradesh.

Since 2002 there have been no communal riots in Gujarat and whatever his detractors might say, Gujarat is a relatively corruption-free State with a service oriented, efficient government which has accelerated the pace of development. Although there is no special effort to bring the Muslims on board, Muslims have not been denied the fruits of development and many of them have prospered.

Amongst the so-called secular parties, there is a mistaken notion that any secularism which is not pro-Muslim loses votes. The vast majority of the people of India are Hindu and if a polarisation of their votes takes place in which the present fragmented Hindu votes get concentrated, can we ever keep extremist Hindu parties out of power? Therefore, India's best bet is the politics of genuine secularism in which government follows policies which give equal opportunities to all communities, without singling out one for opprobrium and another for appeasement. Narendra Modi says that he does not speak for any community but is concerned only about the 'asmita' of six crore Gujaratis. Is it not about time that political parties begin talking about the 'asmita' of 110 crore Indians without dividing them into religion, caste, class, or region?

The Bharat Ratna is an individual award given to individuals who have achieved high distinction and merit in the service of the country. The George Cross is the highest gallantry award during peace time for defence personnel and for civilians during war and peace, which the British can give. It is an individual award and is equivalent to the Ashok Chakra in India. However, because the people of the Island of Malta stood collectively with the British against the Germans in the Second World War and exhibited the highest degree of gallantry under massive bombardment, the Island of Malta was collectively given the George Cross. On this analogy, the Supreme Court of India deserves the Bharat Ratna for the manner in which it has upheld, protected and enhanced the status of the Constitution of India and in particular the secular nature of this republic. My respectful submission to the President and to the Government of India would be that on the Republic Day awards to be announced on 26th January 2013, they may collectively award the Supreme Court the Bharat Ratna as a token of gratitude from this nation for being the one pillar of the Constitution which has remained true to its salt. No greater tribute could be paid to what I consider the best Supreme Court in the whole world.

Back to contents

Much Embarassment From An "Enterprising" Son-In-Law

- A.Surya Prakash

The United Progressive Alliance (UPA) government, which is reeling under the impact of several scams, has fresh trouble coming its way following revelations about the sudden prosperity of Mr. Robert Vadra, the "enterprising" son-in-law of Ms. Sonia Gandhi, the Chairperson of the alliance.

As per balance sheets of the companies he has floated and the current valuation of the properties he has acquired, it is estimated that Mr. Vadra, who invested just Rs 50 lakhs in these firms a few years ago, is now worth over Rs 500 crore. This spectacular rise in the fortunes of Mr. Vadra, whose family had a modest business in brassware and handicrafts in Moradabad, had been in the realm of speculation for some time, but is now in the open thanks to Mr. Arvind Kejriwal and Mr. Prashant Bhushan of India Against Corruption (IAC), who have put the facts in the public domain recently.

The IAC's revelations about the massive real estate acquisitions by the son-in-law of the ruling dynasty raise many questions. The first charge is that over the last four years Robert Vadra has gone on "a property buying binge" and has purchased at least 31 properties mostly in and around New Delhi, which even at the time of their purchase were worth several hundred crores. The second charge is that the balance sheets and audit reports of five companies launched by Vadra and his mother on or after November 1, 2007 had a total share capital of Rs 50 lakhs and that over a three year period they acquired properties that were then worth Rs 300 crore and are currently valued at Rs 500 crore.

So, how did Robert Vadra and his mother manage to achieve such spectacular success in the real estate business? This leads us to the third charge, namely,

* *A.Surya Prakash – Senior Fellow, VIF*

that Vadra got unsecured, interest-free loans totaling Rs 65 crore from the real estate major DLF to buy these properties, which themselves belonged to DLF. In other words, DLF gave Vadra a "loan" to buy its own properties, but there is yet another twist to this saga in that even these properties were sold at undervalued rates by DLF to Vadra.

IAC says that "The bulk of the properties are also purchased from DLF at a price which is shown far below the market price. Thus 7 flats in Magnolia apartments in DLF Gurgaon are purchased for a total of Rs 5.2 crores by Vadra's companies when the market price of each flat at the time of acquisition was well over 5 crore and today its price is between Rs 10 and 15 crores per flat.

Similarly a 10,000 sq feet apartment in DLF Aralias (Gurgaon) is shown to be purchased for Rs 89 lakhs when its market price at the time of purchase in 2010 was Rs 20 crore and today is more than Rs 30 crore. Not just that, a stake of 50% in a DLF-owned hotel in Saket (DLF Hilton Garden Inn) is shown to be purchased for Rs 32 crore when the market value was well over Rs 150 crore".

These facts throw up the following questions: Why did DLF give large unsecured interest free loans to Robert Vadra? Why did DLF sell its properties to Vadra at throwaway prices and on the basis of funds obtained by Vadra from DLF itself? These transactions need to be investigated because of the possibility of a quid pro quo. IAC makes a strong case for investigation when it says DLF has been given 350 acres of land by the Haryana Government for development of Magnolia project in Gurgaon (where Vadra was allocated 7 apartments) and has also been given various other properties and benefits by the Congress governments in Haryana and Delhi. Is that the quid pro quo for DLF giving Vadra the seed money for the purchase of these massive properties worth hundreds of crores?"

Even more troubling is the IAC assessment that this sudden acquisition of wealth of around Rs 500 crore may just be "the tip of the iceberg" and that in the year 2012 Vadra has already registered six new companies. It says, "It is clear that there is a lot of unaccounted black money invested in these properties of Vadra. What is the source of these funds? Are illicit funds of the Congress party being funneled into this property buying spree by the son-in-law of the dynasty? The above acquisition of properties is only what has come to light from the documents submitted to ROC itself, and maybe just the tip of the iceberg. Preliminary information indicates that there are many other properties purchased by him. It's significant that 6 new companies have also been registered by him in 2012." IAC says that, prima facie, these facts show commission of offences under the Prevention of Corruption Act as well offences under the Income Tax Act. In any case these questions warrant a probe by an independent agency.

> Even more troubling is the IAC assessment that this sudden acquisition of wealth of around Rs 500 crore may just be "the tip of the iceberg" and that in the year 2012 Vadra has already registered six new companies. It says, "It is clear that there is a lot of unaccounted black money invested in these properties of Vadra.

Strangely, several ministers in the United Progressive Alliance government went on a studio-hopping spree after the IAC press conference on October 5 to try and demolish the arguments of Kejriwal and Bhushan and to prove their loyalty to the Congress Party's ruling dynasty. Some other ministers chose to address the media, defend Vadra and lambast IAC. They argued that Mr. Robert Vadra was a citizen like any other citizen who had the right to float companies and to enter into business deals with other citizens and companies; that it is common practice to raise loans to invest in businesses; and that everything is above board because all details of the companies floated by Vadra are with the Registrar of Companies (ROC) and all these transactions have been reported in the balance sheets of the companies concerned and are easily accessible. If Mr. Vadra is just an individual, how come so many ministers were hyperactive on October 5 and even competing with each other to defend this individual? Also, if Mr. Vadra is just a citizen like anybody else, why is there that obnoxious order exempting him from security checks at airports?

A day after Mr. Kejriwal and Mr. Bhushan made these allegations, DLF issued a statement and claimed that all their transactions with Robert Vadra were transparent. However, some responses of DLF only throw up fresh questions which must be answered by Mr. Vadra. DLF has sought to demolish the charges against Mr. Vadra by hitting at the very foundation on which the arguments are built, namely the unsecured loans given by it to Mr. Vadra. The company has asserted that it did not give any unsecured loans to Vadra.

All that it had given him was a "business advance" of Rs 65 crore for purchase of land. DLF claimed that M/s Skylight Hospitality Pvt. Ltd., owned by Vadra, approached them in 2008-09 to sell a piece of land measuring approximately 3.5 acres just off NH 8 in Village Sikohpur, Gurgaon District. "This was licensable to develop a Commercial Complex and the LOI from the Government of Haryana to develop it for a Commercial Complex had been received in March 2008 itself". DLF agreed to buy the plot for Rs 58 crore and "as per normal commercial practice" a total sum of Rs 50 crore was given as advance in installments against the purchase to Vadra's company.

If Mr. Vadra is just an individual, how come so many ministers were hyperactive on October 5 and even competing with each other to defend this individual? Also, if Mr. Vadra is just a citizen like anybody else, why is there that obnoxious order exempting him from security checks at airports?

In other words, what IAC describes as "unsecured loans" is "business advance" in the eyes of DLF. That may be so, but this only puts the onus on Mr. Vadra to explain how with a capital of just Rs 50 lakhs, he came to acquire a property worth Rs 58 crore, which was given by his company to DLF. DLF also says that it was interested in another parcel of land owned by Vadra's company in Faridabad and advanced a sum of Rs 15 crores to Skylight

Hospitality towards its purchase. However, at a later stage, DLF decided against the transaction and Vadra returned the money advanced to his company. The company also offers explanations for the spectacular rise in Robert Vadra's net worth by claiming that like other clients, Vadra too got the advantage of price appreciation on the properties purchased by him. After remaining silent for two days, Mr. Vadra decided to speak up. He claimed that the allegations leveled against him were "utterly false, entirely baseless and defamatory". He said his detractors had manufactured lies against him to malign him and his family and "to gain cheap publicity". It was merely an angry protest in which he sought to attribute motives to the IAC team. His statement however did not get down to specifics and explain the transactions between his company and DLF. Nor does he explain where he got the funds to buy huge parcels of land in Haryana and Rajasthan – transactions distinct from those relating to DLF. Since the statement does not address any of these substantive issues, it does nothing to clear the air. Nor does it do anything to put a lid on the emerging scandal. If there is anything at all that Mr. Vadra achieves through his irate response, it is to strengthen the demand for an independent inquiry.

No amount of studio-hopping by the Union Ministers can help Mr. Vadra shake off these allegations, which are certain to haunt the UPA and inflict further damage on its political and electoral prospects. The ruling coalition may open one small window of hope to cope with this fresh scandal if it agrees to an impartial inquiry by a member of the higher judiciary. But, if it lacks the gumption to order such a probe, it must remember that retribution often comes in the guise of a son-in-law!

Back to contents

Seminar on Strategic Posture: Sino-Indian Border

The VIF held a Seminar on "*Strategic Posture: Sino-Indian Border*" on 3rd September 2012. Eminent speakers with practical experience on the subject made presentations on specific themes. While China's Strategic Posture in *Tibet, Infrastructure Development in Tibet, Ladakh and Arunachal Pradesh, PLA Air Forces Posture in Tibet were the themes discussed in Session I; Session II dealt with PLA's Posture in Tibet, Situation in Ladakh/Aksai Chin and the Situation along the MacMohan Line.*

In his inaugural address Gen. N.C. Vij (Retd.), former Chief of Army Staff, appropriated the context of the strategic scenario wherein China's rise was a defining feature of the strategic landscape of the 21st Century. Its supremacy as a global power required it by nature, to establish its unchallenged supremacy in the immediate neighbourhood. India on its part has to respond to this challenge by virtue of its geography and rivaling competition, both in economically and militarily.

The Peoples Republic of China situates its rise and power from a strategy of "Self-Defence Counter-Attack". This multipurpose formulation describes most instances where China has initiated the use of force, and effectively implies that that the PLA would launch a "first strike". The 1962 War with India and border war with Russia fall in this category. There are various possibilities pertaining to India that follow from this strategy. First, possibility of an attack could arise within a near term of 3-5 years when Indian armed forces level of preparedness and readiness for is an issue under debate. Second, a long-term approach nearing 2020-2025 when the Chinese military modernization is expected to be completed on the one hand, and on the Indian side the capabilities gap would have increased exponentially.

Gen. Vij analysed the Chinese and India military capabilities and posed questions in scenarios of conflict so as to assess counter-capability strategies by India. He cautioned that some areas of excellence by the Chinese can only serve to increase the gaps over the years. These include;

i. Prowess in asymmetric warfare, particularly in C41ISR that can empower commander to respond to complex battlefield conditions with agility and synchronization.
ii. Space and Counter-Space capabilities. The deployment of satellites enables real time transfer of data to ground stations as also multi-dimensional programs to limit, or deny, the use of space-based assets by adversaries.
iii. Cyber war capabilities - Intrusion and data theft is used to collect strategic intelligence and attempts to disrupt an enemy's essential services like air, railways, banks etc. form part of developing this capability.
iv. Nuclear dimension- a continuation of developing their arsenal and blue water fleet. The stated "No first use" Chinese policy is not explicit and it therefore commits them to nothing.

Brig. Gurmeet Kanwal focused on ***China's Strategic Posture in Tibet*** as his central theme in Session I. He observed that there was a steady improvement in India-China relations apart from the security relationship. And, while there is stability at the strategic level, China has been showing signs of political, diplomatic and military aggressiveness at the tactical level. There is an urgent need to resolve the territorial dispute by creatively working around the stated positions of both countries, failing which the security relationship would deteriorate further.

Lt. Gen. Gautam Banerjee (Retd.) presented a paper on ***Infrastructure Development in Tibet, Ladakh and Arunachal Pradesh.*** The central premise of infrastructure development precludes the questions, logistic infrastructure for what and that the development of logistics is military specific. He averred that at present, India has a deliberate go-slow policy and crucial to this would be the efficacious management of lead time. The essential doctrine should be of a Unified Logistic System which is in an integrated manner to be able to 'sustain war'; it comprises mobile warfare that can be waged at the strategic and tactical levels, a purpose of power projection, adequate fire power and a modular system for RRFs. A joint logistics-support system is integrated to civilian infrastructure, comprises a multi-mode transportation element (land and air). There should be reserve logistic support units and depots and forward stocking.

Air Marshal K. K. Nohwar (Retd.) elaborated on the **PLA Air Force Posture in Tibet.** He gave out details of the PLAAF infrastructure in Tibet and their operational capabilities in Tibet. He also dwelt upon the missile sites and the type of exercises carried out by both PLAAF and missile forces.

In Session II of the Seminar commenced with **Brig. Arun Sahgal's** (Retd.) analysis of the ***PLA's Posture in Tibet.*** India's strategic concerns regarding China arose from its emergence as the most influential actor in Asia with the ability to shape the future regional balance of power. Growing Chinese influence in India's South Asian backyard and the extended Indian Ocean Region (IOR) were worrisome trends, where it believes Beijing to be severely depreciating its area of influence. China backs its aggressive assertions with a steady build up of comprehensive national power and military capability in the region. Its military budgets have annually grown in double digit figures over two decades, and the current 2012-13 Financial Year outlay crossing US $ 100 billion. Such enhanced military spending and concomitant growth in its military industrial complex continues to fuel apprehension of an assertive role in Asia and beyond. Among other things he also spoke on PLA's force deployment opposite India.

The ***Situation in Ladakh/Aksai Chin*** *was the subject of* ***Lt. Gen. Vijay Ahluwalia's (Retd)*** *exposition in the larger Strategic Posture at the Sino-Indian Border theme. He provided a detailed analysis with the aid of topographical and illustrative maps of the precarious and delicate geographical realities in the Middle Sector and the Western Sector. The Line of Actual Control and demarcated boundaries in inhospitable terrain is a constant tug between the Indian and Chinese counterparts. The topographical boundary line is often based on perceptions and not actual calculations which results in constant flagging of territory. Infrastructure plays a big role in military strategy and posturing which the Chinese have harnessed to their advantage admirably. A national highway runs parallel to the LAC some kilometers away and in some areas are connected with tributary roads. The Indian reality and prowess is somewhat at a disadvantage on these scales. At present, there are several pockets of disputes over claimed areas like Chushul, Demohon, etc., which fray the Chinese and Indian relationship. There are three elements to the claims. i.) They could be mutually agreed disputed areas, ii.) Areas of differing LAC perception, and, iii.) Emerging disputed areas.*

Major Gen. Dhruv Katoch (Retd.) made an analysis of the ***Situation along the MacMohan Line.*** The line extends from the Bhutan tri-junction to the border with Myanmar amounting to 1150 km in length with altitudes ranging from 13000-20000 ft. The terrain on the Indian side comprises five main valleys – Lohit, Dibang, Siang, Subansiri and Kameng. Independent operations take place along each valley through the existing communication links. The conflict between the two countries exists because the Line is not accepted by China and there are differences in interpretations, like the Wangdung incident illustrated.

A further problem is created since the line is not demarcated and rather based on perceptions.

In the end, Ambassador Kanwal Sibal made the special remarks and summed up the discussions during the course of the Seminar. It was widely attended by serving and retired officers from the defence establishment and ministry of external affairs, academicians and scholars.

Back to contents

Interaction With Dr. Ing-Wen Tsai, Former Chairperson, DPP, Taiwan

On 20th September 2012, Vivekananda International Foundation (VIF) hosted an interaction with Dr. Ing-Wen Tsai, former Chairperson of the Democratic Progressive Party (DPP), Taiwan and Presidential Candidate from the DPP in January 2012. Dr. Tsai was accompanied by Mr. Antonio Chiang, columnist and former Deputy Director, National Security Council, Taiwan. H.E. Wenchyi Ong, Representative of the Taipei Economic and Cultural Centre in India was also present on the occasion.

The VIF team was led by its Director Mr. Ajit Doval, K.C. and comprised of Jt.Director Amb. P. P. Shukla, Distinguished Fellow Gen.(retd) N. C. Vij, Distinguished Fellow Lt.Gen.(retd) Ravi Sawhney, Vice-Admiral (retd) Raman Puri, Senior Fellow Mr. Sushant Sareen, and Brig. (retd) Vinod Anand, Senior Fellow. Professor M. D. Nalapat, Honorary Director, Geopolitics and International Relations, Manipal University also participated in the interaction.

The nearly two hour long discussion mainly focused on

the Asia-Pacific region, on the Taiwan economy and on India-Taiwan relations and prospects for enhancing cooperation and growth.

Back to contents

National Security: Challenges and Responses

The former Army Chief General (retd) VK Singh, addressed a distinguished gathering at the VIF's monthly Vimarsha series of talks by eminent persons, held on 24 September, 2012. He enlightened the audience about the broad spectrum of security challenges currently facing India, through a stimulating yet incisive talk, captioned 'National Security: Challenges and Responses'. Putting the session in perspective, Shri AK Doval KC, Director VIF, remarked that after independence India inherited a security doctrine which was essentially Western; it had Western values and political philosophy superimposed on it and the entire security edifice was built around one single political philosophy i.e. protecting the colonial interests of the British. He also alluded to the fact that that the failure to reform quickly led to the debacle some years later. The Director, however, underlined the need for not just reform but the complete transformation of India's security apparatus, visualising changes taking place elsewhere as also envisioning what may come tomorrow.

Giving a broad overview of what encompasses India's national security, General VK Singh highlighted that the concept of national security, under the changed circumstances, entailed a whole range of issues: economic, diplomatic, political, power projection and myriad other things that go into making the spirit of a nation. More specifically, it is about transforming the nation into a wholesome state that can withstand all kinds of threats and challenges, whether external or internal. While the General insisted that the core principles underlying India's national security remain intact, he urged the intelligentsia to take a wider view of security. He also stressed that India's national security needed to cater for her desire to carve out a distinctive place for herself in the broader regional and global arena. In this context, shaping up the immediate neighbourhood becomes a top national security imperative. He, however, regretted that India's foreign policy vis-à-vis her neighbours were such that they created more confusion and left the neighbours confused. India needs to be more cautious and pragmatic when it comes to dealing with smaller neighbours like Sri Lanka, Nepal and others.

Speaking of external threats, General Singh said that coping with China remained by far the biggest challenge for India. The unsettled border provides a leeway to China. China's growing proximity with Pakistan, however, poses even a greater challenge to India. Growing Chinese infrastructure development along India's Northern borders has also created apprehensions about China's intentions. Further, there is also a possibility of Chinese goods flooding the Indian market via Wal-Mart and other international retailers. He underscored the need for a proper policy response to cater for any eventuality arising out of China's possible courses of action.

While the former Army Chief touched upon a wide spectrum of national security challenges, including the Af-Pak situation and its possible fallout for India, insurgency in Jammu & Kashmir and India's Northeast, support to various terrorist and insurgent groups from across the border, governance deficit leading to growth in left-wing extremism, maritime security challenges etc., he also underscored the imperatives for India's military modernization, especially the need for developing greater synergies between the civil and the military, removing potential bottlenecks in defence procurements and achieving greater indigenisation in defence technologies through collaborative efforts between the Government, the private and the academia. Threats emerging in cyberspace and outer space have added new dynamics to national security. India needs to develop robust mechanism to prevent these threats and also to launch counter offensive whenever needed, General VK Singh Said.


The Panelist and A Section of Audience

Gen. VK Singh's talk was well received by the audience and resulted in a lively question answer session. Gen. Singh again emphasized the need for being well prepared to meet the likely security challenges in both the long term and short term perspectives.

Report prepared by Sanjay Kumar

Back to contents