Creating new vote banks

Exporting our way to good defence
Cyber warfare comes of age
Don’t strangle microfinance
What is civil society?
Obama lacks a Pakistan strategy

CENTRESPREAD : THE MARITIME MILITARY BALANCE IN ASIA
Perspective

How bazaar?
Difficult choices lie ahead in defence procurement
Manohar Thyagaraj

The Stuxnet development
India could be the target of the next Stuxnet-type attack
Srijith K. Nair

Colonial cousins
The makings of a fruitful India-Brazil relationship
Joel Sandhu & Oliver Stuenkel

What Chinese threat?
Border populations are less worried about the roads China is building
Rajeev Ranjan Chaturvedy

On regulating microfinance
Improve corporate governance, don’t stifle private initiative
Guzlar Natarajan & Sriram Raghavan

What is civil society?
Beyond NGOs and high-profile individuals
Harini Calamur

Roundup

The growing governance gap
The Commonwealth Games lessons
Rohit Pradhan

An outdated syllabus
The discredited Aryan Invasion Theory continues to be taught
Jayakrishnan Nair

Books

Muddling along
‘Obama’s Wars’ are also India’s
Barath C

Briefs

Filter
Ravi Gopalan

Alif
Rohan Joshi

Pareto
Amol Agrawal

Infographic
Aditya Diptankar & Dibyo Halder

In Parliament
Legislative Brief: The Companies Bill, 2009
M R Madhavan

Highlights

The good vote banks
How political parties can be compelled to deliver good governance
Atanu Dey

Don't be afraid of the dark
Why some fears over the unrest in Kashmir are overblown
Sushant K Singh
The intensity of stone-pelting by violent mobs in Kashmir valley, which started in June this year, has abated substantially due to firmer policing and bold political outreach by the government. Although violence has largely been suppressed, the situation is not yet fully under control. In this tinder-box scenario, there is a real danger that the situation may flare up again at the slightest provocation. Many analysts, have asked the Union government to assume a more proactive and accommodating approach towards the Islamist separatists. Without some complaisant overtures from New Delhi, they warn, stone-throwing protesters may give way to Kalashnikov-wielding terrorists, from within the valley and from across the border. This, they argue, will take the situation back to full-blown militancy.

Such fears are unwarranted. The armed insurgency has seen a steady decline in Kashmir since 2004 neither because of a change of heart in the Pakistani military-jihadi complex nor due to a wilful choice made by the Kashmiri populace. It followed the declaration of a ceasefire between India and Pakistan on the Line of Control (LoC) in 2003. Pakistani posts could no longer provide covering fire to facilitate infiltration. Border fencing along the LoC in 2004 created a formidable physical barrier making infiltration much more difficult. For its part, the Indian army acquired better surveillance and detection equipment. In addition, the three-tier deployment of the army and Rashtriya Rifles, which evolved from the institutional experience of the preceding 15 years thwarted infiltrators’ plans.
Let us not forget that by the mid-1990s, the insurgency in Kashmir was conducted predominantly (almost 85 percent) by jihadis from Pakistan, with a sprinkling of militants of other nationalities. The small percentage of indigenous Kashmiri youth who were picking up guns had to exfiltrate across the LoC for training and logistics before infiltrating into the valley again. While the security forces eliminated militants in the rural and semi-urban areas of Kashmir, the supply line to replenish declining numbers had turned into a trickle over the years. Consequently, the number of terrorists inside Jammu & Kashmir came down from an estimated high of 3500 in 2004 to about 500 this year.

Two points merit attention here. First, stone-pelting in the Kashmir valley is mainly an urban phenomenon whereas the insurgency was—and whatever remains of it, is—a rural enterprise. It will not be easy for the urban stone-pelter to morph into an AK-wielding terrorist.

Second, post-9/11, Islamist or jihadi terror stands completely discredited as an expression of political grievance the world over. A reversion to full-blown insurgency by Pakistan in Kashmir would only further strengthen India’s case. Moreover, while the Indian state is struggling with handling the current mode of violent protests, it easily has the resources, experience and the capability to take on militancy in a far more effective manner.

Some western analysts contend that since Pakistan has fought three wars with India over Kashmir, it could again be the flashpoint for a fresh conflict between the two nuclear-armed neighbours. However, going by the evidence of last twenty years, India has demonstrated an ability to absorb serious terrorist attacks in Kashmir without getting overly provoked.

Instead, it is a new 26/11 Mumbai-like attack on an Indian urban centre outside Jammu and Kashmir that has the potential of forcing the Indian political leadership to choose a punitive military option against Pakistan. Even there, Pakistan’s nuclear arsenal deters India from pursuing a conventional military option. There can be no better gauge of India’s military restraint in Kashmir than the existing ceasefire on the LoC, which has held in good measure for the last six years. India has persevered with the ceasefire despite frequent violations by the Pakistan army to facilitate infiltration attempts into the state. The decrepit economic condition of Pakistan and the fact that almost 45 percent of its troops are now deployed for internal security duties further precludes the probability of another war over Kashmir.

Many Indian commentators, by contrast, express fears that a continuing situation in Kashmir could be an invitation for US meddling in the dispute. Ever since President Barack Obama took office, Pakistan has been persistently demanding US intervention on Kashmir but to little avail. After his initial attempts as a presidential candidate, when he floated the idea of a special envoy for Kashmir, President Obama now seems to realise that the issue is a red herring in India-Pakistan relations. As Lisa Curtis, a scholar at the Heritage Foundation, has noted, “Kashmir represents Pakistani paranoia about an emerging India. At the heart of the issue is convincing Pakistan that building up its economy is the best way for it to protect its regional interests, not trying to wreak havoc on its neighbours. I think there’s a growing understanding within the Obama administration on this point, so we won’t see the president trying to seek a high profile role on Kashmir.” If India could successfully stave off international pressure on Kashmir in the 1990s, when it was less influential geopolitically, it is now even more unlikely to be rolled over by Washington.

These enduring throw-away lines about India’s inability to tackle stone-pelters leading to a reboot of the jihadi militancy in Kashmir, an India-Pakistan nuclear conflagration, an unwarranted US intervention, or all three eventualities, do not hold good under closer scrutiny. However, this cannot be an excuse to disregard or play down the fact that the governments in New Delhi and Srinagar need to restore peace and normalcy to Kashmir. This cannot be an event; it has to be a process.

The nuances of the process and the nature of its starting point have already been enunciated in the eight-point plan announced by the Indian government. The extant task is to implement this plan with determination. This must be done not because of some unfounded fears, but for the right reason. And that reason is simple: because it is the primary constitutional duty of the Indian state to establish the rule of law and ensure security of all its citizens, including in the state of Jammu & Kashmir.
Robert Frost, the iconic American poet, once wrote: “We dance around in a ring and suppose, but the Secret sits in the middle and knows.” Since defence establishments around the world struggle with justifying the costs of securing national defence, a question must be asked: is there a ‘secret’ to defence procurement, one that allows consistently maximum defence at minimum cost?

The answer probably lies in the goals of each national establishment. In the era of preponderant American power, second-tier powers, such as those in Europe as well as Australia and Japan, have been able to ‘outsource’ their extended deterrence to the United States. By doing so, they are essentially bandwagoning with American power, while focusing the bulk of their attention on domestic development.

At the highest level for any modern state, decisions on procurement for national defence are influenced by force sufficiency in relation to perceived threats. However, secondary concerns such as national prestige...
and commitment to alliances also weigh on budgets. Arguments about technological sophistication in relation to the perceived threats are subsumed by those about force sufficiency.

A key variable in the attempts of defence establishments worldwide to maintain technological advancement is the size of the domestic market. In the recent past, attempts in Europe to innovate independently of the United States in projects such as the Eurofighter Typhoon and the Airbus A300M have been beset by inflated costs in part due to the size of the anticipated market for each system in relation to their level of technological advancement.

The US spends twice as much on national defence as the rest of NATO combined, and about 50 percent of the money spent by the rest of the world put together. Its defence establishment, focused on the maintenance of a technological edge over any perceived or future competition, prizes the culture of innovation. That culture of innovation is fed by the size of the US domestic market—the US defence budget is close to $700 billion annually. Development contracts are frequently funded on a “cost-plus” basis, leaving no incentive for competing vendors to cut costs. Concomitantly, instead of over-specifying requirements, US military users usually specify a problem set and let the vendor community innovate and suggest a solution. The way most programmes are run, two competing solutions are chosen to receive funding through to prototypes.

Partly as a consequence of this premium on innovation, several US programmes in the recent past have suffered cost overruns against their planned budgets. Yet, as the US values maintaining its technological edge on the battlefield, this core theme will likely survive the structural changes that are being sought by Robert Gates, the US defence secretary.

In response to cost overruns, multilateral co-developments have been sought by countries in the last decade. Projects such as the F-35 and the Typhoon are two examples of such co-developments, but they’ve each had their own problems in managing costs. Regardless of these problems, one sees more co-developments in the future as they are a way to share innovation risk across national boundaries.

For many of the other major defence manufacturers in the world—Britain, France, Russia and Israel—their domestic markets are not large enough to sustain cutting-edge innovation and deliver solutions for national defence. Their defence industrial bases need to export to survive.

One measure of the need for countries to export for the sake of their domestic industry is the volume of total exports as a percentage of the total defence budget. For the United States, that figure is around 3 percent. For Britain, about 20 percent; Russia 21 percent; France 25 percent and Israel, 42 percent.

Therefore, for each of these countries, positioning their industry for exports might play a key role in decisions on domestic procurements.

However, that doesn’t completely hold in every case. For instance, France can be seen as different from Israel, which used offsets to build several parts of its domestic industry into key cogs in global supply chains for major defence companies. South Korea is another example of the latter paradigm: for instance, it used offsets from the F-16 program to develop an advanced jet trainer which could be exported to the United States and other countries.

All of this is intended to preface a discussion about India and defence procurement. While there are signs of change, the Indian system is set up to procure defence equipment in a product-based, low-cost approach. Only the Future Infantry Combat Vehicle (FICV) program is the first major procurement to be classified as ‘make’. It will follow the US model, where two competing test-beds will be funded up to 80 percent by the government.

Services Qualitative Requirements (SQRs) frequently over-specify requirements, and trials are mandated on a no-cost/no-commitment basis, which can create a vendor-adversarial environment. Not just in India, but in any country, procurements conducted as pure case-by-case purchases can turn into a high-tech bazaar as the premium is on cost.

The scale of India’s foreign procurements, as its armed services undergo modernisation, has drawn the

India should base its procurement decisions partly on which option would permit Indian industry to export the most.
interest of foreign vendors, but the conditions under which some procurements are conducted has forced some of them to withdraw.

Rather than focusing on procedural issues in this debate, which are technicalities, one would pose a more high-level question: in light of a detailed offset policy and a stated goal to energise the Indian defence industry into being a major exporter, should India base its procurement decisions partly on which purchase option would permit Indian industry to export the most? To do that, the scale of the existing global supply chain for a specific technology or system must be factored into the procurement decision.

Traditionally, India’s defence establishment has placed a premium on ‘self-reliance’ as guiding procurements. However, to date, the level of technology transfers that have come into India for licensed production have not created a vibrant industrial base that is able to innovate. Offsets by themselves are not a vehicle to redress this gap, unless accompanied by a national strategy that focuses on targeting their benefits to create or incentivise the development of globally capable companies, whose products can be exported.

While India’s defence procurement budget is growing, by scale that budget is comparable not to a country like the United States—whose domestic market is large enough to subsidise innovation without export—but to other major exporter countries who seek technological currency domestically.

If India wants its domestic industry to attain technological currency for its own forces, it might do well to give them every chance and incentive to succeed at exports. To do so may mean basing foreign procurement decisions on factors such as the offset-incentivised export potential that would accrue to Indian industry.

There is no ‘secret’ to providing for maximum national defence. Every country struggles with justifying the large amounts appropriated from its national exchequer for this purpose. But, for India, the key question remains to be answered—how much does the national establishment place a premium on the growth of its defence industry, public and private?
Imagine a deadly computer virus makes its way around a well-guarded, critical industrial complex—say a nuclear plant—sabotaging its operations by sending bad commands to the centrifuge controller. “Storyline of a B-grade Hollywood movie,” you might say. The Stuxnet worm, a piece of malicious software or malware, whose origins are yet unknown, is designed to do such things.

The Stuxnet worm (or more accurately, W32.Stuxnet) was first reported in June 2010 but its roots can be traced back to June 2009. It was specifically written with the intention of compromising industrial control and monitoring systems, often called Supervisory Control and Data Acquisition (SCADA) systems, by reprogramming the programmable logic controllers (PLCs) used within them. However as one would expect, these systems and PLCs are usually not connected to the external world. The Stuxnet worm works around such measures by attacking the PLCs through machines that are used to program them. These are typically computers using versions of Microsoft Windows operating system and running special software in it.
What is interesting is the length to which Stuxnet’s creators have gone in order to attack these Windows systems. Stuxnet uses an unprecedented four 0-day attacks (that are previously unknown to the maker of the software) with the aim of compromising these computers, targeting those installed with the Siemens WinCC/Step 7 program used to control Siemens PLCs. Four 0-day attacks being used by a single worm is unheard of in the exploit community.

Stuxnet has several more firsts to its credit. In addition to being the first malware to specifically attack critical industrial infrastructures, it is the first known malware to use a rootkit to hide itself within the PLC, in addition to hiding itself in the computers used to program them. To install itself on the Windows machine, Stuxnet makes use of two different stolen digital signatures to sign the malware code.

All this effort to what end, you may ask. While it is still a theory, many researchers think that, given the geographic distribution of the infected machines and the very specific nature of the attack payload, the Stuxnet worm was written to attack and disrupt the Iranian nuclear programme, specifically its reactors. Some feel that it was targeting the Bushehr nuclear power plant while other think that the nuclear fuel centrifuge facility at Natanz was the target. The possible targets, along with the level of sophistication required to develop the malware suggests at a government-level effort, perhaps originating in the United States or Israel. While wild theories and attribution “proofs” will keep flowing for some time to come, it seems like a safe bet to say that proper attribution will remain elusive.

While Iran appears to be the main target, Indian interests might have suffered some collateral damage in the process. According to Symatec, an internet security firm, India had the third-highest infection rates, after Iran and Indonesia. However, before one jumps to the theory that India might also be an actual target, it is prudent to also note the numbers from Symantec about the percentage of Stuxnet-infected hosts with Siemens software installed—India occupied a distant seventh place, behind Iran, South Korea, USA, UK, Indonesia and Taiwan.

Jeffrey Carr, a noted authority on cyber security, suggested in a blog post published by Forbes that the glitch experienced by India’s INSAT-4B communication satellite on July 7th could be the handiwork of the Stuxnet worm. The glitch, attributed to a power supply anomaly in one of its two solar panels led to the shutdown of 12 of the 24 transponders on the satellite. Carr bases his hypothesis, partially at least, on the fact that the Indian Space Research Organisation (ISRO) is a Siemens customer and that two former engineers’ resumes seem to suggest that Siemens PLC and WinCC software were used by ISRO’s Liquid Propulsion Systems Centre.

For its part, ISRO has ruled out the possibility that Stuxnet could be the source of the trouble, stating that “INSAT-4B doesn’t have a PLC. So the chances of the Stuxnet worm attacking it appear remote.” Such an argument however does not pass muster though. The absence of PLCs onboard the satellite does not isolate the satellite from the worm. Given that INSAT-4B has been operational since March 2007, well before the estimated origin of the Stuxnet worm, the question of whether the hardware on the satellite is itself comprised does not arise. Rather, the question is whether any of the systems that interact with the satellite from the ground station, for example, passing commands and instructions that govern, say the deployment of the solar panels, use Siemens PLCs and further whether any of them were compromised.

**Stuxnet was specifically created as a weapon in the cyber war arsenal of an entity, likely a state.**

This is not to say that the glitches are the result of Stuxnet. After all, the W2M satellite that ISRO built with EADS Astrium had similar problems when it was being moved from the test orbit to the intended orbit in 2008, leaving the satellite unavailable for service.

Whatever Stuxnet may or may not have done, its appearance in the malware and cyber security landscape has changed the scene for ever. Earlier, claims that industrial systems could be attacked using malware were considered outlandish. Post-Stuxnet, communication satellites, nuclear reactors and other industrial systems will be considered vulnerable. At the same time, Stuxnet has shown that digital confrontation is no longer about cyber-vandalism or cybercrime anymore. Its developers were not interested in either of them. The general consensus is that

*Continued on Page 12*
Two former colonies of continental size, ethnically diverse and home to vibrant democracies, are finally starting to fulfil their potential, lifting millions of citizens out of poverty. Liberalisation in the 1990s allowed smaller, more dynamic businesses to flourish, while the largest companies cause fear and admiration abroad as they go on global shopping sprees. Prospects are bright, but serious challenges remain. Among the issues that India and Brazil need to address in order to continue their rise in the global economy and fulfil the aspirations of their citizens are the environment, the tax system and education. These shared challenges can be addressed by deepening bilateral co-operation and share lessons learned, which would allow both to contribute to global public goods.

The dismantling of the “license raj” ushered in an era of economic liberalisation and growth unprecedented in India’s independent history and exemplified by its swelling middle class. But the environmental impact of India’s rapidly urbanising population and rising energy consumption are major causes of concern. While India’s entrepreneurial energies are crucial
to its progress, setting rules about what private industry can do and where is vital to the sustainable growth of the country. This calls for clear guidelines that balance the needs of industrial development with concerns about the environment. Here, India can learn from Brazil, which remains, despite its growth, the cleanest big economy in the world. Eighty percent of Brazil’s electricity comes from hydropower, and it is the world’s largest producer of sugarcane-based ethanol, which India could consider in its future energy plans.

The two countries’ appeal to the global economy rests on the size of their markets. India, with over 1 billion consumers spending almost $600 billion a year, is projected to be the third largest economy in the world by 2050, with Brazil in the fourth spot. India’s innate economic dynamism and a growth rate, humming to the tune of 8.8 percent, have put it at the centre of the world economic stage. But take a closer look and it becomes clear that India is not one market, but 28 states, each with different tax regimes. Similarly, in Brazil, the tax system is so convoluted that leading Brazilian entrepreneurs concede in private that it is impossible to grow a business in Brazil while strictly following the rules.

Tax reform is widely recognised as a crucial step towards establishing a coherent fiscal system, tackling tax evasion, improving transparency and making both countries more competitive and attractive for global investment. India’s nationwide Goods and Services Tax (GST), arguably the single most important project in the fiscal history of India, has been pushed back to 2012. As rapidly growing economies, Indian and Brazilian leaders must put forward an intellectual vision and bring to the table a clear agenda on fiscal reform around which they can build broad consensus at home. An Indian-Brazilian exchange of best practices on reform could potentially help matters, not only on a technical level, but also with regards to overcoming political veto players that invariably exist in tax reform.

Finally, education often seems like the most obvious priority. India and Brazil share a vision of achieving universal education for their citizens and expanding opportunities for future generations. They are proactive in international debates including the Millennium Development Goals (MDG), which, amongst other pledges, promises access to primary education for all children. Because of their shared values, India and Brazil should work together to realise their shared interest of achieving universal education for all. Yet shockingly little has been done. India and Brazil are on the rise because their people have been set free to change the world—as entrepreneurs, thinkers, factory workers, and in many other activities. Still, large numbers of Indians and Brazilians remain hostage in a system that prevents them from obtaining basic education.

Brazil has been successful at tackling the issue, developing a cash-transfer program to parents dependent on their children’s regular school attendance and successful participation in class. The approach has been copied in several Latin American and African countries, so there is a chance it could work in India as well. On the other hand, in higher education, it is India that might be able to help Brazil get reform under way. While Indian institutes producing thousands of top-level graduates and promote social mobility, there are so few spots in Brazil’s top public universities that only rich students who attended private high schools pass the qualifying exams.

The environment, tax reforms and education are areas for India and Brazil to take intellectual leadership.

To be sure, relations between the two rising powers have not always been rosy. Following India’s independence in 1947, Brazil supported Portugal’s quest in keeping Goa, a strategy condemned by the Indian government. The following decades witnessed an improvement of bilateral relations and the alignment of India and Brazil during the Cold War in multilateral institutions such as UNCTAD, G-77 and today in the WTO. In 2011, India, along with South Africa, will join Brazil at the UN Security Council in a collection of regional economic powers which will give these expanding economies considerable political clout. IBSA, a trilateral alliance between India, Brazil and South Africa, could serve as the platform for expanded knowledge exchange.

It is time for Indian and Brazilian leaders to take a bigger step in moving forward their co-operation within bilateral and multilateral mechanisms. Beyond the UN and IBSA, a deepened India-Brazil cooperation would also have far reaching impacts on the Millennium Development Goals; global financial governance by coordinating action with emerging markets; trade negotiations in the WTO;
and on nuclear non-proliferation issues.

While each nation contends with its own competing priorities, their shared challenges and the existing landscape of common interests should enhance cooperation between the two rising powers, which in turn could yield positive results for the security, prosperity and aspirations of millions of their citizens, and by extension the global community. Working together, India and Brazil can expand the intellectual leadership for their peoples, continue their success stories and provide the developing world with two powerful examples that democracy is no obstacle to prosperity.

The dawn of offensive cyberwarfare.
Continued from Page 9

This piece of malware was specifically written to be used as a weapon in the cyber-war/cyber-terrorism arsenal of some entity, most probably a nation-state.

India’s apex security policy-makers must take urgent note of this development and its strategic implications. We might not have been the targets this time, but we could easily be the next time around. How should India defend against such cyber attacks on its critical infrastructure? Should India be developing such weapons? What will be the rules of engagement for using such cyber-weapons? How will collateral damage be controlled? Need it be controlled at all, especially given that attribution is so difficult? These are just some of the questions that Stuxnet has pushed to the forefront of the discussion. The days of cyber-warfare are nearer than what many thought they were.

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While a holistic assessment of Chinese objectives on roads, railways and ports around India remains to be carried out, it is interesting to ask how do the Indian populations living in proximity to these developments interpret them?

In late 2009, the author undertook a trip to the border areas in Arunachal Pradesh—with much appreciated assistance from government officials there—as part of a wider trip that included China. Field research threw up some unexpected conclusions: most surprisingly, that the perception of Chinese threats that pervades the Indian policy community’s psyche is not shared by the border populations.

On the other hand, local people largely feel neglected by the Indian government. They think that if the Indian government is serious about developing the roads in the region (and thus helping to develop the region itself), this could be done faster by inviting global tenders and by using advanced technologies. Instead, the government is relying on the Border
Road Organisation (BRO), which seems incapable of delivering timely projects in Arunachal Pradesh.

From China’s point of view, the subcontinent offers a long and inviting coast, giving China’s western regions commercial access to the seas. For these Chinese regions, such access is important in order to achieve economic growth and resource diversification. Chinese politics on access to the Indian Ocean revolve around two basic ideas. First, significant investment in such access aims to broaden China’s economic rise. Second, these new routes of transportation will be bearers of Chinese influence. China’s western regions lag economically far behind those of its own coastal regions. Hence, transport networks in China, and those Beijing helps fund and build in neighbouring countries, are aimed at reducing inter-regional inequality, improving resource supplies and ensuring national security and unity.

China’s outward-oriented policy towards its subcontinental neighbours should be seen as partially addressing the key sources of domestic instability, including ethnic violence, unemployment, income inequality and cross-border criminal activity. Beijing wants to maintain a stable external and internal environment to continue its economic development. China thus mostly wants peace and tranquility on its periphery. More importantly, the Chinese do not see their relations in region as focused only on a competition with India.

The growing Chinese transport network aims to achieve its own economic purposes, not the strategic encirclement of India as argued by many analysts. It is largely driven by commercial interests and aims to secure supplies of energy, natural resources and minerals over the long term.

India’s strategic thinkers prefer to believe otherwise. They argue that for the last several decades, China has been engaged in efforts to create an anti-Indian sentiment and capability in surrounding countries, through military and economic assistance programmes tied to a stepped-up diplomacy. Unlike China’s ties in East Asia, where they accept that China’s objectives are largely economic, they believe that in South Asia, China’s aims are primarily geo-political and military in content. For them, China remains the most threatening factor for Indian national security.

Voices from the field in the border region, however, bring a different perspective. Local people see Chinese roads and railways as an opportunity for India. China’s economy, finance, and exports are all much more globalised than those of India. Many view talk of ‘strategic encirclement’ and a Chinese ‘string of pearls’ strategy (involving naval installations on India’s periphery) as misinterpretations of Chinese strategy and as over-reaction to some facts on the ground. And China, of course, like India but on a larger scale in keeping with its greater resources, is investing in its military capability and undoubtedly seeks to extend its strategic reach.

Though there may well be a military component in Chinese activities in countries on India’s borders, this author’s research suggests that it is not the primary motive. China’s priorities are protecting its sovereignty and territorial integrity, promoting economic development and generating international respect and status. Areas where roads and railways penetrate are opened up and greater contacts between peoples are established. Are India’s priorities much different?

Local people see Chinese roads and railways as an opportunity for India.

Perhaps as a legacy of the Raj, it was long held that an undeveloped border region in the North-East enhanced the security of the heartland as roads and bridges might provide easy connectivity for inimical forces—not necessarily armies but a variety of subversive elements, arms and drug-runners, smugglers and even legitimate traders who might overwhelm the national economy by dumping cheap consumer goods. But for the local population, whose development has lagged painfully, roads and bridges mean fresh possibilities for trade, quick supply of goods, closer linkages with the rest of India and a great expansion of inter-village amity in the interior. Their needs should be recognised and respected by India’s strategic community, while local populations must accept that borders more open to economic intercourse with China will offer some risks to the country beyond the obvious opportunities involved.
Tibetan natural resources

ROGER HOWARD states that relations between Beijing and Lhasa would be defined by the region’s natural resources and ‘development’ of the region would either strengthen or dissolve these political ties in the backdrop of ambitious Chinese plans to make Tibet an important ‘strategic resources reserve base’. In an article for the Chatham House publication, *The World Today*, “Tibet’s Natural Resources: Tension Over Treasure”, he states that the extraction of Tibet’s resources could not only shape the political relationship between Tibet and China but also have global repercussions giving China political leverage over countries importing those resources.

Geo-economics redux

Mark Thirlwell, director at the Lowy Institute, avers that the current international environment marked by an increasingly dense entanglement of issues related to international economics, national security and foreign policy lends itself to a return to the idea of geo-economics with key issues around multi-polarity, *pax mercatoria*, globalisation, state capitalism, resource scarcity, risks arising from the global financial crisis. In a *Lowy Institute Perspectives* article, “The return to geo-economics: Globalisation and national security”, he concludes that this could lead to two potential consequences: an improved quality of analysis with inputs from economics, foreign policy and security while these would be tempered by underlying assumption of zero-sum outcomes.

Analysis of online jihadism

MOHAMMED ALI MUSAWI of the Quilliam Foundation states that counter-extremism initiatives needed to make a clear distinction between attempting to de-radicalise existing extremists and preventing new generations from adopting such ideologies in the first place. He calls for greater efforts to challenge the ideology, rhetoric and worldview of pro-Jihadists forums in both the ‘cyber’ and the ‘real’ worlds, with special focus on countering wahhabism, publicising refutation of jihadism by reputed Islamic scholars as well as former jihadists. In a Quilliam Foundation report, “Cheering for Osama: How Jihadis Use Discussion Forums”, he provides fresh insights into the workings of Arabic-language pro-Jihadist web forums, shedding new light on the ideologies, recruitment strategies and social dynamics of these forums and illuminating the role that these forums play in distributing and popularising jihadist texts, videos and statements.

Diyuán zhèngzhì

FRANCOIS GODEMENT, director of the Asia Centre, Sciences Po, analyses content in Chinese language publications in China, Hong Kong and Taiwan to state that Beijing’s defensive and cautious approach based on conflict avoidance was a temporary strategy – intended to be applied while China rose and Beijing would run its writ unconstrained once its ascent was complete. In a *China Analysis* article for the European Council for Foreign Relations, “Geopolitics on Chinese terms”, he states that the concept of Beijing as a responsive stakeholder was getting outdated since it was not interested in norm-setting beyond the principle of non-interference. He avers that the Chinese strategic community itself was in a state of flux with its focus to partnership driven more as a tactic to prevent its own strategic encirclement.

Dancing with elephants

ABDULLAH AL SHAYJI of Kuwait University calls for concerted efforts by both the GCC and India to expand strategic cooperation beyond energy, trade and expatriate workers. In an article for *Gulf News*, “Learning to dance with India”, he states that India had a future role in Gulf security while contentious issues such as the GCC-India FTA and rights for expatriate workers needed to be addressed by both India and the GCC.

Capital flood

ARVIND SUBRAMANIAN of the Peterson Institute argues against opening up the floodgates to the capital sloshing across the world in an environment of mercantilistic policies across the world with countries across the world doing their best to repel capital. In an op-ed in *Business Standard*, “Reserve Bank of India’s Fateful, Fatal Action”, he argues that improving governance and regulatory reform rather than access to foreign capital was the need and that the RBI may be trading away a bird in hand (the tradable sector) for the bird in the bush (infrastructure).
**Erdogan in Pakistan**

In his October 18 column, Hamid Mir contrasts Turkey’s Prime Minister, Recep Tayyip Erdogan, with Pakistan’s own leaders. Unlike many Pakistani leaders, Mr Erdogan, the writer says, wasn’t educated in U.S. or British universities, but educated in Istanbul. Mr Mir argues that Recep Erdogan is not just Turkey’s leader, but also one of the great leaders of the Islamic world. He applauds the prime minister’s leadership and efforts made to help those displaced by floods in Pakistan. Mr Mir, who accompanied the prime minister on his visits to the most affected areas, says that Mr Erdogan reminded him that Pakistan had stood by Turkey during the 1999 earthquake, and that Turkey would stand by Pakistan in its time of need. Mr Erdogan, the writer says, appealed for Pakistan’s leaders to unite to tackle Pakistan’s problems. Mr Erdogan, in conversation with the writer, said that his government chose to challenge the supreme court because of laws that had been put in place by Turkey’s past military dictators. Mr Mir is struck by the contrast in Pakistan, where Mr Gilani’s government is fighting to keep accountability out of government (a reference to the NRO controversy). The writer suggests that Mr Erdogan was able to challenge the supreme court, because he had the backing of the people of Turkey, while Mr Gilani will likely not be able to do so, because his government chooses to support Musharraf-era NRO laws, which give immunity from criminal proceedings to leaders like President Zardari.

**Taxing NATO supplies**

In its October 11 editorial, the *Jang* asks for a conditions-based agreement with the U.S. on reopening Torkham border crossing between Afghanistan and Pakistan (which was closed after NATO helicopters across the border resulted in the death of three Pakistani FC personnel). The editorial argues that the Pakistan-Afghanistan transit agreement has always been more favourable to Afghanistan. It suggests that commodities transported across the border including diesel, petrol, meat and vegetables, are smuggled back to Pakistan and sold at inflated rates. Similarly, the editorial states that while Pakistan sells diesel to NATO/ISAF forces at Rs. 20, it is considerably more expensive to ordinary Pakistanis. The editorial therefore recommends that Pakistan levy a heavy tax on NATO trucks and tankers that travel through Pakistan, for the upkeep and maintenance of Pakistan’s roads. It also suggests that supplies of commodities for ordinary citizens have been affected at having to support NATO and ISAF forces, which has given rise to a smuggling industry and inflated commodity prices. It draws attention to the fact that suicide rates have increased in the border areas, because people are unable to afford commodities at such inflated rates. The editorial also recommends that Pakistan should provide meat, vegetables, fruit and other commodities, only after the needs of its citizens are first met.

**Elections in Egypt**

Essam el-Erian, a leader of Egypt’s Muslim Brotherhood, writes in *al-Akhbar* about the soon-to-be-held parliamentary elections in Egypt and the controversies surrounding the elections. He is pessimistic about the chances of opposition parties to pose a serious challenge to the president Hosni Mubarak’s National Democratic Party for several reasons. Mr al-Erian believes that the opposition is composed of elites and independents, which has made it difficult for them to present a united front against the ruling government. This, he believes, is pushing the country to a standstill and poses a real danger to undo the gains of the 2005 election, which saw a united opposition’s demand for free and fair, judicial-supervised elections held in Egypt. Mr al-Erian strongly criticises the ruling government for “terrorising” Egypt’s news media and journalists and for silencing voices that were critical of the government. Mr El-Erian uses the case of Ibrahim Issaa, who was terminated as editor of *al-Dostour* for refusing to tow the NDP’s line. He says opposition parties and citizens have a responsibility in ensuring that free and fair elections are held in Egypt.

**HRW’s haste**

Maysa Ghadeer criticises Human Rights Watch (HRW) in her October 22 op-ed in UAE’s *al-Bayan* for bringing to notice the UAE Supreme Court’s ruling that a man was entitled to “discipline” his children and wife so long as it does not “leave marks” on them. Ms Ghadeer says that the ruling of the UAE Supreme Court, which took up the case from a Sharjah court, had only been announced two days prior to HRW’s report, which she feels, isn’t sufficient time for HRW to have read and understood the Supreme Court’s ruling. She accuses HRW for being hasty in its criticism and reminds readers that the UAE ranks first among Arab countries in the global index for equality among men and women. The UAE, Ms Ghadeer argues, has initiated several projects for women’s empowerment and has opened shelters for victims of domestic abuse. She suggests that HRW’s report is painting with very broad strokes and that such organisations do not have any right to comment on judicial decisions within countries.
Macroeconomic models suffering from pretense of knowledge syndrome

The global economic crisis has led many economists to ponder and rethink over their economics tools and models. In particular, macroeconomic modeling has come under severe criticism for being based on unrealistic assumptions which gave policymakers and economists false beliefs over the state of economy.

RICARDI CABALLERO in a paper titled "Macroeconomics after the Crisis: Time to Deal with the Pretense-of-Knowledge Syndrome" says that the core economic model has become so ingrained in economists that changes are difficult. These models are very attractive and sophisticated but fail to capture reality. The other models that matter and have variables like leverage, financial cycles, credit and so on are part of the periphery and are not admired. He argues that we should not pretend that the core models are solving any real problems. In other words, we are living in pretense of knowledge.

The focus in these models has been to aspire for micro-theory-like precision. He notes that there has been a pendulum shift in macroeconomics over the years as earlier there was not so much focus on maths and models. Both are extremes and a middle way needs to be worked out. It is a big challenge but macroeconomists can no longer continue playing internal games. The alternative of leaving all the important stuff to the "policy"-types and informal commentators cannot be the right approach.

LAURENCE MEYER, a former Fed board member, recently criticised the current models in an interview with Cleveland Fed. He points out that there are two kinds of models—one the old model which was quite good. And now we have these modern macro-models which are used only to get published in journals.

The crisis has led economists to think deeper about macro tools and their limitations. More is likely to follow in days to come.

Economics of foodgrain management in India

KAUSHIK BASU, chief economic adviser at India’s finance ministry has a very timely paper on a very complex and least understood issue—foodgrain management in India ("Economics of foodgrain management in India").

Mr Basu suggests that foodgrain management involves three functions—production, procurement and distribution. Most of the time we either criticise production (low yields, lack of productivity) or distribution (food stocks rotting but people dying of hunger, for instance). However, the policies of government procurement also need to be looked at. Trying to correct one segment of this complicated system is likely to end up in failure or, at best, have limited success.

Mr Basu notes two different motives for foodgrain procurement by the state—to provide food security to the vulnerable population and to even out foodgrain price fluctuation from one year to another. Further, how we procure the food has an impact on how the government releases the food, and vice versa. There is a paradox in government food policies. First, it keeps the Minimum Support Price (MSP) higher than the market prices to help the farmer. Second, if it sells the foodgrains above the MSP it is costly for the public. If it sells at a lower price it leads to fiscal deficit. So, what should it do?

Mr Basu explains that procurement cost is a sunk cost and not selling it will add to fiscal deficit anyway.

The paper argues that the government should not waste too much energy thinking that large percent of grains will be bought by traders who will hoard it and sell it at profit. In order to prevent people from making profits, government ends up hoarding a large part of grains which does not help anyone. Instead, the idea should be to let people make profits and get the overall government objective right.

Importance of program design in education programs

RAJASHRI CHAKRABARTI has an insightful paper on the importance of programme design and incentives ("Design of Voucher Programs Is Critical to Achieving Education Policymakers’ Intended Outcome"). It deals with the education voucher programme in US which allows students to shift from public schools to private schools. It gives scholarship to students for the switch. He studies two such programs in Milwaukee and Florida.

Under the Milwaukee programme, vouchers were imposed from the outset so that all low-income public school students became eligible for vouchers to transfer to private schools. In contrast, schools in the Florida programme were first threatened with vouchers, with students of a particular school becoming eligible for vouchers only if the school received two “F” grades in a period of four years. Unlike the Milwaukee schools, threatened Florida schools had an opportunity to avoid vouchers. The study shows that the performance effects of the threatened public schools under the Florida program exceeded those of corresponding schools in Milwaukee. This is an important finding as it shows how careful design can help increase the success rate of public policy programmes. It also helps lower expenditure on such programmes as in the case of Florida. By merely threatening schools, better performance was achieved and there was no expenditure on vouchers as well.
Markets and democracy are arguably two of the most elegant and useful creations of humankind. Like twins, they are often found together, and naturally share some features. They are alike since both involve collectives of humans behaving strategically. A study of markets and how they succeed or fail to deliver the socially optimal outcome can illuminate how the workings of a real democracy with its real failures can be improved.

Economists do it with models, often very elegant ones. Beginning with models of ideal markets, they have identified what are called market failures that plague markets in the real world. They have discovered ways to address those failures so that real markets can be nudged to grind out results closer to that of ideal markets. Consider the work of Peter Diamond, one of the three winners of this year’s Nobel prize in economics, which includes the study of labour market imperfections and their consequences.
Mr Diamond’s insight, called the Diamond Paradox, involves the friction introduced by search costs in the functioning of labour markets. Workers incur the cost of searching for jobs, and firms incur the cost of recruiting workers. Add to that the matter of expectations, and the outcome can deviate from that of an ideal labour market. If the workers’ expectations are that firms will strenuously seek recruits, workers will expend effort in job seeking; and if firms anticipate workers will carefully examine job opportunities, firms will put effort into differentiating themselves to attract the most suitable workers. The outcome, or equilibrium, will be good for all.

Instead, if both parties’ expectations are that the other party will not bother much, then the outcome will be disheartened workers and uninterested firms leading to unemployment, or a bad equilibrium. The paradox is the existence of unemployed workers simultaneous with job vacancies.

Outcomes depend on the aggregation of individual expectations. If a sufficiently large number of individuals expect a certain outcome, then the outcome expected could indeed influence what actually happens. This can be understood through Mr Diamond’s fun little “coconut economy” model. It is set on an island far away where people consume only coconuts which they harvest from palm trees. However, due to a peculiar taboo, islanders are forbidden from eating the coconuts that they pluck themselves. Since they can only eat coconuts plucked by others, they must find another person with coconuts and trade.

It is costly to pick coconuts since it means climbing a palm tree. If an islander expects no one else to gather coconuts, then it will be pointless for her to incur the cost of picking coconuts since she will have no one to exchange them with. This will be a rational expectation if all others also have the same expectation, and the predictable outcome will be starvation all around. Contrariwise, if everyone believes that a sufficient number of others will also pick coconuts, then a vigorous coconut market will evolve with full tummies all around.

Moving from markets to democracy, substituting voters for workers, and political parties for firms, we can see an analogous mode of failure for a democracy. Like for workers in a labour market, the voters’ rational expectations about the usefulness of their vote on the aggregate can lead to either a good or a bad outcome.

Democracy is not just about voting but rather about informed choice. It is costly for voters to inform themselves about political parties. Besides there’s time and effort required to vote. If the expectation is that others will not be making the personally costly effort of making informed choices, then the individual voter will rationally conclude that it is not worth the cost of informing himself about which party best deserves his vote and then voting—because his vote would not count in the outcome he desires.

Political parties, in their turn, noting that voters are not bothering to inform themselves, or are disinclined to vote, will rationally not put in any effort in the costly endeavour of differentiating themselves to appeal to voters. The outcome will be disastrous: first, no political party puts in any effort in attracting informed voters; and second, a set of political parties that are hard to differentiate. The parties then don’t bother to address the concerns of voters and thus misgovern without fear of consequences. The desirable outcome would occur only if voters expended effort required for informed voting, and political parties responded appropriately to the voters’ efforts.

We should create a coalition of voters who commit to voting, and choosing the candidate to vote for based on a set of shared values.

One mechanism to nudge democracy from the bad equilibrium to the good equilibrium readily comes to mind. That is, somehow change the expectation of the voter from one that says that his vote does not matter (which would be rational if he believes that others will not be voting) to one that says his vote matters (because others will also be voting.)

Our voter will vote if he is assured that sufficient numbers of like-minded voters will also vote. This can be achieved by creating a coalition of voters who ex ante commit to voting, and this coalition choosing the party or the candidate to vote for based on a set of values shared by the members of the coalition.

Let’s consider this in the context of Indian urban middle-class voters. It is generally known that
The travails of the micro-finance industry is a throwback to one of the oldest debates in development policy-making—how do we channel the creative energies of capitalist enterprise as bootstrap for the poor? In present context, the government’s regulatory response could become a test case for the future of business-driven social welfare in the country.

A number of high-profile suicides, allegedly driven by harassment from usurious micro-finance institutions (MFIs), and revelations of unsettling governance issues in the industry have offered the government the perfect reason to intervene and seek to tame the micro-finance industry with some stern regulation. The realisation that super-normal profits are being made by MFIs, exemplified by a recent spectacularly successful Initial Public Offer (IPO), has only added grist to the mill of those calling for strong government action.
In recent years, MFIs have proliferated in response to the huge, un-met credit demand among the poor, arising partially from the government’s own inability to provide universal access to formal credit mechanisms. Unlike the bureaucracy-layered loans grudgingly given by the scheduled banks as part of their priority sector lending to government-managed self-help groups (SHGs), MFI loans come with the red-carpet rolled-out.

While SHG members are forced into making multiple visits to bank branches, MFIs offer loans at the doorstep with minimal paperwork and procedural formalities. The always-available nature of these MFI loans, as opposed to the still-distant nature of bank micro-loans, ensures that they fulfill the critical timeliness requirements of poor people.

These deficiencies of SHG bank-linkage program are typical of the last-mile gaps that characterise government programmes and contribute towards what Narayan Ramachandran, fellow at the Takshashila Institution, describes as an Implementation Deficit Disorder. Despite all the right intentions and well-conceived implementation plans, governments have repeatedly fallen short on achievement of outcomes with these welfare schemes.

Their growth though has come with several concerns—illegal strong-arm tactics to recover loans, unethical practices that conceal the true cost of loans from unsuspecting borrowers, and so on. However, MFIs are only the latest in the long-line of businesses that have seized the opportunity to exploit the massive profits that characterise virgin markets and left important corporate governance issues to be addressed. The task now should be to get MFIs to shed their predatory and unethical business practices and start to function like normal businesses.

The public policy discourse on MFIs should therefore address the issue of separating the obvious benefits of micro-loans and the capitalist efficiency of micro-lenders from the corporate governance failures that bedevil the industry. Unfortunately, instead the debate is being formulated in terms of ideological shibboleths that excoriate greedy money-lenders for profiting from poor people’s misery. The instinctive answer to such questions is stringent regulation—interest rate caps, severe punishments and maybe even outright bans.

But, as experiences elsewhere show, strangulating regulations are not the answer to complex problems, especially when the state neither has the capability nor the commitment to enforce them. Regulations have to be supplemented with strategies that can align the profit-maximising incentives of micro-lenders with achievement of the desired public policy objective of expanding access to formal credit mechanisms.

Over three decades after Mohammad Yunus revolutionised the micro-credit model, for-profit MFIs have become important stakeholders in the space that caters to the bottom of the pyramid (BoP). Over the last decade, several private companies have entered the market in India and it is estimated that there are about 13,000 MFIs functioning in the country. The top three alone serve over 13 million customers and having cumulatively disbursed thousands of crores of rupees.

While functioning on a scale as large as this and that too without any regulation, it should hardly have come as a surprise of certain corporate governance failures. After all, as recent financial market events have shown, even the ostensibly well-regulated financial market institutions have not shied away from adoption of unethical business practices.

The obvious benefits of micro-loans must be distinguished from the corporate governance failures that bedevil the industry.

However, governance issues are not reasons enough for policy makers to hit the panic button and bring the hammer down on an entire industry. There are several small MFIs, working in the spirit of entrepreneurship, who contribute towards providing credit in some of the remotest areas. In any case, the role played by MFIs and their continuing importance in taking forward the agenda of financial inclusion cannot be overstated.

A possible approach would be to either regulate or, preferably, use moral suasion to encourage MFIs to reimburse the borrowers a share of profits beyond a pre-defined and acceptable bound as interest subvention bonus. This would also enable transparent price-discovery on interest rates which reconciles both the commercial imperatives of the MFI and the reasonableness of the interest rate borne by the borrower. Another strategy
would be to capture some of the super-normal profits in the form of a graduated system of taxation. The administration of both these strategies could become dramatically simpler with the coming of Aadhaar, the Unique Identification (UID) and the introduction of UID-linked bank accounts.

Ironically, the prevailing development discourse restricts “inclusion” to the demand-side—the welfare receiving citizens—and the supply-side is serviced only by the government. It overlooks the important role that non-profits and private sector can play in partnership with the government in addressing the poverty eradication challenge. In view of the scale and magnitude of challenges facing us, the increasing ability and resolve of non-government actors to cater to the BoP, it is important for the government to not kill the spirit of the private sector that is driving inclusive growth in its own way.

It is imperative, therefore, that instead of being the sole harbinger and implementer of inclusion, governments shape public policy so as to encourage those in the private sector willing to act in a socially responsible manner. Given the pervasive last-mile failures, it is important that we imbibe appropriate lessons from the bright spots in service delivery within the private sector. Public policy choices must account for the important role that the private sector can play and should be designed to align incentives of all stakeholders towards the achievement of development objectives.

The remedy for this could be the formation of an association of voters whose members will internally decide on specific candidates (“primaries” so to speak) based on how closely candidates match the principles of the association, following which all members will vote, and equally importantly, vote only for those chosen candidates. This allows the association to make a credible claim that its members’ votes matter on the aggregate—both to every individual member of the association and to political parties.

In other words, this association of urban educated voters is an artificial “vote bank,” much like the existing vote banks that are based on other demographic characteristics such as caste and religion, and which currently have a baleful influence on the political outcome. Based on the idea that “if you can’t beat them, join them,” it recognises that in the real world, the introduction of another vote bank (which would be unthinkable in an ideal world) may lead to improvements.

Democracy as an ideal works flawlessly in an ideal world. But like markets and their failures, in the real world democracy failures lead to seriously flawed results that have terrible consequences for hundreds of millions in a country like India. If we honestly confront the reality of democracy failures, we can figure out a way to address them urgently and seriously. The time for vote banks for good governance.
What is civil society?
Beyond NGOs and high-profile individuals

In the modern world, the role of civil society is often talked about, debated, praised and derided. It is a term used often, but not always with any level of precision or clarity. Most people seem to know broadly what civil society is, yet few have seen it, and fewer can put in words what it actually means.

One way of thinking about civil society is as a number of individuals and groups with their own, varied agendas, often at odds with one another, trying to work towards their own individual aims. In that sense, the term “civil society” then applies to the population at large and therefore all 1.1 billion Indian citizens. Yet in its most common usage, it connotes focused interest groups. So what exactly is civil society?

Civil society—based on the Hegelian construct—is the intermediate phase between family and state. It represents ‘universal egoism’ according to which everyone is treated as the means to one’s own ends. This stands in stark contrast to the ‘universal altruism’ of the state. According to the Marxist construct, not far removed from Hegel’s views, civil society was a wolf in sheep’s clothing, representing the economic interests of capitalists. He believed that the role of civil society is such that it will push for an individual to pursue individual interests but back down when it came to community interests. At the other end of the spectrum, Adam Smith (much earlier) too spoke about civil society—but he believed that it was an exercise in private morality seeking public approval.

Given that none of the philosophers, regardless of the side of the economic and political divide they were on, had anything nice to say about civil society, it is quite interesting to see the space that it occupies in the modern state. It was a term that was in active use in the 19th and early 20th centuries as a part of academic discourse, and came into popular use after the collapse of the Soviet Union. It was used to signify independent social, economic and legal institutions—outside the government that act as a check on a hyperactive state—be it authoritarian dictatorship or an over-governed democracy.

In India, the term usually refers to one of two things. First, to high-profile individuals who want to make a statement. For example, when people go on a peace march it is civil society that marches; when individuals go to Naxal areas, they represent civil society; when a group that believes in ‘cultural purity’ beats up girls going to pubs, it is also civil society. In each of these cases—whether one...
agrees with them or not—it would be more appropriate to call them citizens or interested parties, rather than civil society.

Second, civil society refers to non-governmental organisations or NGOs. India has a large number of NGOs. Around 3.3 million of them. That works out to one NGO for every 400 people. That is better than the ratio of doctors (about 1 for every 2000 people); teachers (1 per five hundred people); or the police (0.9 per 1000 people). Many of the NGOs perform stellar work in their area—but are they civil society? Not quite.

They are 3.3 million organisations—albeit non-governmental ones—with their own individual charters and their own agenda. Lumping an organisation that works to eradicate child labour in cities with another that works in the area of self-help groups in rural India as ‘civil society’ is about as useful as lumping a generator manufacturer and a software developer because they are both private enterprises. And when one labels organisations as “civil society” one makes a fundamental error: the purpose of an ‘organisation’ is to survive, which is different from the purpose of civil society, which is ‘societal good’.

This is not to take away from the work, the sheer will-power and the tireless energy of individuals and NGOs working towards bringing about societal change. But a civil society goes beyond that.

For me civil society is intertwined with civil rights. Civil society is a set of bodies that ensures that the promises made to the citizens of India in the article on fundamental rights in the Constitution are upheld—without any sort of religious, caste or ideological bias.

For example, the reason why the Union government is talking about reservations in the private sector is because there is no civil society organisation—like American Civil Liberties Union—to take individual companies to task for flouting the Constitution’s guarantee that there will be equality. The role of civil society is not just to lobby the government to bring in reservations. Rather, it involves taking up cudgels on behalf of those who have been discriminated and ensuring that civil rights are upheld and equal opportunity is actualised. Unfortunately, ‘civil society’ has taken the easy way out—bring in legislation, without allowing components of the system time to internalise that they have to be equal opportunity.

Another example, the reason why books are banned ‘because they hurt sentiments’ is because there is no organisation that will take protesting political parties to court for flouting the Constitution’s promise of liberty. The reason why the judicial option is often discarded is because it is presumed that it takes forever for justice to be delivered. But, an effective civil society would work with the system to put a cap on time taken for the judicial process.

Civil Society would also be a set of bodies that will act as per our social circumstances. Indian ‘civil society’—despite its protestations—borrows much of the ideas and ideologies from the West, and sometimes mistakes the wood for the trees. For instance, in a country with a well-established social security system, where the rights of the child are recognised and ill-treated children are taken into care, provided an education and trained in a skill, it makes sense to ban child labour. However, in a country like India—without putting in place those social security measures, to ban child labour—is to condemn the child to starvation. This is by no means an argument for child labour. Rather, that there is a need to put in place policies that will protect the child in the short- and medium runs before taking away its method of survival.

Take street children. If you ask why children are on the street, you will be told that it is the right of a woman to have a child. As a woman, I completely agree with that statement. However, is the right of the mother greater than the right of the child? You can have the child—but do you have the right to bring up the child on the streets—or should the child be taken into care? Is there a system in place to protect the child? An effective civil society would ensure that the rights of the child were protected, and the woman would not be delivering children on the street. Civil society is not about fighting to keep people in poverty and squalor but about raising the bar in terms of life and living through constant action and advocacy.

The role of civil society is that of a watchdog on behalf of the people—on every aspect of organised control—be it the state, the judiciary, the police, oligopolies, monopolies and the media. It is about enabling citizen action through empowering literacy on various fronts—be it judicial literacy, environmental literacy, political literacy or media literacy.

It is about reducing the role of government to being a mere facilitator, a monitor, a mediator and, where necessary, a protector. However, civil society in India seems to be increasing the role of government and encouraging it to intervene ever more in our lives. The opposite of government is not the private sector, but the citizenry. Civil society is citizens taking back control from the state over most aspects of their everyday life, using the fundamental rights enshrined in the Constitution as a tent pole. Civil society in India, therefore, has a long way to go before this is achieved.
It is testimony to the inefficiency, delays and corruption which marked the preparation for the Commonwealth Games (CWG) that lack of a major disaster was greeted with a huge sigh of relief. That is if you consider the unfinished stadiums, collapsing bridges, and a dilapidated games village as minor glitches. Add to this mixture the comical Suresh Kalmadi, Congress politician and president of the Indian Olympic Association, who appears to inhabit an alternate universe and the picture of utter chaos is complete.

Unfortunately an event on which huge sums of public money have been expended, and which were marketed as a signal of India’s arrival proved little except that India still has a long way to go. That, by itself, is not news; what is bothering is that India’s name has been besmirched despite spending billions of dollars on an event which ordinarily would attract little global attention.
And yet it is equally true that the coverage of the games in the foreign media has been over the top. The smallest negative incident has been highlighted and selective reporting has been the norm rather than the exception. Relatively minor incidents like a stray dog in a stadium have been portrayed in cataclysmic terms. Some critics even blamed New Delhi’s weather, as if the Indian government could control the city’s notoriously hot summers.

Unsurprisingly, despite their own misgivings about the games, many Indians react to the constant stream of negative commentary with an instinctive defence of the games. It is, however, important to understand the context of the criticism and what lessons they hold for India.

India’s inefficiencies may have evoked a patronising shrug a few decades back but now provoke outrage.

Two often overlapping reactions were palpable in the global media. The first appears to stem from a desire to puncture the India’s growth story—or at least introduce a reality check. Every story on the games or the expenditure incurred was juxtaposed with tales of India’s poor; the old schtick that India’s growth story is restricted only to a few islands of urban prosperity was constantly invoked. There is little doubt that poverty remains endemic to India, but it is less clear what exactly is gained by introducing it in every story? Even the argument that a country as poor as India should not organise an event of this magnitude is terribly patronising and appropriates the right to dictate India’s future from her people and their elected representatives.

Second, there was constant criticism of the games with even minor glitches eliciting disproportionate coverage. While frequently churlish and unfair, it does indicate a grudging acceptance of India’s arrival. India’s inefficiencies may have evoked a patronising shrug a few decades back but now provoke outrage. The world, no longer willing to make allowances for India’s third world status, demanded that she deliver first-class games. Yes, this criticism may sting, but India must not offer excuses anymore. Success and victimhood do not march well together.

What also needs to be emphasised is the fact that India’s public institutions have failed to keep pace with her growth. India has hitherto grown despite the weakness of the state. However, this cannot be true indefinitely, and the lack of institutional capacity would ultimately undermine India’s success. This situation is unacceptable—much less in the global arena in which India operates—and calls for urgent corrective actions.

India paid the price for poor public policy in another equally important arena. It is to the credit of India’s security establishment that the games were incident free—but at what price? Roads were blocked, spectators had to pass through multiple checkpoints, and athletes were greeted by empty stadiums. A chaotic and vibrant city bursting with energy of her eager millions virtually resembled a ghost town. The economic cost is greater: Forget the influx of tourists as businesses had expected—rather, they suffered huge losses from constant closures and the sheer paranoia which kept visitors away. Supposedly a joyful and celebratory occasion, the games turned into a test of endurance for the people of New Delhi. Who can blame them then for wishing the games would end sooner than later so they could get on with their lives?

The wages of neglect and incompetent management of internal security were paid in the form of spectacular terrorist attacks across Indian cities over the last few years. But the ordinary citizens suffer equally when a diffident security establishment substitutes oppressive and arbitrary regulations for a cogent and well-thought approach to terror. The paradigm to judge India’s security must move from one in which ensuring an incident free event is the sole criterion to one which evaluates the effect of every security measure on citizen’s freedom of movement and quality of life. Under Home Minister P Chidambaram’s leadership, India’s security establishment has made much progress for which it deserves unstinted praise. But it should be held to higher standards.

The Union government has ordered a probe in all CWG related expenditures and alleged incidents of corruption. At the same time, not one person directly associated with organising these games—the organising committee, sports minister or Delhi’s chief minister—have stepped up and admitted to their failures. The moral decrepitude of India’s polity manifested in the tendency to pass the buck must worry all Indians.

Some media reports suggest that the Indian Olympic Association (IOA) is already thinking of bidding for the 2019 Asian games and even the Olympics. It is hoped that rather than chasing these grandiose dreams, India would focus on drawing the right lessons from the CWG fiasco.
An outdated syllabus

The discredited Aryan Invasion Theory continues to be taught

Walt Disney’s blockbuster film *Prince of Persia: The Sands of Time* saw actor Jake Gyllenhaal playing an Iranian prince. Many Iranians were pleased that a fair-skinned actor played the role because it accurately represented how “Aryan” Iranians looked. In Iran, Aryan ancestry is a non-issue, but in India it is a matter of angry controversy, a fact that has long bothered scholars in Western universities.

In his course, “History of Iran to the Safavid Period,” Richard W Bulliet, an Iranian specialist at Columbia University, ridicules those who oppose the Aryan Invasion Theory and informs students that Indians believe the theory’s proponents are conspirators working at the behest of the CIA, who want to portray India as a wimpish state; he specifically mentions followers of the BJP as belonging to this group. In his first lecture, he discusses similarities between Old Iranian and Vedic and their relation to the Indo-European languages. In his view, this similarity suggests invasion, and this invasion theory is supported not just by philologists, but also by archaeologists and historians.

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Similarly, in a course on Indian history taught last year at the University of California, Los Angeles, Vinay Lal lectured about concepts like “subdued snub-nosed and dark-skinned people known as the Dasas” and Aryan attacks on fortified settlements on the subcontinent. The Aryan Invasion Theory has for some time been discredited by several leading scholars and critically questioned by others. In his 2004 book *The Quest for the Origins of Vedic Culture: The Indo-Aryan Migration Debate*, Edwin Bryant, who looks at both sides of the debate, concludes that there is a general consensus among South Asian archaeologists that, as far as the archaeological record is concerned, there is no clear or unambiguous evidence of invading or immigrating Aryans. Romila Thapar, one of India’s best-known historians, writes in *Early India: From the Origins to AD 1300*, “The theory of an Aryan invasion no longer has credence.”

**The absence of archaeological evidence prompted many historians to re-think the Aryan Invasion Theory.**

It is just as important to note that critics of the Invasion Theory are not just members or followers of the BJP. Mr Bryant is not an Indian; Ms Thapar has long antagonised Hindu nationalists. Despite arguments to the contrary, archaeological evidence has not been ignored—Mr Bryant’s survey shows that it is the absence of archaeological evidence, among other things, which prompted many historians to re-think the Invasion Theory.

Mr Bulliet does argue that opponents of the invasion might take refuge in the writings of his late colleague Edward Said, the author of the seminal book *Orientalism*. On this point, he is absolutely correct. Concepts of race were indeed borne out of colonialism. Nineteenth century Europe was the centre of racial studies; scientists measured the skull volumes of various races and used such studies to extrapolate conclusions about intellect and superiority. Herbert H Risley, a British official, categorised 2378 castes belonging to 43 races on the basis of their nasal index. Around the same time, various linguistic groups—Indo-European, Dravidian, Austro-Asiatic, and Tibeto-Burman—were identified as different races. Based on this mythology, the skeletons found in Mohenjo-daro were classified mostly as non-Aryan. A racial interpretation was even assigned to passages of Vedic texts. The dark-skinned and flat-nosed Dasyu was considered to be of a different race than the fair and high-nosed Aryan. Scholars like Srinivas Iyengar objected to such racial interpretations as early as 1914, but dissenting voices like his were not the ones writing history.

After World War II, Western anthropologists realised that race could not be scientifically defined, let alone based on cranial size or nasal index. According to Kenneth A R Kennedy, professor emeritus at Cornell University, who has studied the Harappan skeletal remains extensively, “biological anthropologists remain unable to lend support to any of the theories concerning an Aryan biological or demographic entity.” Gregory Possehl, anthropological archaeologist at the University of Pennsylvania, writes, “race as it was used in the nineteenth and early twentieth centuries has been totally discredited as a useful concept in human biology.” In 1999, Hans Hock, professor emeritus at the University of Illinois at Urbana-Champaign, re-examined the supposedly racial Vedic material and found it either to be mistranslated or open to alternative non-racial interpretations. Racial interpretations were preferred because they favoured a colonial agenda. Yet UCLA’s Mr Lal continues to talk about “snub-nosed Dasyus”, even though Sanskrit scholars have interpreted the Vedic word as meaning one devoid of speech, not nose.

Over the years, historians have accepted that various language groups are just that—language labels—and do not conform to racial identities. At the 11th Neelan Thiruchelvam Memorial Lecture given in Colombo on August 1, Ms Thapar made this very clear. According to her, the notion of separate Aryan and Dravidian racial identities has no basis in history. Another expert, Thomas Trautmann, professor at the University of Michigan, has stated that racial theories of Indian civilisation linger as a matter of faith: “Is it not time we did away with it?” But the political utility of such theories has not yet dissipated. Even in the last general elections, Dravidar Kazhagam leader K Veeramani exhorted his followers to reject “Aryan” candidates.

It is perhaps natural that the controversial origins of such Western theories and their political consequences have caused Indian scholars to view them with high levels of suspicion. The issue at hand is not what members of the BJP believe, but rather what the latest scholarly consensus is and why it is not always being taught to students.
All companies are currently governed by the Companies Act, 1956. The Act has been amended 24 times since then. Three committees were formed in the last ten years, chaired by Justice V B Eradi (2001), Naresh Chandra (2002) and J J Irani (2005) to look into various aspects of corporate governance and company law. The Companies Bill, 2009 incorporates some of these recommendations.

Main features
The major themes of the Bill are as follows: It moves a number of issues that are currently specified in the Act (and its schedules) to the Rules; this change will make the law more flexible, as changes can be made through government notification, and would not require an amendment bill in Parliament. On a number of issues, the Bill moves the onus of oversight towards shareholders and away from the government. It also requires a super-majority of 75 percent shareholder votes for certain decisions. The powers of creditors have been enhanced in cases where a company is in financial distress. It has new provisions regarding independent directors and auditors in order to strengthen corporate governance. Finally, the bill increases penalties, and provides for special courts.

Types of companies
The Bill provides for six types of companies. Public companies need to have at least seven shareholders, and private companies between two and
50 shareholders. Charitable companies should have at least one shareholder, may have only certain specified objectives, and may not distribute dividend. Three new types of companies have been defined, which have less stringent provisions. These are one-person companies, small companies (private companies with capital less than Rs 50 million and turnover below Rs 200 million), and dormant companies (formed for future projects, or no operations for two years).

Corporate Governance
The Bill defines the duties of directors and norms for composition of boards. The number of directors is capped at 12. At least one director should be resident in India for at least 183 days in a calendar year and at least a third of the board should consist of independent directors. The Bill also sets guidelines for auditors. Certain related persons such as creditors, debtors, shareholders and guarantors cannot be appointed as auditors. Certain services such as book-keeping, internal audit and management services may not be undertaken by the auditors. Removal of an auditor before completion of term requires approval of 75 percent of the shareholders.

Adjudication
The Bill provides for a National Company Law Tribunal (NCLT) to adjudicate disputes between companies and their stakeholders. It also establishes an Appellate Tribunal. The NCLT may ask the government to investigate the working of a company on an application made by 100 shareholders or those who hold 10 percent of the voting power.

Arrangements
All arrangements such as mergers, takeovers, debt split, share splits and reduction in share capital must be approved by 75 percent of creditors or shareholders, and sanctioned by the NCLT.

Standing Committee’s Recommendations
The Parliamentary Standing Committee on Finance has submitted its report, and suggested several significant amendments.

Corporate governance
Substantive matters covered in various corporate governance guidelines should be contained in the Bill. These include: separation of offices of Chairman and Chief Executive Officer; limiting the number of companies in which an individual may become director; attributes for independent directors; appointment of auditors.

Delegated legislation.
The Committee noted that the Bill provided excessive scope for delegated legislation. Several substantive provisions were left for rule-making and the Ministry was asked to reconsider provisions made for excessive delegated legislation.

The Ministry has agreed to make some changes to include the following provisions in the Act: the definition of small companies; the manner of subscribing names to the Memorandum of Association; the format of Memorandum of Association to be prescribed in the Schedule; the manner of conducting Extraordinary General Meetings; documents to be filed with the Registrar of Companies.

The Committee recommended that provisions relating to independent directors in the Bill should be distinguished from other directors. There should be a clear expression of their mode of appointment, qualifications, extent of independence from management, roles, responsibilities, and liabilities. The Committee also recommended that the appointment process of independent Directors should be made independent of the company’s management. This should be done by constituting a panel to be maintained by the Ministry of Corporate Affairs, out of which companies can choose their requirement of independent directors.

Investor protection
The Ministry, in response to the Committee’s concerns for ensuring protection of small investors and minority shareholders, indicated new proposals. These include: enhanced disclosure requirements at the time of incorporation; shareholder’s associations/groups enabled to take legal action in case of any fraudulent action by the company; directors of a company which has defaulted in payment of interest to depositors to be disqualified for future appointment as directors.

The Ministry also made some suggestions on protection of minority shareholders/small investors, which the Committee accepted, including the source of promoter’s contribution to be disclosed in the Prospectus; stricter rules for bigger and solvent companies on acceptance of deposits from the public; return to be filed with Registrar in case of promoters/top ten shareholders stake changing beyond a limit.
Corporate Delinquency
Recommendations include: subsidiary companies not to have further subsidiaries; main objects for raising public offer should be mentioned on the first page of the prospectus; tenure of independent director should be provided in law; the office of the Chairman and the Managing Director/CEO should be separated. The Committee emphasised that the procedural defaults should be viewed in a different perspective from fraudulent practices.

Shareholder democracy
The Committee recommended that the system of proxy voting should be discontinued. It also stated that the quorum for company meetings should be higher than the proposed five members, and should be increased to a reasonable percentage.

Foreign companies
The Bill requires foreign companies having a place of business in India and with Indian shareholding to comply with certain provisions in the proposed Bill. The Committee observed that the Bill does not clearly explain the applicability of the Bill to foreign companies incorporated outside India with a place of business in India. It recommended that all such foreign companies should be brought within the ambit of the chapter dealing with foreign companies.

Next steps
The report of the Standing Committee indicates that the Ministry has accepted many of its recommendations. It is likely that the government will take up the Bill for consideration and passing during the winter session, which starts on 9th November.

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American journalist Bob Woodward’s latest book about the White House—Obama’s Wars—has meticulously documented the deliberations involving the current US strategy in Afghanistan. Notwithstanding the flurry of newspaper articles preceding its release, Mr Woodward’s book does not contain many sensational revelations. It does retain its importance, though, for at least three reasons.

First, it gives an inside view of the decision-making process of the Obama administration. In this context, the book has several valuable lessons for civil-military relations. Second, it is a historical record: irrespective of the outcome of the Afghan war strategy, it will prove in retrospect to be of enormous value in any study of the motivations, assumptions and processes leading up to key decisions. Lastly, the book provides insights on what to expect in India-US relations under this administration, and on the future of Afghanistan.

As president, Barack Obama comes across as a cerebral, rational and logical decision-maker who is not overwhelmed by his vast civilian, military and intelligence apparatus. Mr Obama seems adept at wielding power and frequently questions military wisdom.

Two anecdotes illustrate this. When asked for options for the United States’ Afghanistan strategy, the civilian and military leadership interprets it as a request for a more detailed justification for a single strategy. The
president’s tenacity in forcing his National Security Council (NSC) to debate and refine options in the true sense of the word forces his advisers to tread the fine line between debate and discord and impresses upon them that the ultimate decision-making powers are vested in him.

Similarly, after several rounds of deliberations and after the NSC consensus to send 30,000 troops to Afghanistan, the Pentagon and the defence secretary ask for wiggle room, citing pending requests for 4500 enablers and an additional ten percent leeway. In response, Mr Obama dictates a terms sheet that clearly lays out the numbers, timeline and objectives thereby comprehensively asserting his authority over the military bureaucracy.

Mr Obama’s personal involvement, which results in a robust debate among members of the NSC, is remarkable. Nevertheless, the impression is one of a complex exercise producing a mediocre solution due to a lack of innovative ideas. The only radically new idea comes from Joe Biden, the vice president, who favours a small highly mobile counter-terrorist force and constant aerial surveillance to deter al Qaeda. This proposal is quickly dismissed. Most strategy sessions consequently devolve into an exercise of cutting down the military’s expansive agenda of counter-insurgency, which would inevitably lead to larger and larger resource commitments. “Debates” soon degenerate into a “scope reduction exercises”. Also notable for its absence is any coherent strategy for creating leverage with the Karzai government in Afghanistan to improve governance or, for that matter, with Pakistan to stop its sheltering of terror factions and end its double game. This is despite the clear realisation by the NSC that without achieving these goals, any military strategy is doomed for failure.

The strategy sessions commence with Afghanistan commander General Stanley McChrystal’s stark warning: “Failure to gain the initiative and reverse insurgent momentum in the near-term [by September
2010]...risks an outcome where defeating the insurgency is no longer possible.” Throughout the course of the book, it is clear that American planners no longer think that defeating the Taliban is possible. A significant portion of the book documents the intense debate over the words “defeat”, “disrupt” and “degrade” with a consensus that preventing a Taliban takeover of Afghanistan until Afghan forces are trained to prevent this on their own will be the ultimate US objective in Afghanistan.

In addition, Mr Obama is quite clear that the troop commitment in Afghanistan should reduce starting July 2011. There are three key flaws in this strategy. One, there are no metrics or goals for the training of the Afghan army and police forces, whose attrition is as high as 75 percent. Two, there is no concrete plan to force Mr Karzai—who is portrayed as a manic depressive under medical treatment—to reduce corruption and improve governance. Three—and this is the most critical flaw—there is no coherent Pakistan strategy.

Woodward’s book reveals that the Obama administration has no coherent Pakistan strategy.

The last aspect is the most pertinent for India. Pakistan’s perfidy is common knowledge in US policymaking circles—this is repeated over and over again throughout the book. For example, even before the commencement of his presidency, Mr Obama is informed by Mike McConnell, the outgoing director of national intelligence, that Pakistan is a dishonest partner and that “they are living a lie”. General Ashfaq Kayani, Pakistan’s army chief, is bluntly called a liar and Mr Obama states “[w]e need to make clear to people that the cancer is in Pakistan....The reason we are doing the target, train and transfer in Afghanistan is so the cancer doesn’t spread there.” However, Pakistan’s propensity to shelter radical groups is seen through the prism of India-Pakistan competition with the dangerous consensus that Pakistan’s support for radical groups in Afghanistan will cease if relations between India and Pakistan are normalised. For example Peter Lavoy, deputy director of national intelligence states that a “more mature and less combustible relationship between the two longtime adversaries is more important than building Afghanistan”.

In this context, everyone in the administration looks upon India to make concessions to enable its transformation to the next level in the world stage and everyone shows an inclination to play a part in facilitating such concessions. Pakistan’s insecurities vis-a-vis the Durand line, its nightmare scenario of a strong Afghanistan with strong armed forces, and its desire to disrupt and control Pashtun nationalism is neither acknowledged nor reconciled with this conclusion. Nor is it acknowledged that curtailing Pakistan’s control over Afghan proxies would result in a moderation of its intransigence towards settling outstanding problems with India, and its preference for sub-conventional and unconventional aggression.

India must clearly and resolutely articulate these nuances or risk a scenario in which Pakistan-sponsored terrorism is increasingly looked upon as a legitimate tool of foreign policy, especially when the West ceases to pay a price. A lack of a coherent US strategy towards Pakistan is in many ways a symptom of a lack of coherent Indian strategy towards Pakistan. One excerpt from the book aptly sums up why US strategy in the region continues to be mired in failure:

As a result of nearly endless policy discussions in the White House, [then-National Security Advisor] Jones, [then-Deputy NSA Thomas] Donlon, [NSC Afghanistan-Pakistan senior director Doug] Lute and others had repeatedly asked: How are we going to get these guys in Pakistan to change? For the moment, they knew that this was the wrong question. Pakistan was not going to change. The Pakistanis were hardwired against India. Let’s quit banging our heads against the wall and accept it...Pakistan would be at such a disadvantage in a conventional war....that it had relied on two asymmetric tools—proxy terrorism through LeT and threat of nuclear weapons...

Jones tried to convey to them: We’ve come to the conclusion that after years of trying, we’re not going to change your strategic calculus. It’s yours. We accept it and want to understand it better.

If this is the kind of acceptance and understanding of Pakistan that the Obama administration aspires for, India must hedge its options in Afghanistan. Come 2012, these may no longer be Obama’s wars; but they would still be India’s wars—to fight, and to win.