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INDIA IN 2006

A New Emphasis on Engagement

_____ Peter R. Lavoy

Abstract

India took important steps in 2006 to develop its economy and improve its standing abroad. Strengthening its strategic partnership with the United States, while at the same time maintaining positive relations with China, was a particularly important achievement. Increased attention to energy security has driven India to reach out to countries well beyond its borders. For the first time in India's history, New Delhi appears comfortable using the military and diplomatic tools that great powers have used throughout history.

Keywords: India, nuclear weapons, energy security

Two thousand and six was a momentous year in India's quest to become a great power. After 59 years of existence, India is nearing the status its first prime minister, Jawaharlal Nehru, envisioned at the time of Independence when he said,

In regard to any major problem of a country or a group of countries of Asia, India has to be considered. Whether it is a problem of defense or trade or industry or economic policy, India cannot be ignored. She cannot be ignored, because . . . her geographical position is a compelling reason. She cannot be ignored also, because of her actual or potential power and resources. Whatever her actual strength may or may not be, India is potentially a very powerful country and possesses the qualities and other factors that go a long way to make a country grow strong, healthy and prosperous.¹

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1. Nehru's March 22, 1949, speech to the Indian Council of World Affairs appears in *Selected Works of Jawaharlal Nehru*, ed. Sarvepalli Gopal, 2nd ser., vol. 10 (New Delhi: Orient Longman, 1973), p. 465.

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Today, every global power—including the United States and China—treats India with the respect and consideration befitting a country that has posted an average economic growth rate of more than 7% since 1994 and that plays an active role in shaping a wide range of political, economic, and military issues both in its immediate neighborhood and also, increasingly, well beyond its borders.

What was distinctive about India in 2006 was not just the progress that it made in achieving its power potential—after all, India has been developing its economic and military capabilities for years—but rather India’s willingness to act as great powers do in applying the very military and diplomatic tools that the superpowers flaunted during the Cold War and the European powers employed before that. To use a colloquial phrase, India has long “talked the talk” of a big power, but it has now started “walking the walk” as well. Also notable in 2006 was the palpable deference that other countries—big and small—have come to show India mainly because of the lucrative trade and investment opportunities that Indian corporations and state entities now offer.

Experts recently stopped asking *if* India will become a great power and began to wonder what kind of great power it will become. Will India emulate China and behave like a relatively apolitical economic powerhouse? Or will it follow the U.S. lead by placing greater emphasis on strategic and ideological objectives to enhance its overseas economic and political interests? Or will it choose a third path? Even though its eventual policy orientation remains unclear, it appears likely that India’s future position will depend more on the choices New Delhi makes as an emerging big power and less on unwanted foreign pressures. That said, three sizable challenges—stabilizing relations with Pakistan, raising the domestic poverty line, and finding solutions to long-term water, energy, and environmental problems—remain major barriers to Nehru’s abiding ambition for India to truly become “a country that counts in world affairs.”²

International Engagement

The socialist and nonaligned India of previous decades spurned commercial connections with the world economy and avoided international commitments that could entangle it in the global balance of power. In contrast, today’s India embraces globalization, foreign engagement, and international power politics as mechanisms for improving its national welfare and political might. Indian policymakers have exhibited new measures of confidence, creativity, and assertiveness in trying to enhance Indian interests in the four geostrategic contexts that matter most to New Delhi. First, India has formed a strategic partnership with the U.S. to give it greater influence on important international political, economic, and security issues. Second, New Delhi has accelerated the process initiated in 2003 to promote political cooperation with Beijing, thereby allowing

2. *Ibid.*, p. 472.

the two Asian giants to collaborate for mutual economic gain and ensure that their long-standing border dispute and expanding international competition for energy resources and trading markets remain demilitarized. Third, India has embarked on a new “forward policy” to improve its standing in the “near abroad”—a region of growing interest to New Delhi that spans the Indian Ocean and includes parts of Africa, the Persian Gulf, and Central, Southwest, and Southeast Asia. Fourth, in its immediate neighborhood India has worked to insulate itself from the varied sources of extremism and instability that are sweeping through Nepal, Sri Lanka, Bangladesh, and Pakistan.

Strategic Partnership with the United States

After a long stretch of rocky relations with the U.S. during the Cold War and in the decade following, India has finally become a key player in Washington’s international security strategy. Ironically, the intense bilateral bargaining triggered by India’s May 1998 nuclear tests revealed that New Delhi and Washington have many more interests in common than in the past. President Clinton’s unanticipated support for India in the 1999 Kargil conflict with Pakistan and his visit to India in March 2000—the first by a U.S. president in 22 years—accelerated this rapprochement, but it was President George W. Bush who truly transformed the relationship between the U.S. and India. Banking on India’s growing global power and looking for a counterweight to China in Asia, Bush removed nuclear-related sanctions, approved defense technology cooperation, accelerated bilateral trade and investment, and partnered with India in the “war on terrorism.” India also departed from past patterns to embrace the U.S. For example, New Delhi was an early supporter of the Bush administration’s missile defense policy. It also participated in Operation Enduring Freedom in Afghanistan by sending warships to escort U.S. supply ships through the Malacca Strait in 2002; it nearly sent a division of combat troops to Iraq; and it twice voted against Iran in the International Atomic Energy Agency.

The most dramatic outcome of the enhanced partnership between the U.S. and India was the civil nuclear cooperation deal announced by President Bush and Prime Minister Manmohan Singh in July 2005 and formalized when the two leaders met in New Delhi in March 2006. India is legally considered to be a “non-nuclear-weapon state” because it did not test a nuclear device prior to 1967, when the nuclear nonproliferation treaty was being negotiated. Thus, the U.S. and the other nuclear technology exporters that make up the Nuclear Suppliers Group (NSG) cannot sell India even peaceful nuclear items because of its weapons program. This has been a major irritant in U.S.-Indian relations for decades. Accepting India’s logic that civil nuclear cooperation is the price that must be paid for strategic engagement, Bush decided to reverse U.S. law and NSG policy to permit reactor sales to India in exchange for its commitment

to separate its civilian and military nuclear facilities and place the former under international safeguards. China, Pakistan, and several other countries—plus numerous nonproliferation proponents—criticized the deal but, as 2006 drew to a close, the U.S. Congress enacted legislation to enable the controversial cooperation. The NSG will consider the matter in early 2007.

Despite the intense political wrangling over the nuclear deal in both capitals, Washington and New Delhi managed to boost bilateral cooperation in other areas during 2006. For example, economic interaction is growing rapidly. U.S. exports to India doubled from \$4 billion in 2002 to \$8 billion in 2005 and bilateral trade grew from \$16 billion to \$27 billion during the same period. In 2006, U.S.-India trade exceeded \$30 billion. Trade and investment should accelerate even faster because India agreed in 2006 to lower tariffs on industrial goods from 15% on average to 12.5%. India also agreed to extend patent protection to pharmaceuticals, agricultural chemicals, and various food products. An April 2005 civil aviation agreement has increased the number of flights and passengers traveling between the U.S. and India by more than 60% in little over a year. Furthermore, the number of American students attending Indian universities rose by 50% in 2005 and stood at 1,800 in 2006. There were also close to 80,000 Indians studying in the United States in 2006, more than from any other country. These are indications of the significant deepening of bilateral relations over the last few years, especially in 2006.

Another area of deepening relations was civil space cooperation. India has long coveted American space technology, but Washington had restricted India's access to it because of concerns that it could be diverted for use in India's ballistic missile programs. In recent years, the two governments have ironed out differences on this issue, and during Bush's May 2006 visit they agreed to have Indian space launch vehicles launch American satellites and satellites carrying American components. Two months later, officials agreed to include two U.S. scientific instruments on India's Chandrayaan-1 lunar mission, scheduled for 2007. There also are plans to include Indian astronauts in U.S. astronaut-training programs.

Security ties between India and the U.S. are expanding even faster. A new bilateral defense framework signed in June 2005 charts a 10-year course for joint and combined military exercises and exchanges, expanded defense trade, and new opportunities for defense technology transfer, collaboration, and co-production. The 2006 Quadrennial Defense Review—which the Pentagon released in February—identifies India as “a great power and a key strategic partner” and one of a few emerging and major powers whose choices “will be key factors in determining the international security environment of the 21st century.”³

3. U.S. Department of Defense, *Quadrennial Defense Review Report*, February 6, 2006, p. 28, <<http://www.defenselink.mil/pubs/pdfs/QDR20060203.pdf>>.

Although there were no major arms sales in 2006, the *USS Trenton*—an amphibious transport landing-dock ship—was readied for delivery to India. During the year, the Indian Navy sent over 300 personnel to Norfolk, Virginia, for training so they can sail the vessel to India by early 2007. The *Trenton*, which will inevitably be renamed by the Indian Navy, promises to be India's second largest warship after the Hermes-class aircraft carrier *INS Viraat*. Negotiations proceeded for the related sale of six refurbished Sea King helicopters to sail with the *Trenton*. In 2006 the United States also delivered 10 of the 12 AN/TPQ-37 Firefighter counter-battery radar sets ordered by India for \$190 million in 2002—the largest ever Indian purchase of U.S. military equipment. The radar can pinpoint mortars, artillery, and rocket launchers up to 300 kilometers away after tracking a shell for just a few seconds. Talks also progressed on the sale of C-130J Super Hercules military transport aircraft, long-range patrol aircraft, equipment for the Indian Special Forces, and various types of helicopters. As 2006 drew to a close, the Indian Air Force was finalizing a tender for a \$6 billion purchase of 126 multi-role combat jets, with the U.S.-made F-16 Falcon and F-18 Hornet aircraft regarded as the frontrunners.

At the eighth meeting of the senior U.S.-India Defense Policy Group held in New Delhi in November, U.S. Under Secretary of Defense for Policy Eric Edelman and Indian Defense Secretary Shekhar Dutt agreed to upgrade joint military exercises from the present level of platoons and companies to more integrated battalion-level and command-post engagements. After conducting over 40 exercises in the past five years to improve Indian and U.S. military interoperability, the new emphasis will be on multi-level military maneuvers involving all three services and having a mix of commands. An example is the U.S.-India Shatrujeet urban commando exercise that took place in southern India in October and was linked to the annual Malabar naval exercises. Future joint exercises are planned for high-altitude maneuvers in Uttaranchal and Alaska and will involve troops from various military commands and services. In the past, the Indian military has always interacted with the U.S. Pacific Command, but in a significant policy change that demonstrates India's increased importance to the United States, India will also be allowed to coordinate with U.S. Central Command and Strategic Command in the future.

Cooperation and Competition with China

Even as its defense ties with the U.S. deepen, India insists that China is not the target of this military alliance. Speaking in Shanghai in January 2006, Indian Foreign Secretary Shyam Saran stated that India and China “are too big to contain each other or be contained by any other country.”⁴ Throughout the year,

4. Cited in P. S. Suryanarayana, “India, China Engagement Positive, Says Shyam Saran,” *Hindu*, January 13, 2006, <<http://www.hindu.com/2006/01/13/stories/2006011304901500.htm>>.

New Delhi and Beijing accelerated the trend started in the early 1990s of improving bilateral relations, despite a long history of friction and the presence of several conflicting interests. The greatest source of tension has been a territorial dispute that caused a brief but intense border war in 1962. India claims about 15,000 square miles of land that China occupies in Kashmir, while China lays claim to a 35,000 square mile region in the northeastern Indian state of Arunachal Pradesh. During a landmark 1993 visit to Beijing, Indian Prime Minister Narasimha Rao agreed to demilitarize the Line of Actual Control that divides the two sides' forces at the disputed border. Since then, joint border working groups have met periodically. A significant breakthrough was made during Chinese Premier Wen Jiabao's April 2005 visit to India when an agreement was reached on the "political parameters and guiding principles" for resolving the border issue. As per this agreement, China implicitly accepted Indian sovereignty over the former kingdom of Sikkim, while India reaffirmed China's claim to Tibet. Since then, however, the border talks have stalled.

Among other contentious issues are Beijing's continued military and economic aid to Pakistan, including for its strategic weapons programs; China's construction of military and intelligence facilities around the Indian Ocean; competition for energy resources in Myanmar and other oil- and gas-producing countries; and China's growing economic penetration of South and Southeast Asia. For example, China recently replaced India as Bangladesh's biggest trading partner. Chinese President Hu Jintao also signed a free trade agreement with Pakistan in November 2006 that is expected to increase Sino-Pakistani trade nearly four times to \$15 billion over the next five years. When it starts in 2010, the China-ASEAN Free Trade Agreement (CAFTA) will unite 1.7 billion people in a single market worth nearly \$2 trillion. While India remains on the sidelines, China will soon become ASEAN's single largest trading partner, with commerce reaching \$160 billion in 2006 and probably \$200 billion in 2007, compared to India's projected \$30 billion trade in 2007.

Despite their differences, India and China have agreed to move ahead on other fronts. For example, the world's two fastest growing energy consumers agreed in January 2006 to cooperate on foreign energy exploration and development, even after India lost out to China on large energy projects in Angola, Myanmar, Ecuador, and Kazakhstan. That month India's state-run Oil and Natural Gas Corporation (ONGC) and the China National Petroleum Corporation jointly purchased assets in Syria's al-Furat oilfields for \$573 million. These two firms are already working together in Sudan's Muglad Basin to pump oil and construct a 940-mile pipeline to transport it to Port Sudan on the Red Sea.

Sino-Indian commerce is skyrocketing. Bilateral trade reached \$20 billion in 2006—a fourfold increase from 2002. During Hu Jintao's visit to New Delhi in November 2006—the first by a Chinese leader in 10 years—the neighbors pledged to double bilateral trade to \$40 billion by 2010. China is already

India's second largest trading partner, though China's trade with the U.S. is still 10 times larger than its commerce with India. Hu and Manmohan Singh agreed to encourage investment flows, diversify trade, and hasten joint efforts to secure foreign energy resources, but no free trade agreement was discussed largely because of Indian concerns about its own industrial competitiveness. A hotline was set up for the Indian and Chinese foreign ministers to stay in regular contact, and summit meetings between the president and prime minister were scheduled to occur on an annual basis. In addition, Hu announced his intent to initiate civil nuclear cooperation with India although he gave no public indication if China, an NSG member, would support the U.S. initiative to exempt India from NSG export controls.

During Hu's visit, Indian and Chinese policymakers discussed the prospects of holding their own joint military exercises. The two countries' navies conducted a bilateral exercise off the Kochi coast in the Arabian Sea in December 2005, but there have been no combined air or ground force maneuvers yet. Indian army chief General J. J. Singh stated that he was studying the subject closely, explaining: "Right now, we are at the stage of getting to know each other better. We have to have language compatibility, and also discuss the methods to be followed in conducting such exercises."⁵ A major obstacle to enhanced Sino-Indian military ties is Indian defense planners' concerns about China's rising military power and its construction of military facilities along the border—a situation that "continues to be monitored" according to the Indian Ministry of Defense.⁶ Also troubling is China's so-called "string of pearls" strategy to establish naval bases stretching from Southeast Asia to Somalia, including facilities at Gwadar in Pakistan, the Maldivian island of Marao, Chittagong in Bangladesh, and Myanmar's Great Coco Island.

Greater Assertiveness in the Near Abroad

New Delhi is trying to develop increased maritime access all along the Indian Ocean littoral and deepen relations with other navies in the region both to counter China's increased international activism and ensure India's continued access to overseas commodities. Among the plans Indian policymakers discussed in 2006 were the creation of intelligence monitoring posts in the Maldives and Madagascar, as well as construction of a maritime facility on the remote Agalega islands, 500 miles off the Mauritius coast. These efforts are prioritized to counter what India's newly appointed naval chief, Admiral Sureesh Mehta, described as China's strategy to shape the "maritime battlefield" in the region:

5. Cited in "Ready for Joint Exercises with China: Army Chief," *ibid.*, November 25, 2006, <<http://www.hindu.com/2006/11/25/stories/2006112505231200.htm>>.

6. Indian Ministry of Defense, *Annual Report, 2005–2006*, p. 10, <<http://mod.nic.in/reports/>>.

If you don't have the capability to operate in [distant] waters for a length of time, then you need friends who will support your cause when the time comes, so definitely China is doing that, as there are Pakistan, Bangladesh, Myanmar, Sri Lanka, and down below Africa. So it is a known fact that we are ringed by states which may have a favorable disposition toward China. They are looking 20 years ahead.⁷

Partially as a response to this potential threat, the Indian Navy plans to acquire 42 modern ships—including two aircraft carriers—to handle coastal defense and provide the blue-water capability required to protect the country's growing overseas trade and energy access.

Energy security is a big and growing issue for India. To fuel the country's rapidly expanding economy, twice as much oil was used in 2005 (2.5 million barrels per day) as in 1992. This figure is estimated to double again by 2030. A major problem for India is that it produces less than one-fourth of its oil requirements. For this reason, since 2000 it has made overseas equity investments in oil and gas projects worth \$3.5 billion in 20 countries, including Russia's Sakhalin Island, Indonesia, Vietnam, Venezuela, Iran, and Algeria. However, China still leads the way with over \$40 billion invested in overseas energy since 2000 and 500,000 barrels of foreign equity oil produced each day in 2006. In addition to investing in military means to protect the shipment of vital energy products to India, New Delhi is also now using a variety of diplomatic tools to strengthen its presence in key resource-producing regions of the world.

The Middle East

In the Middle East, India's closest partner in terms of security affairs is not an oil-producing state; rather, it is Israel. Ever since the two countries established diplomatic relations in 1992, bilateral political, commercial, and military ties have flourished. Israel is now India's second largest arms supplier after Russia. In recent years, Tel Aviv has supplied the Indian armed forces with unmanned aerial vehicles, Barak surface-to-air naval missiles, Greenpine radar systems, and Phalcon airborne warning and control systems, just to name a few of the publicly announced defense deals. There is also significant intelligence sharing between Mossad, Israel's intelligence agency, and the Indian Research and Analysis Wing (RAW), especially on Islamic extremism and the proliferation of weapons of mass destruction.

India has had an economic presence in the Persian Gulf for many years. Nearly five million Indian workers in the Gulf Cooperation Council (GCC) countries send home about \$4 billion in remittances every year. Indian commerce with these nations is growing too. The GCC, as a collective entity, ranks

7. "China Is Shaping the Maritime Battlefield: Indian Navy Chief," *India Defense*, December 2, 2006, <<http://www.india-defence.com/reports/2715>>.

as India's second biggest trading partner largely because of oil imports, which reached \$20 billion in 2006. In the same year, India's state-owned oil company, ONGC, initiated a \$20 million project to develop Qatar's offshore Najwat Najem oilfield.

Topping that, the state-run Indian Oil Corporation won a \$3 billion deal to develop part of Iran's huge South Pars gasfield and construct two liquefaction plants in southern Iran that will produce about nine million tons of liquid natural gas (LNG) for India and other recipients. India also has other energy deals with Iran and has proposed a gas pipeline running from Iran to India via Pakistan, with a possible extension from Pakistan to China. Construction on the \$7 billion project was supposed to begin in 2007, but Iran's insistence in July 2006 that it required \$7.20 per million cubic meters of LNG compared to India's offer of \$4.20 slowed the negotiations. Apart from energy commerce, Indian-Iranian cooperation on Afghanistan and possibly on the future of Pakistan should keep bilateral relations strong, notwithstanding U.S. pressure on New Delhi to take a hard line on Tehran's nuclear weapons program. India will go to great lengths to assert its foreign policy independence even as strategic relations with Washington deepen. Underscoring this point, Manmohan Singh decided to attend the Nonaligned Movement summit in Havana in September 2006 instead of meeting President Bush at the United Nations in New York.

India's efforts to improve its standing in the Middle East received a major boost during the July Israel-Lebanon conflict, when the Indian Navy undertook its largest-ever overseas civil evacuation operation. With U.S. support, four Indian naval ships evacuated over 2,280 persons including 436 Sri Lankans, 69 Nepalis, and seven Lebanese citizens. The navy had earlier revealed its capacity for large-scale relief operations by carrying over 910 tons of provisions to tsunami victims in Sri Lanka, the Maldives, and Indonesia in December 2004.

Central Asia

India is also quickly moving into Central Asia to secure new energy resources and strengthen its geostrategic position. This includes seeking access to Kazakh oil and gas. In particular India is promoting pipelines from Turkmenistan through both Afghanistan and Pakistan into India. It also wishes to see pipelines built from Iran to India. New Delhi's relations with Tajikistan were recently boosted by Tajik President Emomali Rakhmonov's five-day visit to India in August 2006. India is now reportedly completing construction of three hangars at Ayni Airbase near the Tajik capital Dushanbe. The Indian Air Force will station a dozen MiG-29 jets there and will train the Tajik air force. India's immediate objectives are to increase its profile in Afghanistan, counter Pakistani influence there, and monitor anti-India activities in both nearby Pakistan and China. Over the horizon, the Ayni base will allow India to project power throughout Central Asia. In July India also attended its first session (as an observer, with Iran, Pakistan,

and Mongolia) of the China-dominated Shanghai Cooperation Organization (SCO), which has a growing impact on Central Asian trade and commerce.

Southeast Asia

Over 40% of India's rapidly expanding trade passes through the Malacca Straits. Thus, India has a major interest in securing the safety of shipping through this vital waterway by increasing its naval presence and strengthening relations with neighboring countries. Fortunately for New Delhi, India's growing economic power and historical connections to Southeast Asia make it an attractive counterweight to China's ever stronger political and military might in the region. For example, Indonesia, Japan, Philippines, and Vietnam—all of which have territorial disputes with China—now have expanding, multi-faceted relations with New Delhi. The Indian Navy is especially active in the region. Some of its many activities include conducting regular discussions with other navies in the area for the security of sea lanes and other issues; coordinating port calls and naval patrols; exchanging information on merchant traffic in the Indian Ocean; training officers and sailors from other countries in Indian professional schools; and participating in multilateral exercises conducted by the Southeast Asian navies and also in waters around Southeast Asia itself. In February and March, the Indian and Singaporean Navies conducted a 10-day exercise off India's eastern seaboard, their 13th such annual engagement and one of the largest of the year by the Indian Navy.

Insulation from Instability in Neighboring Countries

Much of India's immediate neighborhood experienced volatility and the rise of different forms of extremism in 2006. Still feeling the sting of its disastrous 1987 military intervention in Sri Lanka, India has pursued quiet diplomacy aimed at insulating itself from regional instability instead of playing an active role in tackling the sources of this violence and hostility directly. India's relationship with Sri Lanka (q.v.) is complicated by the island's civil war, which is, in part, fueled by the many ethnic Tamils living in southern India. Thus the conflict also poses potential domestic political problems for India. Although there has been a formal ceasefire in the ethnic struggle between the Liberation Tigers of Tamil Eelam (LTTE, commonly known as the "Tamil Tigers") and the Sri Lankan government since 2002, violence escalated dramatically in 2006. Despite overtures from both the LTTE and the Sri Lankan government, India has avoided direct involvement or intervention, relying instead on the international community in trying to bring peace to Sri Lanka.

India's relationship with Nepal (q.v.) has been strained by a decade-old insurgency by Maoist rebels intent on setting up a communist republic in the

country. King Gyanendra, part of a hereditary monarchy that has ruled Nepal for most of its known history, assumed absolute power in a royal coup in February 2005. However, the king was forced to step down from power in April 2006 after huge popular protests in Kathmandu and intense pressure from the international community, including India. In November, government representatives and the rebels signed a comprehensive peace accord that paved the way for the Maoists to disarm and join the government. Facing its own Maoist insurgency, India called the settlement a “victory for the Nepali people” and probably will continue to play a low-key role in promoting implementation of the peace process.

The political situation in another Indian neighbor, Bangladesh (q.v.), turned violent after Khaleda Zia completed her five-year term as prime minister in October and handed power to a caretaker authority pending elections in early 2007. Although the Bangladeshi economy has improved, Zia’s government was criticized for corruption and turning a blind eye to Islamic extremism. In early 2006, strong international pressure and the threat of disruption of international aid forced the government to take action against the extremists. Nonetheless, the lack of economic and political development in Bangladesh remains a serious concern for India particularly because of the growing number of poverty-stricken Bangladeshis who cross into India illegally every year. Border agents occasionally exchange small arms fire, and India is in the process of constructing a fence to help stop unauthorized immigration. Another concern for New Delhi is China’s increasing economic and military presence in Bangladesh. In March China donated police equipment and sold 16 F-7 fighter aircraft to Bangladesh. In return, Dhaka granted Beijing exploration rights for developing its natural gasfields and offered China naval access to its Chittagong Port, which India has long coveted. India will continue to court Bangladesh because access to Myanmar’s rich gas reserves depends on Dhaka’s willingness to allow a pipeline to cross its territory into India.

India’s wariness about Chinese penetration into South Asia is especially acute when it comes to Pakistan, India’s longstanding military rival and China’s dependable strategic partner. After Hu Jintao visited India in November, he traveled to Pakistan to sign a free trade agreement and defense and civil nuclear accords. Hu called Pakistan an “indispensable partner,” subtly referring to its geographic location, which facilitates China’s connectivity to the Islamic world, notably the Middle East and Central Asia. Pakistan’s political and military power also offers China a counterweight to India, notably in regional organizations such as the South Asian Association for Regional Cooperation (SAARC), ASEAN, and the SCO. After narrowly avoiding a major war with Pakistan in 2002, India has pursued a composite peace dialogue with its estranged neighbor over the past few years. But, this process was severely disrupted as a result of the July 2006 Mumbai train bombings, in which 186 people were killed. New Delhi

blamed Pakistan-based militant groups for these blasts. In November the Indian and Pakistani joint secretaries reached agreement on a joint anti-terror panel that could possibly lead to improved information-sharing and more effective handling of future terrorist attacks, which each country typically blames on the other.

Internal Challenges: Poverty, Pollution, Energy

After assuming power in 2004, India's Congress Party-led coalition government has achieved remarkable political stability. Prime Minister Manmohan Singh, who made his reputation as a reform-oriented finance minister in the 1990s, is a champion of economic liberalization. In part because of Singh's market-friendly policies, India now has one of the world's fastest growing economies, with 8.5% gross domestic product (GDP) growth in 2005 and a projected 7.7% average annual growth through 2009. In October 2006, the benchmark Sensex Index of the Bombay Stock Exchange topped the 13,000 mark for the first time. Despite this economic success, 29% (350 million to 400 million) of India's nearly 1.1 billion people still live below the poverty line; more than 40% of the population is illiterate. The World Bank estimates that nine out of 10 Indian workers lack access to the country's rapidly growing services and high tech jobs.

India's swelling population is wreaking havoc on the country's environment. Urbanization, industrialization, and skyrocketing energy consumption are damaging air quality and causing deforestation, soil erosion, water pollution, land degradation, and strain on the municipal services of all major cities. New Delhi, Mumbai, Chennai, and Kolkata rank among the world's largest and most polluted cities because of heavy industrial pollution and the rapidly rising number of vehicles on the roads. Of the three million premature deaths that occur worldwide each year because of air pollution, the highest number is reported in India. Water shortages also continue to be a major problem and the government is actively building dams in the Kashmir region to store water and help with increasing energy needs.

In conclusion, India took great strides in 2006 in becoming a "big power" in the international arena, but it also faces significant challenges on the domestic front. In particular, New Delhi will need to reduce poverty and pollution while at the same time develop new sources of energy for its rapidly growing population and economy. This will be required in order to truly achieve the status that Jawaharlal Nehru envisioned for India as one of the world's truly great economic and political powers.