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The End of the Obama Era in Asia

Edited by
Michelguglielmo Torri
and Nicola Mocci

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INDIA 2016: REFORMING THE ECONOMY AND TIGHTENING THE CONNECTION
WITH THE US*

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As in 2015, in 2016 India's political and economic landscape appeared to be dominated by Narendra Modi, the incumbent Prime Minister. Differently from what was the case in 2015, behind the pervasive self-praising rhetoric of the Indian government and the deafening chorus of applause of the bulk of the Indian media for Modi's work, at least at the economic level some concrete results were reached, and some reforms were implemented. Particularly important was the passing of the Goods and Service Tax (GST), an objective which had been vainly pursued by several previous governments. If the objectives and potential benefits of the GST were clear to all to see, the situation was different in the case of the other major economic reform, abruptly carried out by the Modi government, namely the demonetisation of much of India's paper currency. This quite unexpected measure was justified by the government in different ways at different times. What was clear at the time of the closing of the present article was that demonetisation had badly hurt particularly the poorer strata of the population, but, paradoxically enough, had not had any discernible adverse effect on Modi's still burgeoning popularity. Also, in the state elections held during the year under review, Modi's party, the Bharatiya Janata Party (BJP), strengthened its position and was also able to get a resounding victory in Assam, where, for the first time ever, formed the state government.

Strangely enough, in spite of the fact that the Modi government's economic policy had become more incisive in the year under review than in 2014 and 2015, the attitude of the US private capital, assiduously courted by Modi, continued to be, as it had become in 2015, one of disillusionment. US entrepreneurs, while convinced of Modi's desire to open up India's economy to foreign enterprise and capital, doubted his ability to do so. This, however, did not bring about a slowing down in the process of rapprochement between New Delhi and Washington, but made of the military aspect of such process its «major driver» (as claimed by US Defence Secretary Ashton Carter). In turn, the increasing US-India closeness – and the increasing relevance of its military dimension – contributed to the worsening of the relations between New Delhi and Beijing, which appeared more and more involved in a policy of reciprocal containment. This played a role in the evolution of the India-Pakistan and India-Nepal relations. In the year under review, the relationship between New Delhi and

* The present chapter is the outcome of a joint research effort, every single part of it having been jointly discussed by the two authors before being written and revised by both afterwards. However, the final draft of parts 1 and 4 has been written by Michelguglielmo Torri, whereas the final draft of parts 2 and 3 has been written by Diego Maiorano.

Islamabad spectacularly worsened, but the latter was able to withstand the pressure of the former also because of Beijing's help. On the other hand, India was able to re-establish its paramountcy over Nepal, engineering the fall of the Oli Government, which had challenged New Delhi with the support of Beijing.

1. Introduction

In 2016, India's internal situation was characterised by the implementation of a series of economic reforms. Among them, one, the Goods and Service Tax was a long-awaited one, which several previous governments had vainly attempted to implement. On the contrary, another economic measure, the demonetisation of the Rs. 500 and 1000 banknotes, was sudden and quite unexpected.

The year under review was also characterised by the fact that, the Bharatiya Janata Party (BJP), namely the party in power at the Centre, performed fairly well in the four state elections which were held, on the whole solidifying its grip at the local level. This remains true even if one takes into account a series of caste based agitations, which took place in Haryana, Maharashtra and Gujarat.

As far as India's foreign policy is concerned, the year under review saw the tightening of the connection between India and the US. It is worth stressing that the increasing closeness between the two countries appeared to be predicated on the strengthening of their military ties. This, of course, could not but adversely affect India's relation with China. Also, the relations between India and two other neighbour countries – Nepal and Pakistan – remained bad (in the former case) or spectacularly worsened (in latter the case).

Given the relevance of the economic developments in the year under review, the present article will begin by dealing with the evolution of the Indian economy. Then, it will analyse the state elections and the caste based agitations. Finally, it will dwell on India's foreign policy. In this latest section, particular attention will be given to the increasing closeness between New Delhi and Washington, to the spectacular worsening of the New Delhi-Islamabad relationship and to the re-establishment of India's paramountcy over Nepal.

2. The economy

This section will look at India's economy during the year under review. It will focus on three main points. First, it will give a brief look at India's macroeconomic indicators. Second, it will analyse the rural-friendly provisions contained in the Union's budget for 2016/17. Third, it will discuss the progress in Modi's ambitious program of economic reforms, with

a particular focus on three measures: the approval of the Good and Service tax bill, the enactment of a new bankruptcy code and the demonetisation of 86% of the country's cash, allegedly in an attempt to curb the generation of «black money».

2.1. Macroeconomic environment: still a confusing picture

During the fiscal year 2015/16 and the first few months of the following one, India's economy continued to grow steadily. As table 1 shows, GDP growth seemed to have fully recovered from the slowdown experienced during the last phase of the UPA-2 government.

Table 1: Growth of GDP 2014-16		
2014/15	2015/16	April-September 2016
7.2%	7.6%	7.2%
Sources: Government of India, Ministry of Finance, <i>Economic Survey 2015/16</i> , chapter 1; Government of India, Ministry of Finance, <i>Economic Survey 2016/17</i> , chapter 1. Both at http://indiabudget.nic.in/survey.asp .		

As noted by, among others, the authors of this article, however, few economists take India's growth numbers at face value.¹ The new methodology for calculating the GDP introduced in early 2015 is probably inflating India's growth numbers. In particular, the GDP data collide with other macroeconomic indicators that show a less rosy picture of the state of the economy.² India's Index of Industrial Production, for example, grew by a mere 0.7% in September 2016, after contracting by 0.67% in August and by 2.4% in July. More worryingly, capital good productions (which measures the level of investments) contracted by 21.6% in September.³ The data on gross fixed capital formation (another indicator for investment trends) appeared «gloomy» too.⁴ Similarly, while exports seemed to have recovered from the «unprecedented decline»⁵ registered during 2015, in the period between April and October 2016 were stagnant.⁶ In short, as noted above, the GDP numbers continued to be inconsistent with other macroeconomic data. It is hence difficult to go beyond some tentative statements regarding the health

1. Michelguglielmo Torri & Diego Maiorano, 'India 2015: The Uncertain record of the Modi Government', *Asia Major 2015*, pp. 339-406

2. 'The Elephant in the stats', *The Economist*, 9 April 2016.

3. 'IIP rebounds in September after two months of contraction', *Livemint*, 11 November 2016.

4. 'ET 500: a state push needed to revive investment cycle', *Economic Times*, 28 November 2016.

5. 'Unprecedented decline', *Economic and Political Weekly*, 17 January 2016.

6. 'India's October Exports at \$23.5 billion, grow nearly 10%', *Hindustan Times*, 15 November 2016.

of India's macroeconomic environment. It can be safely argued that India's economy was growing fast (although not as fast as the official data say),⁷ and that future growth prospects were rather positive,⁸ despite the effect that the demonetisation was bound to have in the short term (on this more below). The main cause for concern, from both an economic and a political point of view, was the sluggish job generation growth, which continued to be disappointing and insufficient to absorb a fast-growing labour force.⁹

2.2. A rural-friendly Budget?

After two years of very poor monsoons that triggered a widespread crisis in rural areas and caused a severe drought in large parts of the country,¹⁰ Finance Minister Arun Jaitley, in his Budget Speech, said that «the priority of [the] Government is clearly to provide additional resources for vulnerable sections, rural areas, and social and physical infrastructure creation».¹¹ The Budget also reiterated¹² the rhetorical and highly unrealistic¹³ promise to double farmers' income by 2022.

The additional resources provided for rural areas came under four main headings. First, the allocation for «Agriculture, Cooperation and Farmers» Welfare» was increased by a whopping 127% compared to the previous year's Revised Estimates – from Rs. 158 billion to Rs. 359 billion. However, this was largely due to the fact that the heading for the interest subsidies for short term credit to farmers – amounting to Rs. 150 billion, or 75% of the increased allocation – had been moved from the Finance Ministry to the Agriculture Ministry.¹⁴ Taking this into account reduces the percentage increase to about 32% (or, as a proportion of the GDP, 0.2 percentage points).¹⁵ Given the dire situation after two consecutive years of drought, this was unlikely to make a big difference.

7. 'Discrepancies drive GDP growth', *Livemint*, 1 June 2016.

8. Ila Patnaik & Madhavi Pundit, 'Where is India's Growth Headed?', *India Review*, Vol. 15, No. 3, 2016, pp. 332-58.

9. Pradeep Mehta & Amol Kulkarni, 'It is time to address India's abysmal job creation record', *The Wire*, 25 November 2016.

10. Michelguglielmo Torri & Diego Maiorano, 'India 2015', pp. 339-406.

11. Ministry of Finance, Government of India, *Budget 2016-2017 - Speech of Arun Jaitley, Minister of Finance, February 29, 2016* (<http://indiabudget.nic.in/budget2016-2017/ub2016-17/bs/bs.pdf>), par. 11. The full text of Arun Jaitley budget speech is also available in the portals of the major Indian newspapers, such as The Times of India, the Economic Times and The Hindu.

12. *Ibid.*

13. Ashok Gulati & Shweta Saini, 'From Plate to Plough: Raising farmers' Income by 2022', *Indian Express*, 28 March 2016.

14. C. P. Chandrasekhar, 'Budget 2016-17: Signs of paralysis', *Macroscan*, 16 March 2016.

15. Jayati Ghosh, 'Hype and reality', *Indian Express*, 2 March 2016.

Second, the Budget increased the allocations for irrigation-related projects. Along with some rather generic declarations of intent about speeding up the implementation of existing schemes, the Budget introduced a «Long term Irrigation Fund» and committed Rs. 120 billion for it, in addition to Rs. 60 billion for a ground water management schemes. It was unclear how these schemes would work, but, considering that South Asia will be one of the regions most affected by climate change,¹⁶ this was a step towards ensuring a minimum of water and food security for India's rural areas.

Third, the government increased the allocation for the Pradhan Mantri Gram Sadak Yojana (PMGSY), a scheme for the construction of rural roads, to Rs. 190 billion. The emphasis on rural roads had always been a priority in the Modi government's rural development strategy, which had more than doubled the allocation for the PMGSY between 2012/13 and 2016/17. This was a positive step because, despite the fact that part of the funds benefited politically connected contractors,¹⁷ it had actually facilitated both poverty-reduction and employment-generation.¹⁸

Finally, the government marginally increased the allocation for the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA). However, when inflation rates are taken into account, the increase was negligible in real terms and in any case much lower than in 2009/10. In fact, as a percentage of the GDP, the allocation for the MGNREGA declined from 0.59% in 2009/10 to 0.25% in 2016/17.¹⁹ The refusal by the government to respect an existing law – the MGNREGA Act stipulates that allocations should not be capped given the demand-driven nature of the programme – was particularly harmful in a context of dire agricultural crisis.

Overall, the Budget fell short from being the farmers' bonanza claimed by the government. While there were some positive steps especially in terms of much needed investments in rural infrastructures, the agriculture-related budget allocations were far from being sufficient to ensure a rapid return to normalcy after two successive droughts²⁰ – not to speak of the deeper and structural problems affecting India's agriculture.²¹ The situation was made worse by the fact that the demonetisation of the Rs. 500 and Rs. 1,000 notes, abruptly decided in November 2016 (see below) was likely

16. Stephane Hallegatte et al, *Shock Waves – Managing the Impacts of Climate Change on Poverty*, Washington DC: World Bank, 2016 (<https://openknowledge.worldbank.org/handle/10986/22787>).

17. Jonathan Lehne, Jacob Shapiro & Oliver Vanden Eynde, 'Building Connections: Political Corruption and Road Construction in India, Working Paper, Paris School of Economics, 2016.

18. Shilpa Aggarwal, 'Do Rural Roads Create Pathways out of poverty? Evidence from india', Working Paper, University of California Santa Cruz, 2017 (www.isb.edu/faculty/shilpa_aggarwal/files/shilpa-aggarwal-rural-roads.pdf).

19. Jayati Ghosh, 'Hype and reality'.

20. P. Sainath, 'If this is «pro farmer»...', *Outlook*, 14 march 2016.

21. Michelguglielmo Torri & Diego Maiorano, 'India 2015', p. 351.

to have a significant negative impact on rural markets, thus at least partially off-setting the benefits coming from these limited increases in rural spending. Furthermore, social sector spending only marginally increased,²² meaning that the severe distress of rural areas would not ease off.

All the above is not surprising, given the limited fiscal space left to the government by its own choice to stick to its medium-term fiscal consolidation plan.²³ Whereas some limited resources were to be raised through a marginal tax increase on the super-rich,²⁴ India's fiscal space was particularly constrained by the implementation of the decision of the 7th Pay Commission concerning the increase of government employees' salaries and the rolling out of the One-Pension-One-Rank reform (OROP), aiming at rationalising military pensions. The government allocated Rs. 700 billion and Rs. 124 billion,²⁵ respectively, to cover for these increased expenditures.²⁶ Clearly, there was not much room left for anything else.

2.3. Economic reforms

Modi's election had generated enormous expectations in the economic field. Not only were his voters hoping that his government could enhance the economy's capacity to generate much needed jobs, but national and international investors and the urban middle class had supported Modi also because of his promise to reform the economy.

In fact, in 2016, the government enacted two major economic reforms: in May, the Parliament approved the Insolvency and Bankruptcy Code 2016; on 8th September, President Pranab Mukherjee signed the Constitution (101st Amendment) Act, 2016, which introduced a Goods and Services Tax (GST) in India. Both laws fulfilled long-time demands from international and national business circles. A third important (and unexpected) decision by the Indian government was the sudden demonetisation of the Rs. 500 and Rs. 1,000 notes on 8th November. While the impact of the first of these measures will be mostly in the economic sphere, the other two were bound to have short term important repercussions also in the political sphere, especially in light of the important state elections due in 2017 (in Uttar Pradesh, Gujarat and Punjab).

The objective of the new bankruptcy code was to rationalise a number of existing (and, sometimes, conflicting) regulations that made the winding up of an insolvent company a very long and cumbersome process. Accord-

22. Yamini Aiyar, 'Social Sector Investments in Budget 2016 No Different Than Previous Year', *The Wire*, 29 February 2016.

23. 'Analysis of Union Budget 2016-17: Kudos to Finance Minister Arun Jaitley for Sticking to the Fiscal Deficit Target', *Financial Express*, 7 March 2016.

24. 'Budget 2016: well-off to pay higher taxes', *Livemint*, 1 March 2016.

25. 'Budget Provision for OROP', *Business Standard*, 22 November 2016.

26. '7th Pay Commission: Rs. 70,000 crore allocated for its implementation in Budget 2016', *Indian Express*, 29 June 2016.

ing to the World Bank's Resolving Insolvency Index, in India, before the enactment of the Insolvency and Bankruptcy Code, the average time needed to resolve insolvency was 4.3 years, which was significantly higher than what was necessary in China (1.7 years), South Africa (2 years), Indonesia (1.9 years) and even Pakistan (2.6 years).²⁷ According to the same index, in India the average amount recovered by creditors was 26% (against 37% in China).

The new law aimed at radically limiting the time needed for the settlement of insolvencies bringing it down to 180 days, extendable by 90 additional days. It also mandated the creation of a database of serial defaulters.²⁸ According to the *Financial Times*, this was «the most significant reform» hitherto adopted by Modi.²⁹ Of course, the actual working of the law depended on its implementation and on the creation of a pool of insolvency professionals who could assist defaulting firms and creditors (mainly banks) in adhering to the new regulations and procedures.³⁰ In fact, effective implementation appeared challenging, particularly because of its political repercussions. Banks – especially state-owned ones, amounting to three quarters of India's banking assets – were under severe stress³¹ due to «bad loans» granted to insolvent businessmen who, in many cases, were making use of at least a part of the funds thus obtained to fund political parties, which, in turn, offered protection to the borrower, letting him/her avoid repayment.³²

The second major economic reform – and, undoubtedly a major success for the Modi government – was the approval of GST Act. However, it is worth stressing that the GST Act was the first major economic reform passed, more than two years after becoming prime minister, by a politician who had promised and was indeed supposed to radically transform the country. As noted by Sumit Ganguly, «the passage of this legislation [...] underscores how little Modi's government has actually accomplished in its attempts to transform India's economy».³³

The GST Act introduced a nation-wide indirect taxation system that aimed at rationalising a number of state-level legislations that caused inefficiencies and delays, while pushing up costs. The promulgation of the Act put an end to an almost two decade-long legislative process. The key opponents to the GST bill had been the state governments, which feared losing revenues. The central government had to invest a significant amount

27. World Bank, Resolving Insolvency Index (<http://www.doingbusiness.org/data/exploretopics/resolving-insolvency>).

28. 'What India's New Bankruptcy Law means', *The Wall Street Journal*, 12 May 2016.

29. 'India passes national bankruptcy law', *Financial Times*, 12 May 2016.

30. 'India has a new law on bankruptcy', *Livemint*, 12 May 2016.

31. 'India's RBI warns on rise in bad loans', *Financial Times*, 29 June 2016.

32. The best known case is that of Vijay Mallya. See, 'Let's get a few things straight about the Vijay Mallya saga', *Scroll.in*, 13 March 2016.

33. Sumit Ganguly, 'Why India's Modi Has Failed to Deliver on Economic Reform', *World Politics Review*, 10 August 2016.

of energy in convincing the states and reached its objective through a rather inclusive policy-making process, which, eventually, resulted in a large consensus.³⁴ This was necessary not only because the Modi government lacked a majority in the Upper House, but also because, as per the Constitution, the bill needed to be ratified by at least half of the state governments.

Eventually, the central government was able to take most states on board. The GST Council finalised the structure of the new indirect taxation regime in November, which is based on multiple tax rates. The GST is expected to be rolled out from 1 July 2017. About half of the items in the inflation basket, including food, will not be taxed. Other items of mass consumption will be taxed at 5%. Luxury and sin goods³⁵ will be levied at 28% plus a cess to compensate the states of any revenue loss for the next five years. Most other items will be taxed at 12 or 18%.³⁶ Some analysts pointed out that the actual number of rates could be significantly higher, up to twelve, which could cause significant classification problems in a rapidly changing economy.³⁷

The government's main obstacle was that, in order for the GST to become operational, the cooperation of the state governments was still very much needed to pass a number of implementing laws and executive orders at the state level. There were two main problems, one technical and one political. The former was that the states – including BJP-ruled ones – wanted to exercise exclusive jurisdiction on small-scale taxpayers (below Rs. 15 million), whereas the centre was insisting on imposing a form of dual control. At the closing of the year under review, the stalemate still continued.³⁸

The second problem was that some state governments and the main national opposition party, namely the Congress, expressed new doubts on the effects of the GST implementation, asking for its delay, following the Modi government's sudden decision on the demonetisation of the currency (8 November). West Bengal's Finance Minister Amit Mitra – who was the chair of the empowered group of state finance minister and who played a significant role in winning the resistance of the state governments to the new tax regime – put into question the entire structure of the GST. He argued that the demonetisation was bound to cause a significant drop of the GDP, thus affecting the states' revenues. In this situation, he claimed, the implementation of the GST by 1 April 2017 was unlikely.³⁹ In fact, as other

34. 'How the political battle on GST was won', *Livemint*, 5 August 2016.

35. Sin goods are goods deemed harmful to society, such as alcohol and tobacco.

36. 'Council fixes 4-level GST rate structure', *The Hindu*, 3 November 2016.

37. Vijay Kelkar & V. Bhaskar, 'GST: a contest of competing truths', *Livemint*, 2 November 2016.

38. 'GST council meet: Most states voice opposition against dual control, says report', *Indian Express*, 2 December 2016.

39. 'Thanks to demonetisation, forget GST now', *Financial Express*, 1 December 2016.

states requested additional compensation under the new GST tax regime to offset the consequences of demonetisation, Arun Jaitley himself, namely the central Finance Minister, said that a more likely implementation deadline would be the 1st of July 2017.⁴⁰

The third major decision in the economic field was the demonetisation of the Rs. 500 and Rs. 1,000 notes announced, with a four-hour notice, on 8 November 2016. This unexpected and bold move made 86% of the country's cash, to use Modi's own words, «worthless pieces of paper».⁴¹ Indians were given the option to either deposit the «worthless» notes in their bank accounts – knowing that any deposit above Rs. 250,000 would be scrutinised and taxed – or to change them at the counter, but subject to very strict limits.⁴²

The sudden lack of cash severely disrupted India's formal and informal economy, the latter accounting for at least 80% of the workforce and 45% of the GDP.⁴³ Cash transactions represent 98% of the total.⁴⁴ Not surprisingly, long queues formed outside of the banks, where people stood in lines for hours – which caused at least 50 deaths during the first month⁴⁵ – to change their notes. India's informal economy suffered from a sort of cardiac arrest. Farmers suddenly could not buy seeds and fertilisers or pay agricultural labourers right in the middle of the winter sowing season. The problem was aggravated by the fact that, because of some unknown reasons, rural cooperative banks were not allowed to change the old notes. Farmers were also finding it difficult to sell their products because traders did not have cash to buy them. According to some preliminary estimates, sales of farm staples fell by 50%.⁴⁶ Shopkeepers and street vendors struggled to find customers, because either the potential buyers lacked cash, or because they held only the newly introduced Rs. 2,000 note, which would have been difficult to change for smaller notes even in the absence of a cash crunch. In Bihar, a Scroll.in reporter found that cauliflowers were being sold at Rs.

40. 'July 1 more realistic deadline for GST: Arun Jaitley', *Times of India*, 16 January 2017.

41. 'Excerpts from PM Modi's address to the nation: «Hoarded notes will become just worthless pieces of paper»', *Indian Express*, 9 November 2016.

42. The limits changed numerous times, but at no point they were over Rs. 4,000 per day.

43. Pronab Sen, 'Shock and oh damn', *Ideas for India*, 14 November 2016. For an in-depth analysis of India's informal economy and its dimensions see Elisabetta Basile, *Capitalist development in India's informal economy*, London and New York: Routledge, 2013.

44. 'Modi's attempt to crush the black economy is hurting the poor', *The Economist*, 3 December 2016.

45. 'India's demonetisation: 'Modi didn't think of the poor'', *Al Jazeera*, 6 December 2016.

46. 'India's currency reform was botched in execution', *The Economist*, 3 December 2016.

1 per kilo, about 1/12 of their normal price.⁴⁷ A small survey conducted by Jean Drèze in Ranchi (Jharkhand) indicated that small shops and business witnessed a 46% average decline in their earnings.⁴⁸ More generally, investments saw a «sharp fall» after 8th November,⁴⁹ mainly as a consequence of a drastic contraction of internal demand.⁵⁰

The poor have been hurt the most: on the one hand, the overwhelming majority of them do not have a bank account – only 53% of Indians do⁵¹ – and even when the poor do, they often need to travel long distances to reach a bank branch. This forced them to spend days queuing to change their small savings, losing days of work. Furthermore, labourers faced the difficult choice of either being paid late or to accept the old currency, exchanging it on the black market for a 10-20% fee, which, of course, eroded their already small earnings.⁵² In fact, in the closing weeks of the year under review, many small and medium business shut down because of their inability to pay labourers, who, in turn, went back to their villages in huge numbers.⁵³

At the closing of the present article, what the overall impact would be on India's economic growth (which is to a significant extent demand-driven) was not clear. Ambani Capital cut its GDP-growth projection for 2017/18 from 7.3 to 5.8%;⁵⁴ HSBC estimated a fall by 1 percentage point,⁵⁵ while former Prime Minister Manmohan Singh predicted a 2% drop in the rate of growth.⁵⁶ The Reserve Bank of India (RBI) and the World Bank cut their growth forecast by 0.5 and 0.6% respectively, bringing it down to 7%.⁵⁷ Overall, there seemed to be a virtual consensus that although growth

47. 'Cauliflower sells for Rs one a kilo in one Bihar market as demonetisation depresses demand', *Scroll.in*, 30 November 2016.

48. Jean Drèze, 'Demonetisation Decimates Ranchi's Economy', *The Wire*, 26 December 2016.

49. Remya Nair, 'Demonetisation takes toll on investment, manufacturing', *Livemint*, 3 January 2017.

50. 'Indian auto sales see biggest drop in 16 years', *Reuters*, 10 January 2017.

51. Kaushik Basu, 'In India, Black Money Makes for Bad Policy', *The New York Times*, 27 November 2016.

52. Diego Maiorano, 'India's crackdown on cash corruption is really all about politics', *The Conversation*, 21 November 2016.

53. 'India's currency crisis is stalling small industries and sending workers home', *Washington Post*, 25 December 2016.

54. 'Demonetisation to drag down GDP growth to 5.8%: Ambit Capital', *The Economic Times*, 18 November 2016.

55. 'GDP to fall post demonetisation, follow-up reforms key: HSBC', *Business Line*, 20 November 2016.

56. 'Manmohan Singh speaks: It's a mess, loot, will cut GDP by 2 per cent points', *The Indian Express*, 25 November 2016.

57. 'India's RBI Surprises Markets by Keeping Rates Unchanged; Slashes Growth Outlook', *The Wall Street Journal*, 7 December 2016; 'World Bank cuts Indian GDP growth for fiscal to 7%', *Times of India*, 11 January 2017.

would remain robust, demonetisation would negatively affect it, at least in the short term.

The demonetisation move was initially presented by Modi as an unprecedented attack to «black money» and counterfeit currency. The idea was that those who owned large amounts of undeclared cash would face the difficult choice of either declaring their illicit incomes – and pay taxes on them – or lose heavily, by having their own cash made worthless. Counterfeit currency holders, on the other hand, would have no option but the latter. However, it was immediately clear that these could not be the real intention of the government, as shown by the fact that less than 5% of the total unaccounted income is kept in cash.⁵⁸ In fact, the bulk of illicit income is reinvested in gold, land and shares or deposited as hard currency in foreign accounts. Assuming that those who hold large amount of currency will try to laundry their money by paying a 40% fee, their total loss would be about 2% of their illicit income. In fact, while, at the closing of the present article, the RBI had not provided yet the data on the amount of old notes that were deposited, some estimates indicated that as much as 97% of them had been deposited and, therefore, the government move had been successful even if, naturally, within the limits of that less than 5% of the total unaccounted income kept in cash.

As far as fake currency is involved, its incidence, according to official estimates, is limited to about 0.022% of the total circulating cash.⁵⁹ Anyway, the new notes have the same (poor) security features of the old ones. In other words, it is unconceivable that the government willingly caused a severe disruption of India's economy searching for such limited objectives.

There were, however, three further – and much weightier – reasons for demonetisation.

The first one was to supply the banking system with much needed cash. We mentioned above that India's banks were under severe stress due to a huge amount of «bad loans». Furthermore, the demonetisation-related surge of liquidity led some banks to cut their lending interest rates, which may stimulate investments in the medium term.⁶⁰ However, on the one hand, the Reserve Bank of India left the main interest rate unchanged in

58. According to economist Vivek Kaul, who grounds his analysis on official data, «the total black money in the form of cash amounts to Rs 1.33 lakh crore (4.9 per cent of Rs 27.15 lakh crore)». Vivek Kaul, 'Demonetisation: How Much of Black Money is in Cash', *Vivek Kaul's Diary*, 13 December 2016. (<https://www.equitymaster.com/diary/detail.asp?date=12/13/2016&story=3&title=Demonetisation-How-Much-of-Black-Money-is-in-Cash>). See also Ministry of Finance, *Black Money. White Paper*, May 2012, New Delhi (http://finmin.nic.in/reports/WhitePaper_BackMoney2012.pdf).

59. Suyash Rai, 'The demonetisation decision: event, impact, narrative and meaning', *The Wire*, 4 December 2016.

60. Rahul Menon, 'Growing Bank Deposits Post-Demonetisation Not a Sign of a Healthy Economy', *The Wire*, 26 November 2016.

its first monetary policy committee meeting after demonetisation;⁶¹ on the other hand, as demand for consumer goods got depressed, inventories were piling up, leading to the postponement of investment decisions. In fact, at the end of the period under review, corporate-credit growth reached its lowest rate in thirty years.⁶²

The second further reason explaining demonetisation is that, by forcing people to use or open bank accounts, it may constitute a strong push towards a cashless economy, which, in turn, appears to be one of the government main aims. Significantly, at the end of 2016, this objective substituted, in the government's own declarations, the attack on black money as the main aim of the demonetisation.⁶³ Indeed, there are some signs that the government had, if not a clear strategy, at least a policy direction in this regard.⁶⁴ In fact, a few months after taking office, Modi had launched a massive programme for the creation of bank accounts for the poor, the Jan Dhan Yojana. As per 30 November 2016, almost 260 million such accounts were opened.⁶⁵ A sizable number of these accounts were empty or not used⁶⁶ and at least some of them have been «seized» by wealthy people in need to laundry their cash in the wake of the demonetisation.⁶⁷ This, however, does not detract from the fact that the government appeared determined to push even the poorest sections of the society to have (and use) a bank account. Demonetisation was bound to force many to do just that.

Such evolution appeared to be favoured by the fact that, in April 2016, the National Payment Corporation of India launched the Unified Payment Interface (UPI), a mobile-based system for making cashless payments. Given that India is one of the fastest-growing markets for smartphones, it is likely that the demonetisation would force many users to familiarise with cashless payments – UPI and other eWallet services such as PayTM, Freecharge, Mobikwik, Ola Money, Airtel Money, HDFC PayZapp, SBI Buddy among others.⁶⁸

61. 'India's RBI Surprises Markets by Keeping Rates Unchanged; Slashes Growth Outlook', *The Wall Street Journal*, 7 December 2016.

62. 'The high economic costs of India's demonetisation', *The Economist*, 7 January 2017.

63. Praveen Chakravarty, 'How Modi Changed (And Changed) The Demonetisation Narrative', *IndiaSpend*, 5 December 2016.

64. The authors thank Matteo Miavaldi for bringing the facts mentioned below to their attention.

65. Official data taken from Ministry of Finance, Department of Financial Services, Government of India, *Pradhan Mantri Jan - Dhan Yojana (PMJD)* (<http://pmjdy.gov.in/account>).

66. *Ibid.*

67. 'Post-demonetisation deposits in Jan Dhan accounts hardly significant', *The Economic Times*, 5 December 2016.

68. 'Going cashless after demonetisation? Compare eWallets and UPI apps for what suits you best', *Scroll.in*, 3 December 2016.

Also related to the realisation of a cashless economy appeared to be another move. This was the passing by the Indian Parliament of the Aadhaar Act on 11 March 2016, which gave legal backing to the project (initiated by the UPA government) of registering the entire population's biometric details and issue a unique identity number (the Aadhaar). According to a statement by the government on 5 April 2016, by then more than one billion Indians, namely 93% of the adult population, had an Aadhaar number.⁶⁹ In December 2016, the government announced that the Aadhaar card was to work as a debit card and allow electronic payments.⁷⁰

Finally, it is worth pointing out that some state governments are supplementing the centre's strategy by incentivising cashless payments through a set of state-level policies.⁷¹

Linking Aadhaar with payments has huge implications, as it will be possible to link demographic features to spending habits, thus creating a commercially invaluable database. However, it remains to be seen the extent to which Indians will embrace the cashless economy. Even an increase by 100% in cashless transactions will still make them a negligible part of the total. Furthermore, there are doubts that India lacks the necessary infrastructure to embrace the cashless economy.⁷²

The third further and weightier reason explaining demonetisation is political. On the one hand, perhaps the most affected actors are political parties that, it is well known, fund their electoral campaign through illicit funds and hoard huge amount of cash before the elections.⁷³ With the upcoming Uttar Pradesh polls looming on the horizon, Modi's adversaries (and possibly the BJP itself) were certainly taken by surprise. Accordingly, the demonetisation might have had an impact on their electoral campaigns. On the other hand, the demonetisation has reinforced Modi's image as a strong and fearless leader who is able and willing to take difficult decisions for the national good. Modi asked Indians to bear with the suffering for 50 days for longer term benefits. Indeed, at the closing of the present article the government's message appeared to be working. Calm had been maintained

69. 'Over 100 cr. people have Aadhaar number: Govt.', *The Hindu*, 5 April 2016. See also Government of India, Unique Identification Authority of India (<https://uidai.gov.in>).

70. 'Govt plans Aadhaar-based app to replace debit, credit cards, PIN numbers', *Livemint*, 6 December 2016.

71. E.g. Andhra Pradesh, Telangana and Maharashtra. See: 'AP and Telangana launch massive drive to increase cashless transactions', *Business Standard*, 3 December 2016; 'Maharashtra: Beneficiaries of state govt schemes to get cash in bank accounts', *The Indian Express*, 29 November 2016.

72. '5 Hurdles To PM's Push For Cashless Economy', *IndiaSpend*, 3 December 2016.

73. Milan Vaishnav & E. Sridharan, *India*, in Pippa Norris & Andrea Abel van Es (eds.), *Checkbook Elections? Political finance in comparative perspective*, Oxford: Oxford University Press, 2016.

and there were signs that demonetisation was indeed rather popular.⁷⁴ It is significant that the BJP performed pretty well in the local elections shortly after demonetisation in Rajasthan,⁷⁵ Maharashtra⁷⁶ and Gujarat⁷⁷ and in a series of by-polls in Madhya Pradesh, Assam and Arunachal Pradesh.⁷⁸

3. *Domestic politics*

The two most important political developments during 2016 were, first, a series of state elections in Assam, West Bengal, Tamil Nadu and Kerala, which gave the BJP much reason for hope after the disastrous Delhi and Bihar elections in 2015. The second development was represented by a series of caste-based agitations. In Haryana, Maharashtra and Gujarat, dominant peasant castes asked for reservations in public jobs and universities. Telangana and Gujarat, moreover, saw large-scale protests by Dalits, which could have important repercussions on the 2017 elections in Punjab and Uttar Pradesh.

3.1. *State elections*

During 2016, four important states went to poll: Assam (4-11 April), West Bengal (4 April-5 May), Kerala (16 May), Tamil Nadu (16 May).⁷⁹ Overall, the results were good news for the BJP.

3.1.1. *The elections in Assam*

Actually, the results in Assam were excellent news for the saffron party, which, in conquering its first ever victory in state, won 48% of the seats and, together with its allies (the Asom Gana Parishad, AGP and the Bodoland People's Front, BPF), obtained a solid majority in the state assembly (see table 2).

74. 'In rural UP, demonetisation causes «temporary pain» but draws support', *Hindustan Times*, 18 November 2016.

75. 'Rajasthan local polls: BJP edges out Cong, Vasundhara Raje gets PM pat', *The Indian Express*, 3 December 2016.

76. 'BJP wins big in Maharashtra council polls; Modi says poor back demonetisation', *Firstpost*, 28 November 2016.

77. 'Gujarat: BJP sweeps local bodies polls, wins 107 out of 123 seats', *The Economic Times*, 29 November 2016.

78. 'Bypoll Election Results 2016 Live Update: BJP wins big in MP, Assam & Arunachal; TMC sweeps Bengal, AIADMK holds Tamil Nadu', *The Financial Express*, 22 November 2016.

79. Also, on 16 May, elections were held in the Union territory of Puducherry. The Elections were won by the Congress, which conquered 15 of the 30 seats and formed the new government with its ally, the DMK, which had won 2 additional seats. 'Pondicherry (Puducherry) Assembly elections 2016 result: Congress emerges single largest party', *International Business Standard*, 19 May 2016.

Table 2 Assam elections results and comparison with the 2011 elections						
Alliance	Party	Seats	Change of Seats	No.	Vote Share	Change Vote Share
NDA	BJP	60	+55		29.51	+18.04
	AGP	14	+5		8.14	-8.15
	BPF	12	NA		3.94	-2.19
	Total NDA	86	NA		41.5	NA
UPA	Congress	26	-53		30.96	-8.43
Grand Alliance	AIUDF	13	-5		13	+0.48
Total		126				
Source: Election Commission of India						

The spectacular performance of the BJP was mirrored by spectacularly disappointing one of the Congress. The Grand Old Party was certainly hampered, to a certain extent, by anti-incumbency, as it was led by the sitting chief minister, Tarun Gogoi, who was looking for a fourth consecutive term. However, this factor alone cannot explain the extent of the victory of the BJP.

Three factors seem to have played an important role in the poll results. First, unlike the electoral campaigns of 2015 in Delhi and Bihar – badly lost by the BJP – the conduction of the electoral strategy remained firmly in the hands of the state-level leadership. In fact, the Prime Minister visited the state only thrice.⁸⁰ Second, the BJP was able to attract several political leaders into the party's fold.⁸¹ The two most prominent examples were, Sarbananda Sonowal and Himanta Biswa Sarma. The former had joined the BJP in 2011, leaving the AGP and eventually becoming the party's chief ministerial face; the latter, a former minister in the Gogoi's Cabinet and a serious contender to the candidacy of chief minister for the Congress, had decided to leave the party as it became clear that Gogoi intended to pass the chief ministership to his son. The third factor which played a role in the BJP's victory was that the saffron party was able to set the electoral agenda by focusing on the issue of illegal immigrants from Bangladesh, who tend to be largely Bengali-speaking Muslims and Congress's voters. While the issue has dominated Assam's politics for decades, the BJP managed to polarise society along religious line in an «unprecedented» way.⁸² This was due in no small measure to two causes: the

80. Abantika Ghosh, 'North by Northeast: What explains BJP's stunning win in Assam?', *The Indian Express*, 24 May 2016.

81. Ipsita Chakravarty, 'Assam goes saffron: Four ingredients that the BJP got right in this campaign', *Scroll.in*, 15 May 2016.

82. Shreyas Sardesai & Dhruva Pratim Sharma, 'Assam Assembly polls: Unprecedented Hindu consolidation around BJP', *The Indian Express*, 21 May 2016.

first was the alliance with the AGP, a party that was born out of the agitation against illegal immigrants in the 1980s; the second was that the BJP's chief ministerial face, Sonowal, was widely known in the state for his battle against foreigners. Furthermore, the party, its allies and the RSS, all embraced the distinction between Hindu «refugees» and Muslim «illegal immigrants», which became dominant theme of the electoral campaign in what can be seen as a local variant of the polarisation agenda promoted countrywide by the BJP. Post-poll data show that the strategy worked: on the one hand, 75% of Assamese Hindus and 68% of Bengali Hindus saw the «illegal migration» issue as important.⁸³ On the other hand, about 63% of the Hindus – irrespective of the language spoken – voted for the BJP. The Muslim community, on the contrary, failed to coalesce behind any single party and divided its vote between the All India United Democratic Front (AIUDF) and the Congress.⁸⁴ In fact, it seems that the fears that the AIUDF – a party strongly associated with Bengali Muslims – could become the kingmaker, led many Hindus to vote *en masse* for the BJP, particularly in Upper Assam.⁸⁵

3.1.2. The elections in West Bengal

In West Bengal the BJP obtained its best ever performance in the state. However, this amounted to a mere three seats and a 10.7% vote share (Table 3). On the one hand, the party clearly failed to keep the momentum of the 2014 Lok Sabha elections when it won an impressive 17.02% of the votes (see table 3 or fig. a).

Table 3 West Bengal elections results and comparison with the 2011 elections					
Alliance	Party	Seats	Change No of Seats	Vote Share	Change Vote Share
/	Trinamool Congress	211	+27	44.9	+5.97
Congress + Left Front	Congress	44	+2	12.3	+3.21
	Left Front	32	-30	25.9	-14.13
	Total C+LF	76	NA	38.2	NA
/	BJP	6	+3	10.7	+5.92
Total		294			
Source: Election Commission of India					

83. *Ibid.*

84. Sanjeer Alam, 'Assam Assembly polls: Cong-Ajmal pact would have been zero sum game', *Indian Express*, 21 May 2016.

85. Nanigopal Mahanta, quoted in 'North by Northeast: What explains BJP's stunning win in Assam?', *Indian Express*, 24 May 2016.

The declining vote share, especially in urban areas, probably indicates that many of those who voted for the saffron party in 2014 did so only in order to elect Modi as Prime Minister. On the other hand, however, the vote share obtained by the BJP in 2016 is a signal that the party is now a non-negligible force in the state. Of course, this is not the first time that the BJP performs so well. In 1991, when the BJP was riding the Ram Janmabhoomi wave, it obtained 11.7%, which plummeted to 1.6% at the 2006 state elections. However, the collapse of the Communist Party of India (Marxist) – the CPI(M)] – whose vote share declined from 37.13% in 2006 to 19.75% in 2016 – indicates that there is a political vacuum in the state that the BJP is keen to fill in.

The big story of the West Bengal election is, of course, Mamata Banerjee's Trinamool Congress (TMC) spectacular victory. This is due to two main factors. First, Mamata's management of the economy has been remarkably good. The state's GDP grew significantly faster than the average of the other states and so did the per capita income.⁸⁶ This has been accompanied by a doubling of the state's tax revenues, which in turn allowed the state government to triple expenditure in the social sector⁸⁷ and to focus on infrastructures, particularly in rural areas.⁸⁸ Post-electoral data show that «development» was by far the most important issue for West Bengal's voters,⁸⁹ and that 57% of them were satisfied with the performance of the state government.⁹⁰ Moreover, the TMC also implemented the MGNREGA rather well (compared with the Left Front government pre-2011) and launched a number of extremely popular schemes for promoting education, including one that gave one bicycle to every student in class 9-12 and one that offered scholarships to girls that remained in education. The TMC government also launched a scheme for the distribution of extremely subsidised rice and wheat to 80% of the state's population just a few months before the polls.⁹¹ In short, Mamata reinforced her image of a tough leader who cares about the poor, which she has earned when the struggle against the Left Front-promoted farm-grabbing brought her to prominence.

The second factor explaining Mamata Banerjee's spectacular victory was the weakness of the opposition. Whereas the combined vote share of

86. NITI Aayog (National Institution for Transforming India), Government of India, 'State Statistics' (<http://niti.gov.in/state-statistics>).

87. Shoaib Daniyal, 'Is West Bengal's economy actually reviving under Mamata Banerjee?', *Scroll.in*, 4 April 2016.

88. Shoaib Daniyal, 'Five reasons why Mamata Banerjee swept the West Bengal elections', *Scroll.in*, 19 May 2016.

89. Vibha Attri, 'Corruption an issue in West Bengal, but development No. 1', *The Indian Express*, 22 May 2016.

90. Sam Solomon & Jyoti Prasad Chatterjee, 'West Bengal: Left-Congress alliance weak in arithmetic and chemistry', *The Indian Express*, 22 May 2016.

91. 'Mamata's masterstroke ahead of polls: foodgrain at Rs 2/kg for 80% of Bengal population', *The Indian Express*, 28 January 2016.

the Congress and the Left Front at the 2014 Lok Sabha elections was only marginally lower than that of the TMC, their badly-assembled alliance did not work out the way their respective state leaderships had hoped for. This was in no small measure due to the hesitation of both national-level leaderships, which delayed the formalisation of the alliance until one month before the elections.

3.1.3. *The elections in Tamil Nadu*

In the south things went, predictably, less well for the BJP. Table 4 shows the results of the elections in Tamil Nadu.

Table 4 Tamil Nadu elections results and comparison with the 2011 elections					
Alliance	Party	Seats	Change No. of Seats	Vote Share	Change Vote Share
/	AIADMK	134	-16	40.77	+2.37
DMK-led	DMK	89	+66	31.64	+9.25
	Congress	8	+3	6.42	-2.88
	Indian Union Muslim league	1	+1	0.73	NA
	Total DMK-led	98	NA	39.81	NA
/	BJP	0	0	2.84	+0.29
	Total	232			
Source: Election Commission of India					

As expected, the two Dravidian parties – the All India Anna Dravida Munnetra Kazhagam (AIADMK) and the Dravida Munnetra Kazhagam (DMK) – which form a key element of Tamil Nadu’s politics at least since the early 1980s, got the bulk of the popular vote. They reached this result on the basis of rather similar electoral manifestos that made a number of «populist» (but progressive) promises – free laptops, subsidised scooters, etc.⁹² More surprisingly perhaps, the so-called third front (the People’s Welfare Front, PWF), comprising a plethora of small and mostly caste-based parties, plus the two communist parties, failed to conquer a single seat and secured only 6.1% of the votes.⁹³

92. Andrew Wyatt, ‘Combining clientelist and programmatic politics in Tamil Nadu, South India’, *Commonwealth & Comparative Politics*, 51, no. 1, 2013, pp. 27-55.

93. Pranav Gupta, ‘Lokniti-CSDS Post-poll Analysis: Small, caste parties get little traction’, *Indian Express*, 24 May 2016.

Even more surprising, however, was the victory of the incumbent AIADMK, for at least three reasons. First, no party had won a second consecutive term since 1984. Second, the AIADMK won on its own.⁹⁴ Third, poll data show that there was significant resentment against the AIADMK government and that Jayalalithaa's popularity was declining.⁹⁵

However, it seems that the only credible opponent, the DMK-led alliance, failed to capitalise on the anti-incumbency sentiments. Several factors contributed to the DMK's defeat. Particularly important was its inability, on the one hand, to project a new face as the chief ministerial candidate, which is something that has turned out to be increasingly important in a number of Indian states. In fact, the party did little to dispel the belief that the 92-year old DMK leader and five-time chief minister, Muthuvel Karunanidhi, would once again become the head of the state government. On the other hand, the DMK chose its allies poorly. First, it failed to enlarge its coalition to include at least some of the parties that later coalesced into the PWF; and, second, it struck an alliance with the Congress party which proved to be a liability more than a resource⁹⁶ – out of the 41 seats that the DMK left to the Congress, the latter won just eight. Perhaps the most crucial factor, however, was the DMK's inability to convince women that it was a preferable alternative to the AIADMK. Post poll data show that the AIADMK had a 10% advantage on the DMK among women voters.⁹⁷ This was despite the fact that the DMK had championed the banning of the sale of liquor – a proposal that was extremely popular especially (but not exclusively) among women⁹⁸ – and despite the fact that Jayalalithaa only half-heartedly promised a phased banning, displaying a reluctance that is probably explained by keeping in mind that the sale of alcohol provides as much as 20% of Tamil Nadu's tax revenues.⁹⁹

3.1.4. *The elections in Kerala*

In Kerala, the electorate chose once again to oust the sitting government (as it did since 1982). Congress-led United Democratic Front (UDF) suffered a resounding defeat at the hands of the Left Democratic Front (LDF). Table 5 gives a summary of the results.

94. Seven candidates from other minuscule parties were included in the AIADMK's list.

95. Rahul Verma & P. Ramajayam, 'Lokniti-CSDS Post-poll Analysis: Women bought Jaya her return ticket', *The Indian Express*, 24 May 2016.

96. K. Venkataramanan, 'The Jayalalithaa strategy', *The Hindu*, 20 May 2016.

97. Rahul Verma & P. Ramajayam, 'Lokniti-CSDS Post-poll Analysis: Women bought Jaya her return ticket'.

98. Vibha Attri & Jyoti Mishra, 'Lokniti-CSDS Post-poll Analysis: In both Tamil Nadu and Kerala, support across board for prohibition', *The Indian Express*, 24 May 2016.

99. 'Total prohibition of alcohol in Tamil Nadu is financially unviable', *The Hindu*, 23 July 2015.

Table 5 Kerala elections results and comparison with the 2011 elections					
Alliance	Party	Seats	Change No. of Seats	Vote Share	Change Vote Share
LDF	CPI(M)	58	+13	26.52	-1.66
	CPI	19	+6	8.12	-0.6
	Other	14	+7	NA	NA
	Total LDF	91	+23	39.1	-5.96
UDF	Congress	22	-16	23.70	-2.70
	IUML	18	-2	7.40	-0.52
	Other	7	-8	NA	NA
	Total UDF	47	-25	36.6	-6.9
NDA	BJP	1	+1	10.53	+4.42
	Total	140			
Source: Election Commission of India					

Two points are worth noting. First, whereas recent elections in Kerala had resulted in wafer-thin majorities, the LDF came out of the elections with a solid control of the state assembly, despite a decline of its vote share. The UDF's vote share, on the other hand, declined by almost 7%. Poll data show that almost 80% of the voters saw the UDF government as «corrupt» (and a third of the total voters saw it as «very corrupt»¹⁰⁰). The UDF government had been involved in a number of scams. Particularly damaging for the government was the 2013 «Solar Scam» – which saw the direct involved chief minister Oommen Chandy¹⁰¹ – and the allegations against members of the government regarding the renewal of licences for selling alcohol to bars and clubs. The latter also undermined the moral stance taken by the UDF government on the issue of alcohol prohibition – a highly popular policy in the state¹⁰² – championed by the Congress party itself.¹⁰³

The second remarkable feature of the Kerala elections was the result of the BJP. For the first time in the history of the state, the saffron party conquered a seat in the legislative assembly. Furthermore, the BJP was the

100. Sandeep Shastri & KM Sajid Ibrahim, 'Lokniti-CSDS Post-Poll Analysis: Why this vote for change was different', *The Indian Express*, 23 May 2016.

101. 'Kerala solar scam: Saritha Nair, Biju Radhakrishnan get three years in jail', *The Indian Express*, 16 December 2016.

102. Vibha Attri & Jyoti Mishra, 'Lokniti-CSDS Post-poll Analysis: In both Tamil Nadu and Kerala, support across board for prohibition'.

103. James Chiriyankandath, 'The Kerala election: A shift to the left – and a move to the right', *LSE Blog*, 26 May 2016 (<http://blogs.lse.ac.uk>).

runner-up in six other constituencies.¹⁰⁴ More significantly, the BJP got over 10% of the popular vote (15% including its allies). Modi's party managed not only to keep its social base among the upper castes intact, but made inroads among social segments that had traditionally supported the UDF, including Dalits and Christians, and, to a lesser extent, among the backward castes, which form the core of the LDF's support.¹⁰⁵ On the other hand, however, distrust for the BJP's divisive policies – which are supported by a very large network of RSS's *shakas* in the state – remain unpopular in Kerala: over 50% of the respondents to the Lokniti pre-poll said that they would never vote for the BJP.¹⁰⁶

3.1.5. The impact of the 2016 state elections

Overall, as figure 'a' shows, the 2016 state elections were good news for the BJP. On the one hand, the party conquered a state (Assam) where it had traditionally been weak, obtaining a victory that could represent a starting point for further penetration into India's North-East. The results in Kerala were also encouraging. On the other hand, the BJP failed to capitalise on the good results obtained in the 2014 elections in West Bengal and Tamil Nadu. In the former case, however, the party was able to establish itself as a conspicuous presence in Bengali politics, at least in terms of its vote share. The news for the Congress were much less positive, as the party was unable to reverse the declining trend that started with the resounding defeat at the 2014 elections.

Table 6 Congress-BJP election results 2011-2016					
State	Parties	2011 state vote share	2014 Lok Sabha vote share	2016 state vote share	2016 state seats
Assam	BJP	11.47	36.86	29.5	60
	Congress	39.39	29.9	31	26
West Bengal	BJP	4.06	17.02	10.2	6
	Congress	9.09	9.69	12.3	44

104. 'Left gets it right.', *Frontline*, 28 May 2016.

105. Rahul Verma & Pranav Gupta, 'Lokniti-CSDS post-poll analysis: BJP enters Kerala cutting into votes of Left, Congress fronts', *The Indian Express*, 23 May 2016.

106. K.M. Sajid Ibrahim & Sandeep Shastri, 'Lokniti-CSDS Post-Poll Analysis: Why this vote for change was different', *The Indian Express*, 23 May 2016.

Kerala	BJP	6.03	10.45	10.5	1
	Congress	26.4	31.47	23.7	22
Tamil Nadu	BJP	2.22	5.56	2.8	0
	Congress	9.3	4.37	6.4	8
Total 2016	BJP				67
	Congress				100

Source: Election Commission of India

Fig. a - Congress-BJP election results 2011-2016

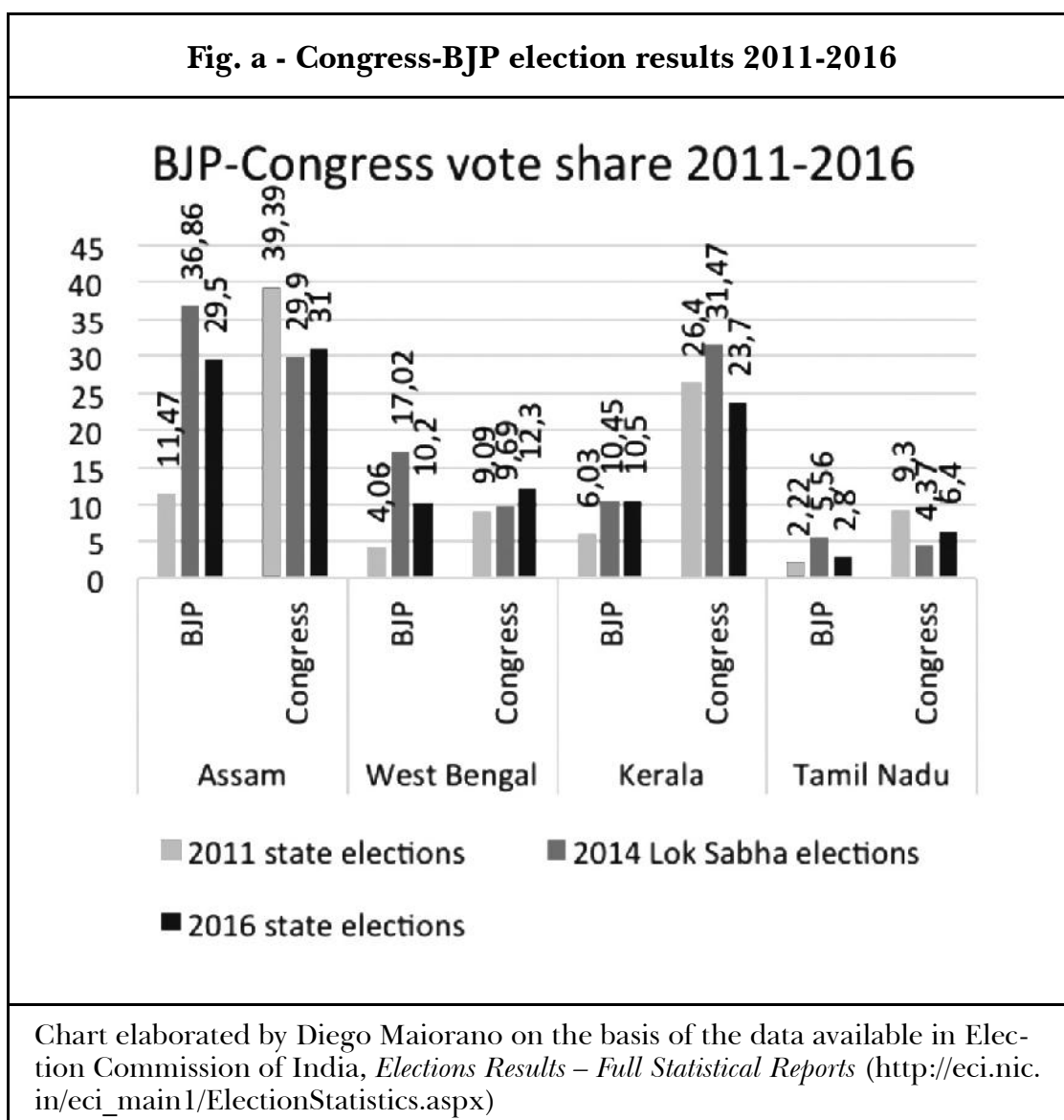


Chart elaborated by Diego Maiorano on the basis of the data available in Election Commission of India, *Elections Results – Full Statistical Reports* (http://eci.nic.in/eci_main1/ElectionStatistics.aspx)

3.2. Caste protests

A major source of concern for the Modi government was the emergence of caste-based protests in a number of Indian states. These protests were of two types. Those of the first kind, which occurred in Haryana, Maharashtra and Gujarat, were characterised by the dominant middle castes' demand for public sector jobs and for places in public universities. The second type of protest, which occurred in Gujarat, saw the Dalits expressing their anger against the discriminations which they continued to suffer.

The demands for reservations had several traits in common. First, they were all initiated by middle peasant castes: the Jats in Haryana, the Patels in Gujarat and the Marathas in Maharashtra. These three castes are the perfect exemplification of what the Indian sociologist M. N. Srinivas called «dominant caste», by which he meant a caste that «preponderates numerically over other castes and [...] it also wields preponderant economic and political power. A large and powerful caste group can be more easily dominant if its position in the local caste hierarchy is not too low». ¹⁰⁷ In fact, these three castes have been dominating their respective states' politics for several decades after independence¹⁰⁸ and have used their position of power to expand their dominance to other sectors of the economy beyond agriculture.

However, and this is the second common element, the shift towards the urban sectors of the economy does not involve the totality or even the majority of the dominant caste. As a consequence, the members of these castes who remained «stuck» in the agricultural sector – except those holding very large amount of land – saw both their economic and social status rapidly decline, as agriculture entered a period of stagnation at the beginning of the 1990s. Their situation was further aggravated by the shrinking by over 60% of the average size of landowning in the last four decades. ¹⁰⁹

The third common element explaining the middle castes' agitation is the inability of these castes' younger generation to enter the formal sector of the economy, despite the fact that their privileged position had assured them an education. This, of course, has a lot to do with the inability of the Indian economy to generate enough jobs. In this situation, the resentment against lower caste groups that benefit from the reservation policy grew unabated and fuelled the demand for reservations in the public sector and in higher education institutions.

Finally, another common element explaining the middle castes' agitation is the very low sex ration in the three states. According to the 2011

107. M. N. Srinivas, 'The dominant caste in Rampura', *American Anthropologist*, 61(1), 1959, 1-16.

108. Francine R. Frankel & M. S. A. Rao, *Dominance and State Power in Modern India*. New Delhi: Oxford University Press, 2 Vols, 1989.

109. Vipul Mudgal, 'The Absurdity of Jat Reservation', *The Wire*, 22 February 2016.

census, there were only 929, 919, and 879 women per 1,000 men in Maharashtra, Gujarat and Haryana, respectively. In Haryana, the situation was such that women were literally «imported» from other parts of the country to meet the demand for brides.¹¹⁰ It is clear then that, in a context where the overwhelming majority of marriages are arranged, families prefer to marry their daughters to men (even from lower castes) employed in the formal economy. Hence the restlessness of unemployed or underemployed young men belonging to dominant castes and their readiness to join the agitations requesting reservations for their own castes.

The three caste groups which engineered the reservation agitations were not homogenous groups, but were stratified along class lines. As Kumar Kektar notes regarding the Marathas, the protests were led by the lower sections of the community who felt «isolated, neglected, marginalised in the job market and denied opportunities in higher education».¹¹¹ The same type of class differentiation could be seen within the Patels and the Jats.¹¹² This was bad news for Modi, as it was overtly evident that this section of the electorate had clearly not seen *achhe din* («good days») coming, as promised by Modi during his electoral campaign. On the contrary their prospects to join India's economic miracle looked gloomy. It was also a worrying sign for India as a whole, as it was clear that the precarious balance among castes, reached in the early 1990s, was under severe stress.¹¹³ As per a Supreme Court order, no more than 50% of the available jobs can be reserved for particular groups. Therefore, opening the access to reservation to additional communities means eroding the available jobs for those which already enjoy it. Opening the Pandora's Box of job reservations could have serious consequences on India's social stability.

Gujarat saw the emergence of another type of widespread protests, namely the one launched by the Dalit communities. On 11 July 2016, a group of gau rakshak (cow protectors) attacked a Dalit family at Una, in Gujarat, who were skinning the carcass of a cow – a job traditionally reserved to Dalits, as it is considered highly impure by Hindus. The attackers filmed themselves lashing seven Dalit youth and spread the video through social media and WhatsApp. The police did not intervene.¹¹⁴ Against the expectations of the *gau rakshak*, however, the Dalit community reacted strongly. Thousands of Dalits took the streets of Gujarat in what has been the largest

110. 'India's «imported» brides', *BBC News*, 23 May 2011.

111. Kumar Kektar, 'A Silence that's deafening', *The Hindu*, 30 September 2016.

112. Christophe Jaffrelot, 'Quota for Patels? The Neo-middle-class Syndrome and the (partial) Return of Caste Politics in Gujarat', *Studies in Indian Politics*, 4(2), 2016, pp. 218-232.

113. Pratap Bhanu Mehta, 'After Mandal', *Indian Express*, 23 April 2016.

114. Aarefa Johari, 'Gujarat police chose not to stop assault of Dalit tanners, alleges independent fact-finding report', *Scroll.in*, 21 July 2016.

lower caste protest of the last thirty years.¹¹⁵ The protestors also refused to perform their «impure» job and deposited hundreds of cow carcasses in front of government buildings and police stations.¹¹⁶ Gujarat's chief minister, Anandiben Patel, resigned.

Modi – as usual, in this kind of situations – was very slow to condemn the Una attacks. He did so almost one month after the episode, but did it in unusually strong terms.¹¹⁷ The usual hesitation is due to the dilemma that the prime minister faces when Hindu extremists commit crimes that he cannot just ignore – like the 2015 lynching of a Muslim man accused of having cow meat in his house. The dilemma stems from his institutional compulsions as prime minister, which require him to condemn such acts and the demands of the network of Hindu extremist organisations that form the core of his own party's support base. The unusually strong condemnation, on the other hand, was probably due to electoral considerations. With two states going to polls in 2017 (Uttar Pradesh and Punjab) where the proportion of Dalits is 21 and 32%, respectively,¹¹⁸ the prime minister could not afford to be seen as an anti-Dalit figure. Furthermore, Modi could not afford to offer the Dalit leader of the Bahujan Samaj Party (BSP), Mayawati, a formidable card to attack him and a powerful weapon to unite the Muslims and the Dalits behind the BSP.¹¹⁹ However, the Vishva Hindu Parishad (VHP), namely one of the most redoubtable organizations of political Hinduism, did not digest Modi's pragmatism well and warned the prime minister that he would pay the insult to the *gau rakshaks* in 2019.¹²⁰

4. Foreign policy

Since his ascent to power, Narendra Modi's foreign policy has appeared to be characterized by the pursuit of two key objectives: projecting India as a major power on the world stage and getting all possible foreign help in promoting India's own economic development. Up to the end of 2014, these objectives were vigorously pursued by following two main strate-

115. Aarefa Johari, 'An assault on Dalits may have triggered the biggest lower-caste uprising in Gujarat in 30 years', *Scroll.in*, 20 July 2016.

116. Darshan Desai, 'At massive rally in Ahmedabad, Dalits pledge not to pick up Gujarat's carcasses', *Scroll.in*, 31 July 2016.

117. Ajaz Ashraf, 'Cow calculus: What Modi stood to lose by keeping silent on gau rakshaks', *Scroll.in*, 7 August 2016.

118. Ministry of Home Affairs, Census of India, 2011, Primary Census Abstract Data for Scheduled Castes (SC) (India & States/UTs - District Level) (www.censusindia.gov.in/2011census/population_enumeration.html).

119. Sudha Pai, 'Will Mayawati Succeed in Uniting Dalits and Muslims Ahead of the UP Elections?', *The Wire*, 26 August 2016.

120. 'You'll pay for it in 2019 polls, VHP warns PM Narendra Modi', *The Indian Express*, 8 August 2016.

gies. The first was the strengthening of the political, economic and military connection with the US, while attempting, with some success, not to damage the traditional ties of friendship with Russia. The second strategy was the pursuit of a binary approach to China, based on the concomitant attempt at both engaging and containing it.

In the year under review, while the two main strategic objectives remained the same, the policies which were implemented to reach them gradually morphed into something different. In particular, the pursuit of an increasingly closer relationship with Washington appeared to become an end in itself, rather than a means to an end. In turn, the increasing closeness between New Delhi and Washington had the net result to negatively affect the India-China relation (which, on the other hand, was no doubt one of the results pursued by Washington in strengthening its relationship with New Delhi). As a consequence, in spite of some half-hearted attempts by both New Delhi and Beijing to play down their differences, India's China policy transmuted from a binary policy of engagement and containment into a unitary one, where the engagement part had vanished, leaving only an increasingly stark adversarial containment aspect.

4.1. The India-US relationship

4.1.1. India's increasingly close alignment to Washington

At the beginning of the year under review the initiative in promoting the India-US bilateral relationship appeared to firmly be in the hand of the US. Washington clearly aimed at reaching two main objectives. The first was cajoling New Delhi into signing at least one of the three «foundational» agreements which, in Washington's appraisal, were a sine qua non in fleshing out the India-US military framework of cooperation originally signed in 2005 and renewed in 2015.¹²¹ These «foundational» agreements were the Logistic Support Agreement (LSA), the Communication Interoperability and Security Memorandum Agreement (CISMOA) and the Basic Exchange and Cooperation Agreement for Geo-Spatial Cooperation (BECA). These pacts, according to Washington, would make possible an enhanced integration between the armed forces of the two countries and would allow the transfer of sensitive military technology from the US to India.

The second objective pursued by Washington was inducing India to take part with the US in the joint patrolling of the South China Sea.

Both objectives were pursued by Washington in such a public and blatant way to embarrass both the Modi government and even some of the

121. Wasantha Rupasinghe, 'India in talks to open ports, bases to US military, *World Socialist Web Site*, 16 January 2016.

most outspoken pro-US Indian commentators.¹²² In fact, both the Modi government and most Indian commentators, while not adverse to an increasingly close embrace with the US, were reluctant to appear to openly and provocatively taking an anti-China stand (as both the signing of a military agreement with the US and taking part in joint patrols in the South China Sea were bound to be seen). As a result, while the negotiation for the LSA went on, Indian Defence Minister Manohar Parrikar was sent to Beijing to convince the Chinese that the pact itself was not aimed against them.¹²³ At the same time, Parrikar bluntly denied that the Indian government was entertaining any project of jointly patrolling the South China Sea with the US Navy.¹²⁴ This being the situation, on 12 April the news became public that India and the US had agreed «in principle» to a somewhat modified version of the LSA, which now took the name of Logistic Exchange Memorandum of Agreement (LEMOA).¹²⁵ Later on, on 18 May, a flotilla made up by four of the most powerful and modern ships of the Indian Navy left India for the South China Sea and North West Pacific,¹²⁶ beginning, according to former Indian Ambassador M.K. Bhadrakumar, «an incomprehensible mission lasting a month and a half for no rhyme or reason other than simply annoying Beijing».¹²⁷ Finally, in June, units of the Indian, US and Japan navies started the 20th session of «Exercise Malabar», with a first harbour phase at the Japanese port of Sasebo (10 to 13 June), followed by a sea phase in the Philippine Sea (14 to 17 June).¹²⁸ The exercise confirmed both the increasing

122. K. Ratnayake, 'US presses India to join anti-China alliance', *World Socialist Web Site*, 5 March 2016. Well-known pro-US commentator C. Raja Mohan, complained that «Washington is trying to conduct negotiations in India through the Indian media» and went on stating that «Even as Delhi tries to advance India's strategic cooperation with the United States, an overly eager Washington is undermining the prospects for forward movement with its public diplomacy». C. Raja Mohan, 'Raja-Mandala: Trading places', *The Indian Express*, 9 March 2016.

123. 'Parrikar in Beijing for weeklong China-India talks', *Hindustan Times*, 18 April 2016.

124. 'India Rejects Joint Naval Patrols with US in South China Sea', *VOA NEWS*, 11 March 2016.

125. 'Indo-US Logistic Support Agreement is anti-national: Congress, Left slam Modi govt for move which «will hit India's independence»', *Firstpost*, 13 April 2016; 'India will be seen as part of US military bloc: Congress on logistics agreement', *The Indian Express*, 13 April 2016.

126. 'Indian navy ships in South China Sea; China sees red', *DNA*, 22 May 2016; Deepal Jayasekera, 'Indian warships enter South China Sea', *World Socialist Web Site*, 28 May 2016.

127. M.K. Bhadrakumar, 'Our China Policy stumbles into cul-de-sac', *Indian Punchline*, 21 June 2016.

128. Prashanth Parameswaran, 'US, Japan, and India Kick off 2016 Malabar Exercise', *The Diplomat*, 12 June 2016; Jugal R. Purohit, 'Malabar 2016: All you need to know about US, Indian and Japanese joint naval exercise that begins today', *India Today*, 14 June 2016; Indian Navy, *Exercise Malabar – 2016* (<https://www.indiannavy.nic.in/content/exercise-malabar-2016>).

military closeness between the US and India and the permanent insertion of Japan in the exercise itself. As noted elsewhere, Japan's inclusion in the annual Malabar exercise was something that Beijing resented as an expression of the US China-containment policy.¹²⁹

All the above means that, although cautiously and somewhat hedging its bets, New Delhi was progressively giving in to Washington's wishes. The gradual reorientation of New Delhi's stand was encouraged by Washington, which expressed its support for India's plans to expand its navy from 130 to 166 warships, inclusive of a third aircraft carrier. Also Washington sponsored the plan of selling and producing in India two state-of-the-art US military aircrafts: Lockheed Martin's F-16, a single-engine multirole all-weather fighter jet, and Boeing's F-18-Hornet, a twin-engine supersonic, all-weather carrier-capable multirole combat jet.¹³⁰

4.1.2. Narendra Modi goes to Washington ... once again

Just on the eve of Exercise Malabar 2016, namely from 6 to 8 June, Narendra Modi undertook his fourth trip to the States in little more than two years. In fact, which side – if Washington or New Delhi – took the initiative in making possible Modi's visit remained unclear, as unclear remained the Indian Premier's real objectives in visiting the US once again. According to Washington-based analyst Seema Sirohi, the visit primarily aimed at «consolidating the gains made under President Barack Obama while stanching the negativity in the US Congress».¹³¹ In fact, what is certain is that, in the run-up to Narendra Modi's visit, the «negativity» against India was running high in the host country. On 24 May, two weeks before Modi's landing in the US, a hearing of the Senate Foreign Relations Committee (SFRC) on US-India bilateral relations saw several senators harshly criticizing India. These criticisms encompassed both India's dismal record in the field of civil rights and its alleged lack of concrete steps as far as economic reforms were concerned.¹³² Particularly hard hitting in his criticism was SFRC Chairman

129. Torri & Maiorano, 'India 2015: The uncertain record of the Modi Government', pp. 390-91.

130. K. Ratnayake, 'India-US military cooperation «robust and deepening»', *World Socialist Web Site*, 14 April 2016.

131. Seema Sirohi, 'Modi in the U.S.: a changed landscape', *Gateway House*, 29 May 2016. The explanation given by Arun Singh, India's Ambassador in Washington, was very much the same. The visit, argued Singh, was «really a part of consolidating and celebrating the India-US relationship [...] seeing what more can be done as we move into the next year when there will be transition of the administration in the US and also elections in the US Congress». 'Modi's US visit: Consolidating & celebrating a relationship', *Business Standard*, 2 June 2016.

132. Seema Sirohi, 'What explains India getting such a public lashing from US lawmakers on the eve of Modi's visit?', *Scroll.in*, 29 May 2016. See also Vicki Needham, 'Business groups push White House, Congress to improve US-India relationship', *The Hill*, 24 May 2016.

Bob Corker, who accused India to have «12 to 14 million slaves», and who was «reportedly upset with India over the non-consummation, so far, of the Indo-US Civil Nuclear deal in the shape of a contract for an American reactor».¹³³

Modi's stay in the US (6-8 June 2016) was accompanied by «the extraordinary decision by the US Congress' Tom Lantos Human Right Commission to hold a special hearing on June 7», which was finalised «to examine the current state of human rights in India, challenges to fundamental freedoms, and opportunities for advancement».¹³⁴ In spite of all this, Modi's visit went off positively, having its two highlights in his meeting with Obama (7 June) and in the speech in front of a joint session of the US Congress (8 June),¹³⁵ where the Indian premier was applauded not less than eight times.¹³⁶

The concrete results of the visit could be detected by analysing the joint US-India communique dated 7 June 2016. Cutting through the mumbo jumbo which – as is often the case in similar cases – made up the bulk of a quite lengthy document,¹³⁷ the most important point was the announcement of «the start of preparatory work on site in India for six AP 1000 [nuclear] reactors to be built by Westinghouse» and to be financed by India and the U.S. Export-Import Bank, working together «toward a competitive financing package for the project.»¹³⁸ It is worth stressing that, in the aftermath of the release of the joint communique, the US legislators' preoccupations for India's mishandling the civil rights of its minorities

133. Seema Sirohi, 'What explains India getting such a public lashing'. The rather funny number of «12 to 14 million» slaves seems to be based on the Global Slavery Index published by the Walk Free Foundation, created by Australian billionaire Andrew Forrest. According to Seema Sirohi ('Modi in the U.S.: a changed landscape', *Gateway House*, 29 May 2016): «Apparently the figure of 12 million [slaves] includes every oppressed group in India from child labour to trafficked women to bonded labour and *anyone earning less than a dollar per day*» (emphasis added). Of course Ms. Sirohi's claims appears difficult to accept, as the number of people earning less than a dollar a day in India is much, much huger than 12 to 14 million. In fact, according for example to interview released by well-known JNU economist Himanshu in 2015, 75% of the 670 million Indians living in rural areas earn an average of Rs. 33 per person, namely around half US dollar. Saumya Tewari, '75 percent of rural India survives on Rs 33 per day', *India Today*, 13 July 2015. There is no reason to think that, since then, the figure indicated by Himanshu has substantially decreased.

134. M.K. Bhadrakumar, 'No free lunch for Modi at Capitol Hill', *Indian Punchline*, 2 June 2016.

135. 'PM Narendra Modi's speech in US Congress: Read the full text', *The Indian Express*, 10 June 2016.

136. Deepal Jayasekera, 'Modi declares enhanced Indo-US military alliance «need of the hour»', *World Socialist Web Site*, 9 June 2016, § 10.

137. It was some 3,800 word length.

138. The White House, Office of the Press Secretary, 'Joint Statement: The United States and India: Enduring Global Partners in the 21st Century', 7 June 2016, section 3.

and for the presence of «12 to 14 million slaves» appear to have vanished into thin air.

Two other points in the communique are worth being highlighted. One was the fact that the two parties «welcomed the finalization of the text of the Logistics Exchange Memorandum of Agreement (LEMOA)» and announced that the US recognized India as «a Major Defense Partner». ¹³⁹ In turn, the last point implied that the US was ready to favour the flow of military technology to India «to a level commensurate with that of its closest allies and partners». ¹⁴⁰

Still, at the end of the day, apart from the case of the six nuclear reactors for which «the beginning of engineering and site design work» was to start «immediately» and be followed by the «finalizing the contractual arrangements [between the Nuclear Power Corporation of India Ltd, and Westinghouse] by June 2017», ¹⁴¹ the concrete result of the visit were «very meagre – almost zero». ¹⁴² In fact, the signing of LEMOA, which was supposed to take place in the run up to or during Modi's visit, did not happen. Moreover, what concretely was implied by India's elevation to «Major Defense Partner» remained hazy. Finally, there was no significant positive development in the US-India economic relationship. In particular there was no progress on the negotiation of the Totalisation Agreement, aimed at avoiding double taxation of income with respect to social security taxes, and, in the joint communique, a «deathly silence» was maintained on the much sought after (by the Americans) Bilateral Investment Treaty. ¹⁴³

4.1.3. *India's failed attempt at joining the Nuclear Supplier Group*

Among the objectives eagerly sought after by the Modi government with the US's active support, two were considered particularly important for reaching the dual goal of establishing India as a recognised world power and making possible its limitless access to and participation in high military technology and nuclear trade. They were, respectively, the membership in the Missile Technology Control Regime (MTCR) and in the Nuclear Supplier Group (NSG). In both organizations, the application of an aspirant member could be accepted only if all the member-states agreed with it.

139. *Ibid.*, section 16 and 17 respectively.

140. *Ibid.*, section 17.

141. *Ibid.*, section 3.

142. M.K. Bhadrakumar, 'India's Narendra Modi resets compass for post-Obama America', *Asia Times*, 11 June 2016.

143. Srinath Raghavan, 'As Modi Pulls India Closer to US, the Perils of a Misshapen Relationship Mount', *The Wire*, 9 June 2016. For a synthetic overview of negotiations finalized to the signing of a US-India Bilateral Investment Treaty, see Torri & Maiorano, 'India 2015: The uncertain record of the Modi Government', pp. 386-87.

The MTCR, established in April 1987 and including 34 countries (plus four «unilateral adherents», which followed its rules without being members), formally aimed at slowing «the spread of missiles and other unmanned delivery technology that could be used for chemical, biological and nuclear attacks».¹⁴⁴ However, for India, joining the MTCR had the advantage to allow her to meet the US legal requirements needed for buying around 100 US-produced armed drones, the Predator C Avengers, which Washington had employed with deadly results in Afghanistan and in the Pakistan North-Western Provinces.¹⁴⁵

With the support of the US, India had applied for entrance in the MTCR during the organization's plenary meeting of 5-9 October 2015. However, «in a surprise move», Italy had blocked India's application, by pointing out that the South Asian country was not a party to the Non Proliferation Treaty. This, Italy claimed, «was an obstacle given the MTCR's goal of upholding all treaties pertaining to weapons of mass destruction».¹⁴⁶ However, since then, the real cause of Italy's «surprise move» had been removed,¹⁴⁷ and the above quoted June US-India final communique had rightly given for granted «India's imminent entry» into the MTCR.

On its part, India's entry into the NSG was not a foregone conclusion. The 48-countries group, which had been created by the US in 1975, had as its declared task framing and implementing the rules controlling the sharing of nuclear technology and the trade in fissile material. Ironically the group had been created by US President Richard Nixon as a reaction to India's first nuclear test (18 May 1974) and with the main objective to put an embargo on India's access to nuclear technology and uranium

144. Praveen Swami, 'What are MTCR and NSG, and why does India want to be their part', *The Indian Express*, 10 June 2016.

145. Sanjeev Miglani, 'India in talks to buy U.S. Predator drones, has eye on China, Pakistan', *Reuters*, 11 April 2016.

146. Devirupa Mitra, 'India to be admitted as MTCR Member on Monday', *The Wire*, 26 June 2016.

147. Italy's move was a «leverage to push New Delhi to take a more amenable position on the stay of the two Italian marines facing murder charges in India over the 15 February 2012 killing of two fishermen». *Ibid.* The two Italian marines were forced to stay in India for four and two years respectively (one was repatriated before the other after suffering a heart attack). During all this time, far from being able to put the two Italian marines under trial, the Indian judicial system had been incapable to bring any formal charge against them. This had induced the European Parliament to adopt a resolution in January 2015, declaring that the detention of the Italian marines without any formal legal charge was a «serious breach of their human rights». 'MEPs call for Italian marò accused of killing Indian fishermen to be repatriated' (Press release), *European Parliament News*, 15 January 2015. Finally, in May 2016, India accepted an international arbitration on which of the two countries had jurisdiction over the case, and let the second marine go home; 'India lets Italian marine go home as UN mediates over fishermen shooting', *The Guardian*, 26 May 2016.

(a mineral which, in India, is scarce). Things had changed in the 2005-08 period, when the US and India had reached the India-US civil nuclear agreement. One of its results had been that, in 2008, the US had successfully pressured the NSG to allow India a «waiver», which, de facto, gave the South Asian country most of the advantages coming from a membership in the NSG. This means that India's desire to join the group as a full member had less to do with practical advantages than with its symbolic meaning.¹⁴⁸ As significantly stated by India's Minister for External Affairs, Sushma Swaraj, joining the NSG would make India part of «rule making» as opposed to being a «rule taker».¹⁴⁹

In pursuing full membership in the NSG, India had the US full support, which had been reiterated in no uncertain terms in the June US-India joint communique. Also, Narendra Modi had finalized some of his hectic world trips to bring on his side some of the NSG member nations which still appeared cold towards India's full membership. However, the 26th NSG plenary, held in Seoul (23-24 June), resulted in an authentic diplomatic debacle for India, as «to New Delhi's and Washington's chagrin», the NSG plenary did not even formally discuss India's application. Instead it held a general discussion on the rules governing the adherence of new states and issued a statement at its conclusion that said “full, complete and effective” implementation of the Nuclear Non-Proliferation Treaty (NPT) should remain the basis of NSG membership.»¹⁵⁰ This, of course, neatly blocked any present and future Indian membership, given India's long-standing policy not to sign the NPT.

A few days later, on 27 June 2016, as a kind of consolation prize, India was finally able to join the MTCR, which, apart from making possible for her to acquire the US killer drones, was supposed to allow her to buy high-end missile technology.¹⁵¹

148. According to Ashok Sajjanhar, membership in the NSG would provide «greater certainty and a legal foundation for India's nuclear regime and thus greater confidence for those countries investing billions of dollars to set up ambitious nuclear power projects in India». See Ashok Sajjanhar, 'Why is NSG Membership important for India?', *Institute for Defence Studies and Analyses, DSA COMMENT*, 21 June 2016. In fact, as long as the 2008 waiver was in force the numerous nuclear corporations – in particular French, Russian and American – jostling for fat contracts in India appeared totally unconcerned about India being or not being a full NSG member.

149. 'Centre names China as country blocking India's entry into Nuclear Supplier Group', *The Indian Express*, 21 July 2016.

150. Wasantha Rupasinghe, 'US attempt to hustle India in Nuclear Supplier Group stalls', *World Socialist Web Site*, 5 July 2016. See also 'Public statement after NSG plenary meeting', *The Hindu*, 24 June 2016.

151. 'India to become full member of MTCR today', *The Indian Express*, 27 June 2016.

4.1.4. *The reasons of the NSG debacle*

India squarely put the responsibility for its failed attempt to join the NSG on a «single country», namely China,¹⁵² a thesis which was promptly taken up and amplified by the bulk of the Indian media. However, even if China's role as the leading country in blocking India's march to full membership is undeniable, the accusation that it accomplished it single-handedly is disingenuous. Indeed several NSG member countries, although unwilling to take an open anti-India stand, were far from enthusiastic in seeing her gaining full membership. These were those states – such as Belarus, Ukraine and Kazakhstan – which were born from the dissolution of the URSS, inheriting from her conspicuous nuclear arsenals. All these states had been induced to «denuclearize» and to sign the NPT by the joint pressure of the US and Russia. The same had happened with South Africa, which during the apartheid regime had produced its own nuclear weapons.¹⁵³ If these countries, although unhappy about India's membership, were reluctant to openly oppose it, there were others that, mainly on principle and, no doubt, unencumbered by any relevant ties with India, were clearly averse to opening the door to a state which had always highlighted its unwillingness to sign the NPT. These states included Brazil, Ireland, Austria, Turkey and New Zealand.¹⁵⁴

On its part, China had argued the anti-Indian position taking the moral high ground. According to China, allowing full membership of a state which had stubbornly refused to sign the NPT would endanger the whole nuclear non-proliferation regime and contravene a key NSG guideline. As stressed by an editorial of the official Chinese Communist Party daily *Global Times*: «[...] India wants to be the first exception to join the NSG without signing the NPT. It is morally legitimate for China and other members to upset India's proposal in defense of principle».¹⁵⁵

Once all the above has been pointed out, it remains the fact that – as shown in a successive section of the present article – China's opposition to India's membership in the NSG was a natural by-product of the deterioration of the India-China bilateral ties during the year under review.

152. Initially China was not explicitly named, but on 20 July India's Foreign Minister Sushma Swaraj explicitly indicated it as the country which had created «procedural hurdles» to India's NSG membership. 'Centre names China as country blocking India's entry into Nuclear Supplier Group', *The Indian Express*, 21 July 2016.

153. M.K. Bhadrakumar, 'Modi's India belongs to USINJA – not BRICS', *Indian Punchline*, 25 June 2016.

154. 'Brazil, others oppose NSG entry of non-NPT nations like India: Reports', *Hindustan Times*, 23 June 2016.

155. 'Delhi's NSG bid upset by rules, not Beijing', *Global Times*, 28 June 2016.

4.1.5. *Locking in the US-India military connection*

The second half of the year under review saw the locking in of the military US-India connection. On 29 August, Indian Defence Minister Manohar Parrikar and US Defense Secretary Ashton Carter at long last announced the signing of the LEMOA.¹⁵⁶ While Parrikar insisted that LEMOA «does not create any obligation on either party to carry out any joint activity», most analysts saw it as «a major and decisive step in the direction of making India a ‘linchpin’ of the US rebalance to the Indo-Pacific».¹⁵⁷ As a matter of fact, the plain truth was that, by then, the military connection between India and the US had become so close that the number of US-India joint military exercises exceeded those held by the US with any other friendly nation.¹⁵⁸ Also, the US had become India’s main supplier of weapons and weapon systems, as, according to Modi himself, the related imports had moved «from almost zero to ten billion dollars in less than a decade».¹⁵⁹

The August Carter-Parrikar meeting also triggered a process aimed at getting a precise definition of what India’s designation as US’ «Major Defence Partner» concretely implied, in particular with reference to technology transfer and cooperation.¹⁶⁰

While the two parties were discussing the question, a legislative process, which had started in the US in the first part of the year and was aimed to institutionalize the US-India military connection,¹⁶¹ progressed up to its successful conclusion, in spite of some difficulties.¹⁶² The decisive turning

156. U.S. Department of Defense, *U.S.-India Joint Statement on the visit of Minister of Defence Manohar Parrikar to the United States*, 29 August 2016.

157. Joshy M. Paul, ‘Locking in US-India ties’, *East Asia Forum*, 1 October 2016.

158. Deepal Jayasekera, ‘US war planes and battleships to start using Indian bases’, *World Socialist Web Site*, 31 August 2016.

159. ‘PM Narendra Modi’s speech in US Congress: Read the full text’, *The Indian Express*, 10 June 2016. Modi’s estimate was possibly an undervaluation, as according to the *CNN*, «sales of US defense equipment to India now reach \$ 14 billion, up some 50-fold from a decade ago». Ravi Agrawal, ‘Why India’s Prime Minister is in Washington ... again’, *CNN*, 7 June 2016.

160. Sushant Singh, ‘India, US finalise Major Defence Partner agreement’, *The Indian Express*, 9 December 2016.

161. U.S. Congress, *H.R.4825 - U.S.-India Defense Technology and Partnership Act*, introduced to the House of Representatives by Rep. George Holding on 22 March 2016 (<https://www.congress.gov/bill/114th-congress/house-bill/4825/all-info>), and *Advancing U.S.-India Defense Cooperation Act*, introduced to the Senate by Sen. Mark R. Warner on 9 May 2016 (<https://www.congress.gov/bill/114th-congress/senate-bill/2901/all-info>). Both bills explicitly aimed at expressing «the sense of Congress» that «the U.S.-India defense partnership is vital to regional and international stability and security».

162. ‘US House approves move to bolster defence ties with India’, *The Indian Express*, 20 May 2016; Lalit K. Jha, ‘US Senate Fails to Pass Amendment to Boost Defence Sales to India’, *The Wire*, 16 June 2016; ‘US Senate refuses to grant India «strategic defence partnership»’, *The Brics Post*, 16 June 2016.

point was reached with the insertion of an «India Amendment» in the US National Defense Authorization Bill 2017, namely the US Defence budget for the year 2017, and its enactment on 8 December 2016.¹⁶³ The «India Amendment» mandated the Secretary of Defense and Secretary of State to jointly act to «recognize India’s status as a major defense partner of the United States», and to «designate an individual within the executive branch», who would «help to resolve remaining issues impeding United States-India defense trade, security cooperation, and co-production and co-development opportunities». More generally, the two US Secretaries were directed to act in such a way as to «facilitate the transfer [to India] of advanced technology» and «enhance defense and security cooperation with India in order to advance United States interests in the South Asia and greater Indo-Asia-Pacific regions».¹⁶⁴ In order to highlight the Congress interest in the concrete implementation of a military partnership with India, the «Indian Amendment» mandated the two Secretaries to jointly submit, «not later than 180 days after the enactment of this Act, and annually hereafter» a report «on how the United States is supporting its defense relationship to India» in relation to the objectives highlighted in the Act. They were also instructed to conduct an assessment – «on ongoing bases» – of the extent to which «India possess capabilities to support and carry out military operations of mutual interest to the United States and India». In turn, this assessment was to be used by the President «to inform the review by the United States of requests to export defense articles, defense services, or related technology to India».¹⁶⁵

Although short on specifics, the «Indian Amendment» clearly highlighted the bipartisan Congressional consensus on the fact that India was seen as a precious instrument in propping up the US military hegemony in the Asia-Pacific, and, consequently and within the limits defined by this task, deserving of receiving all the necessary military technology, including high tech weaponry. Also, the «Indian Amendment» had been thought as

163. For the process leading to the insertion of the «Indian Amendment» in the US Defence budget for the year 2017 see ‘US Congress seeks major defence partner recognition for India’, *The Indian Express*, 1 December 2016; ‘Recognise India as America’s Major Defence Partner, US Congress Asks Obama Administration’, *Swarajiya*, 1 December 2016; ‘US vows to expand ties with «major defence partner» India as Ashton Carter meets Manohar Parrikar’, *The Times of India*, 8 December 2016; ‘US Congress passes bill declaring India «major defence partner»’, *Hindustan Times*, 9 December 2016.

164. House of Representatives, *National Defense Authorization Act for Fiscal Year 2017*, U.S. Government Publishing Office, Washington, 30 November 2016 (<https://www.congress.gov/114/crpt/hrpt840/CRPT-114hrpt840.pdf>). The «Indian Amendment» coincided with section 1292 of the Act, entitled: ‘Enhancing Defense and Security Cooperation with India’, pp. 564-66. The quotations are from pp. 564-65; emphasis added.

165. *Ibid.*, pp. 565-66.

a legal proviso binding the new Trump administration, which was about to take charge on 20 January 2017.

The bilateral aspect of the Major Defense Partnership was taken care during Ashton Carter last official visit to India, soon after the approval of the National Defense Authorization Act 2017. When meeting for an unprecedented seventh time, the US Defense Secretary and the Indian Defence Minister announced the finalisation of the Major Defense Partnership between the US and India (8 December 2016). Although the details of the benefits accruing to India were not made public,¹⁶⁶ the US engaged at institutionalising «the progress made to facilitate defense trade and technology sharing with India to a level at par with that of the United States' closest allies and partners».¹⁶⁷ Quite truthfully, in commenting the state of US-India relationships, Ashton Carter noted that «defense relations» had become a «major driver» in Indo-US bilateral relations.¹⁶⁸

4.2. *The India-China relationship*

4.2.1. *The contingent and long term difficulties in the relationship*

As noted above, during the year under review, the India-China relationship became increasingly adversarial, in spite of some half-hearted attempts by the two parties to play down their differences.¹⁶⁹ The dismal state of the bilateral relationship was epitomized by two decisions by China: its role in stopping in its track India's application to the NSG – which has been discussed above – and its «technical hold» on India's request to the UN to designate Masood Azhar as a terrorist. Masood Azhar, a Pakistani national, was held responsible by India for several terrorist attacks, among which there were the 13 December 2001 attack on the Indian Parliament and, during the year under review, the attack on the Pathankot airbase (which is discussed below). Hence India's request to the UN 1267 Committee to des-

166. Sushant Singh, 'India, US finalise Major Defence Partner agreement'.

167. U.S. Embassy & Consulate in India, *India-United States Joint Statement on the visit of Secretary of Defense Carter in India*, 8 December 2016.

168. Keith Jones, 'To target China, US further enhances military-strategic alliance with India', *World Socialist Web Site*, 15 December 2016.

169. As already noted, in April Indian Foreign Minister Manohar Parrikar was sent to Beijing to convince the Chinese leadership that the India-US LSA was not aimed against China. For his part Chinese Foreign Minister Wang Yi, in August, while on an official visit in New Delhi, stated that: «Common interests between China and India far exceed their differences, and the need for cooperation far exceeds the competition». 'China, India agree on mutual support to successfully host G20, BRICS summits', *Xinhua*, 14 August 2016. Also, China and India continued to perform joint military exercises, as they have been doing since 2007. 'China, India hold joint military exercises on border', *The Brics Post*, 8 February 2016; 'China, India Hold Joint Military Drill', *The Diplomat*, 17 November 2016.

ignite Azhar as a terrorist, which would impose a global travel ban and an international asset freeze on him. The UN 1267 Committee, made up by 15 member countries and in charge of imposing sanctions on terrorist Islamic organizations, had already declared Jaish-e-Mohammad, the Pakistan based organization founded and headed by Masood Azhar, as an al-Qā'ida-related terrorist outfit in 2001.¹⁷⁰ This and Masood Azhar well known terrorist activities should have made the acceptance of India's request – which was co-sponsored by the US, the UK and France – a foregone conclusion. However, China put a «technical hold» on it, for the first time on 31 March 2016 and for a second time on 1 October 2016, which, as the 1267 UN Committee works on consensus, was enough to thwart India's request.

As China herself has to tackle what she defines Islamic terrorism in her own Xinjiang Uyghur Autonomous Region, and given a world environment of «growing global crescendo against terrorism»,¹⁷¹ her obdurate stand on Masood Azhar, which isolated her from the other 14 members of the 1267 Committee, was somewhat surprising. It has been explained by pointing out to several motives: the growing strategic and economic closeness between China and Pakistan, and the pivotal role of the latter in defending China's interests in such organizations as the Organisation of Islamic Cooperation, where China is not represented; India's increasingly closeness to the US, which was perceived by China as a threat; and last but not least China's resentment towards India for offering protection and asylum to the Dalai Lama, who, in defending Tibetan rights in Tibet, was seen by China as playing a role equivalent to that of Masood Azhar, as a self-proclaimed defender of Muslim rights in India.¹⁷²

When all this is said, the fact remains that both the NSG and the Masood Azhar spats were less the cause than the symptoms of a deep-seated malaise affecting the bilateral relations between the two Asian giants. This malaise had as its possibly starting point the 1962 India-China war and the inability/unwillingness of both parties to find a lasting solution to the problems of which the 1962 war was both the consequence and the cause. This does not mean that there have not been attempts to solve the problems dividing the two giant neighbours; but it certainly means that these attempts have not been sustained and persistent enough. No doubt, the reciprocal lack of trust and respect between the two peoples at large, which could not but be reflected in the attitude the two political leaderships, and

170. A good introduction to the history of Jaish-e-Mohammad and Masood Azhar's activities is given by Muzamil Jaleel, 'Explaining the history of Masood Azhar's Jaish-e-Mohammad, the mystery of its re-emergence', *The Indian Express*, 5 January 2016.

171. 'China's hold on Masood Azhar's UN terror listing to lapse soon', *The Times of India*, 27 September 2016.

172. Elizabeth Roche, 'Why is Masood Azhar so important to China?', *Live Mint*, 17 October 2016.

which weakened the political actions of the few leaders willing to close the gap between the two nations, has been a main cause of the substantial failure of the past attempts to rapprochement.

Regrettably, even some of the strategies which have been pursued to close the gap between the two nations have unexpectedly backfired. This is the case of the economic connection, whose enhancement started to be pursued in earnest in particular following the visit of Indian prime minister Atal Behari Vajpayee to China in 2003. Since then, the economic interexchange between the two Asian giants has spectacularly grown, but so has India's trade deficit vis-à-vis China.¹⁷³ In the assessment of the President of the Confederation of Indian Industry, Naushad Forbes: «From just about \$3 billion in trade at the turn of the century, the [two] countries are now eyeing \$100 billion worth of merchandise trade. However, the imbalanced nature of this engagement raises issues of sustainability».¹⁷⁴ In fact, as noticed by *The Wall Street Journal*: «Some of China's biggest exports to India are telecommunications equipment, computer hardware, industrial machinery and other manufactured goods», while «India sends back mostly raw materials such as cotton yarn, copper, petroleum products and iron ore».¹⁷⁵ Given the different added value of the two typologies of goods, India's trade deficit vis-à-vis China was a foregone conclusion.¹⁷⁶

Of course, the deficit against India in the commercial balance could have been rectified by increasing Chinese investments in India. But in spite of India's rosy expectations on the subject, this had not happened or, rather, had happened in an inadequate manner. While India was well-aware of the problem and the need to solve it, China, in spite of some fair promises,¹⁷⁷ still during the year under review did not take any concrete step in the direction wished for by India.

4.2.2. *The India-China competition in Asia and Africa*

Even without the specific reasons of friction which have characterized the India-China relation at least since the early 1960s, two neighbour-

173. Richard M. Rossow, 'India's Trade Reality: Goods Trade Imbalance with China Spikes', *CSIS*, Vol. 5, Issue 6, June 2015

174. Naushad Forbes, 'The growing business links between India and China', *World Economic Forum*, 22 June 2016.

175. Anant Vijay Kala, Raymond Zhong & Niharika Mandhana, '5 Gaps That Define the India-China Relationship, in Charts and Maps', *The Wall Street Journal*, 13 May 2015.

176. S K Mohanty, *India-China Bilateral Trade Relationship, Study Prepared for Reserve Bank of India*, New Delhi: RIS - Research and Information System for Developing Countries, January 2014.

177. Sutirtho Patranobis, 'Indian trade deficit with China rises to \$45 billion mark', *Hindustan Times*, 13 January 2016.

ing and rapidly growing giant countries, with clear and understandable ambitions to wield their influence on the world stage – such as China and India have been since the late 1970s and the early 1990s respectively – were, in a way, bound to enter into a competition. This, of course, is exactly what has happened and what did characterize their respective foreign policies in Asia and Africa also in the year under review. India, in competition with China, attempted to strengthen its influence in Africa;¹⁷⁸ continued to reinforce its connection with Vietnam; and backed Indonesia's position on the South China Sea dispute with China.¹⁷⁹ On its part China, in direct competition with India, strengthened its presence in Nepal and in Bhutan, tried to do the same in Bangladesh and in Sri Lanka, and, more importantly, went on with its project to make of Pakistan the fulcrum of the gigantic Belt and Road Initiative (formerly the One Belt One Road or OBOR project).

4.2.3. *India and the China-Pakistan Economic Corridor*

There is no need to dwell on the OBOR as it has been discussed elsewhere in this and in the past issues of *Asia Maior*. What it is important to stress here is that the OBOR is generally perceived by New Delhi as an exclusively geostrategic project, which has among its main targets that of surrounding and isolating India with a series of Chinese-controlled bases and areas of influence. The economic imperative which is driving China in implementing the OBOR and which is possibly the project main engine, while clearly seen by many Asian countries – including the majority of the South Asian ones – has constantly been ignored by the bulk of Indian politicians and intellectuals.¹⁸⁰ Now, in 2016, the pivot of the whole project appeared to be the China-Pakistan Economic Corridor (CPEC). As noted by former Indian Ambassador Talmiz Ahmad – one of the few intellectuals to have a well-balanced and on the whole positive view of the project: «Finalised in April 2015 on the basis of 51 agreements, the CPEC consists of a series of highway, railway and energy projects, emanating from the newly developed port of Gwadar on the Arabian Sea [and connected to Western China], all of which taken together will be valued at \$46 billion. These projects will generate 700,000 jobs in Pakistan and, when complet-

178. Wasantha Rupasinghe, 'India and US deepen strategic collaboration in Africa', *World Socialist Web Site*, 6 August 2016.

179. Elizabeth Roche, 'India's tit-for-tat for Chinese core interests could rile Beijing: analysts', *Live Mint*, 14 December 2016.

180. Of course there are exceptions. See, e.g., Kadayam Subramanian, 'India must view China's OBOR drive positively', *Asia Times*, 29 March 2016, and Prem Shankar Jha, 'Why India Must Embrace China's One Belt One Road Plan', *The Wire*, 13 August 2016.

ed, add 2-2.5% to the country's GDP». ¹⁸¹ Of course, being the pivot of a project which is seen by India as a geostrategic threat, the CPEC has been openly criticized by India. This criticism had been grounded on two main points: the first is that the corridor will go through sections of the former princely state of Kashmir, which have been annexed by Pakistan but that India still claims as part of its own territory; the second objection is that, in spite of what is claimed in the OBOR vision and action plan document – highlighting the need to subordinate the implementation of the project to extensive consultations with the affected countries – ¹⁸² no consultation with India has preceded the launching of the CPEC, which «was presented [to India] as a *fait accompli*». ¹⁸³

Badly concealed by these denunciations, there is the fact that the OBOR in general and the CPEC in particular are seen by India as targeted to promoting an exponential growth of Chinese influence in Asia – which, in turn, is seen as *per se* detrimental to India's own influence – and bound to disconnect India from its own hinterland. In fact, according to this interpretation, the «CPEC is rewriting the economic geography and regional integrity of the subcontinent in a manner that will require more than a tactical, episodic response». ¹⁸⁴ This is a direct result of the fact that the CPEC is bound to firmly connect Pakistan to Xinjiang, breaking its admittedly tenuous but potentially strong historic connection with the remainder of the India subcontinent and creating «a new economic and strategic geography that China wants to define». ¹⁸⁵ By doing this the CPEC not only will open a rapid access to the Indian Ocean for China, but will give it «a presence and for all purposes a colony [sic!] that will allow it room for immediate military and political influence in India's neighborhood and West Asia». ¹⁸⁶

4.3. *The India-Pakistan relationship*

What just said about the lenses through which India sees the CPEC can be kept in mind as a necessary backdrop of the analysis of the deteriorating relations between India and the most powerful of its South Asian neighbours, namely Pakistan.

181. Talmiz Ahmad, 'Who's Afraid of One Belt One Road?', *The Wire*, 3 June 2016.

182. National Development and Reform Commission (NDRC), People's Republic of China, *Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road*, 28 March 2015 (http://en.ndrc.gov.cn/newsrelease/201503/t20150330_669367.html).

183. *Ibid.*

184. Ashok Malik, 'What CPEC means for South Asia: It fundamentally alters Pakistan's alignment, sundering its link to the subcontinent', *The Times of India*, 16 November 2016.

185. *Ibid.*

186. *Ibid.*

4.3.1. *The deterioration of the India-Pakistan relationship: From the Pathankot attack to Modi's Independence Day speech*

The present authors' analysis of the evolution of the India-Pakistan relationship in 2015 ended by highlighting its unexpected turn for the better epitomised by India's External Affairs Minister Sushma Swaraj and her Pakistani counterpart Sartaj Aziz talks in Islamabad, followed on 25 December by Narendra Modi's «surprise move», namely his «unscheduled stopover» in Lahore, to meet the Prime Minister Nawaz Sharif on his birthday. However, the present authors also cautioned their readers that the history of the difficult Pakistan-India relationship, «particularly in the last few decades», was such to make anybody sceptical about the fact that any sudden positive turn could really last over time. They pointed out that: «Both in Pakistan and India there are powerful interests which militate against any real and long-lasting detente between the two countries.» This explained why, «in the past decades, any positive diplomatic steps aimed at pushing forward meaningful negotiations between Islamabad and New Delhi have inevitably been marred by the increase in incidents along the border and, sometimes, by terrorist attacks.»¹⁸⁷

In 2016, the above (easy) prophecy was soon proven right: at the beginning of the year the Indian air force base of Pathankot, in Punjab, was attacked by a six men terrorist commando coming from Pakistan (2-4 January). Before all the terrorists were eliminated, seven Indian soldiers were killed and another 20 were wounded. Also, the Pathankot attack was coupled by the abortive attempt to storm the Indian Consulate in the Afghan city of Mazar-e-Sharif (4 January), an attempt in which one or more Pakistani military were said to be involved.¹⁸⁸

Although the two terrorist attacks did not immediately put an end to «the recent Modi-Sharif camaraderie in Lahore»,¹⁸⁹ they nevertheless caused a suspension of the already planned Indo-Pak Foreign Secretary-level talks, which were supposed to launch the «Comprehensive Bilateral Dialogue» announced by Swaraj and Aziz in Lahore.¹⁹⁰ However, although bleak, the situation was not without silver linings, as shown by two facts. The first was that Masood Azhar, the head of Jaish-e-Mohammed, namely

187. All quotes are from Michelguglielmo Torri & Diego Maiorano, 'India 2015: The Uncertain record of the Modi Government', p. 404.

188. Sudha Ramachandran, 'Indo-Pak peace talks should continue despite terrorists' bid to derail them', *Asia Times*, 9 January 2016. On the involvement of Pakistani military see the testimony of Sayed Kamal Sadat, police chief of the Balkh province, as reported in 'Blast near Indian consulate in Afghanistan's Jalalabad', *Times of India*, 13 January 2016.

189. Sudha Ramachandran, 'Indo-Pak peace talks should continue'.

190. 'India to help Pakistan probe Pathankot terror attack; high-level talks put off', *Asia Times*, 14 January 2016; Ankit Panda, 'Why India and Pakistan Agreed to Delay Scheduled Talks', *The Diplomat*, 15 January 2016.

the Pakistan-based terrorist outfit which the Indian authorities immediately pointed out as responsible for the Pathankot attack, was put «under protective custody» by the Pakistan authorities; the second positive development was that India and Pakistan agreed on the sending of a special Pakistani team to Pathankot, to investigate the terror attack.¹⁹¹

In the following months, both measures did not have any significant follow-up: Masood Azhar disappeared from public view¹⁹² and the Pakistani enquiry on the Pathankot attack did not led to any tangible result.¹⁹³ In spite of this, the relationship between the two countries did not appear to be beyond repair, as shown by the fact that Indian officials made clear that, anyway, Modi would take part in the SAARC meeting, to be held in Islamabad on 9-10 November.¹⁹⁴

Things, however, started to decisively worsen following the resurfacing of the Kashmir problem.¹⁹⁵ On 8 July, the killing by Indian security forces of Burhan Wani, the young and charismatic leader of Jaish-e-Mohammed, a Kashmiri anti-Indian militant group, suddenly triggered a new and massive wave of popular unrest in the Kashmir Valley.¹⁹⁶ This, in turn, offered the opportunity and, at the same time, in a way, forced the Pakistani political leadership to play its time-tested role of defender of the Kashmiri people. Pakistan has never renounced the claim that the whole of the formerly princely state of Kashmir – which India and Pakistan partitioned between themselves by force of arms in 1947-48 – is legitimately part of Pakistan. The claim is based on the fact that Pakistan was born as the fatherland of the Muslims living in colonial India and that the princely state of Kashmir had a Muslim majority. Accordingly, Pakistan has always presented itself as the defender of the rights of the Kashmiri people in India-held Kashmir.

191. 'India to help Pakistan probe Pathankot terror attack'.

192. Azhar reappeared at the beginning of October, when he addressed by phone thousands of his supporters, who were taking part in a very well organised rally in Muzaffarabad. 'The return of Masood Azhar', *Dawn*, 8 October 2016.

193. 'Rajnath's Pakistan Visit Will Be Template for Justifying Modi Trip Admist No Improvement in Ties', *The Wire*, 29 July 2016.

194. *Ibid.* SAARC is the South Asian Association for Regional Cooperation.

195. The Kashmir problem is too complex a topic to be dwelt here, even in an introductory fashion. On it, see Victoria Schofield, *Kashmir in Conflict. India, Pakistan and the Unfinished War*, London: I.B. Tauris, 2000, and Marco Valerio Corvino, 'The resurfacing of the Kashmir question as an internal Indian problem', in this same volume.

196. The Indian state of Jammu and Kashmir is subdivided in Jammu, the Kashmir Valley and Ladakh. Ladakh – the widest area in the state – is sparsely populated by people who mainly follow Buddhism; Jammu is populated by Hindus and the Kashmir Valley by Muslims. However, the Kashmir Valley is by far the most populous area in the state, which makes of Jammu and Kashmir the only Muslim majority state in India. For an analysis of the 2016 unrest in the Kashmir Valley, see Marco Valerio Corvino, 'The resurfacing of the Kashmir question as an internal Indian problem', in this same volume.

Although the massive majority of the Kashmiri Muslims do not identify with either Pakistan or the brand of Islam there prevailing,¹⁹⁷ the fact remains that the policy of defender of the Kashmiri in India not only has consistently been followed by all Pakistani governments, but has conquered the support of the Pakistani public opinion. This being the situation, ignoring the Kashmiri unrest would have been politically risky for the Sharif government.¹⁹⁸ Accordingly, Sharif took the plunge and started to denounce what was happening in the Kashmir Valley. Following even here a time-tested Pakistani strategy, Pakistan's Prime Minister also tried to internationalise the Kashmir question. He called the Middle Eastern countries to raise their voices «over the grave human rights violations taking place in India-held Kashmir» and wrote on the subject to UN Secretary General Ban Ki-moon and UN High Commissioner for Human Rights Zeid Ra'ad.¹⁹⁹

All this could not but have repercussions on India's attitude towards Pakistan. Indeed, Indian Prime Minister Narendra Modi not only answered in kind to Sharif's anti-Indian *démarche*, but upped the ante. In mid-August, he publicly denounced Pakistan for human rights abuses against its own citizens not only in the Pakistani part of Kashmir,²⁰⁰ but in the Pakistani southern province of Balochistan.²⁰¹ Modi publicly brought up these topics twice: the first time during an «all-parties conference», convened on 12 August by the Indian Prime Minister to discuss the unrest

197. Even as recently as 2009, an opinion poll designed by Dr Robert Bradnock, of King's College, London, and Ipsos MORI and administered by Ipsos MORI in conjunction with FACTS Worldwide, showed that only a microscopic minority among the Kashmiris based in the Kashmir Valley – from 2 to 7% - favoured the annexation of Kashmir to Pakistan. Indeed, a massive majority – from 75 to 95% - was for independence. See Robert Bradnock, *Kashmir: Paths to Peace*, London: Chatham House, 2010, in particular Section 6, *Options for the political future*. The report is also available at https://www.chathamhouse.org/sites/files/chathamhouse/public/Research/Asia/0510pp_kashmir.pdf.

198. Prem Shankar Jha, 'A Military Attack on Pakistan Will Lead to India's Worst Nightmare', *The Wire*, 24 September 2016.

199. 'Kashmir unrest: Pakistan urges EU, OIC to take notice of human rights abuses', *Dawn*, 13 July 2016; 'PM condemns «brutal» oppression of Indian forces' in top security meeting on Kashmir', *Dawn*, 22 July 2016; 'Nawaz Sharif writes to UN on Kashmir, calls situation «violation of basic human rights»', *Firstpost*, 9 August 2016; 'Kashmir is not India's internal matter: Pakistan PM Nawaz Sharif and his blah, blah', *Firstpost*, 10 August 2016.

200. The Pakistani part of Kashmir is called «Azad Kashmir», namely «free Kashmir», by Pakistan and «Pakistan Occupied Kashmir (POK)» by India. In a way, adopting one or the other label means to implicitly espouse either the Pakistani or the Indian official position vis-à-vis the Kashmir question. As the present authors' views do not coincide with either, they have tried to make as little use as possible of both the terms «Azad Kashmir» and «Pakistan Occupied Kashmir/POK».

201. Deepal Jayasekera and Keith Jones, 'Indian PM Modi «plays Balochistan card» against Pakistan', *World Socialist Web Site*, 20 August 2016.

in the Kashmir Valley; the second time three days later, during his 15 August Independence Day address to the nation. In the latter occasion, Modi not only repeated the accusations made on 12 August, but claimed to be speaking in the name of the people of Balochistan, Pakistan Occupied Kashmir and Gilgit-Baltistan.²⁰²

Modi's remarks, although somewhat justified by the Pakistani diplomatic offensive, did sign the opening of a new and more aggressive phase in India's Pakistan policy. Indian politicians had routinely criticized Pakistan for its behaviour on the two sides of Kashmir, which was justified by the fact that – exactly as Pakistan – India officially claims the whole of the formerly princely state of Kashmir as its own.²⁰³ However, attacking Pakistan for its policies in Balochistan was something unprecedented, which denoted «a first, and deliberate, shift in India's consistent policy of refraining from commenting on the internal affairs of another country».²⁰⁴ More importantly, Modi's claim to speak on behalf of the inhabitants of Balochistan was a not so veiled threat to the unity of Pakistan. In uttering it, Modi was making his own the strategy of «offensive defence» originally advocated in February 2014 by Ajit Doval (whom Modi had chosen as his National Security Advisor a few months later). Illustrating its «offensive defence» theory at the 10th Nani Palkhivala Memorial Lecture at SASTRA University in February 2014, Doval had said, «You [Pakistan] can do one Mumbai [the reference is to the 2008 Mumbai terror attack], you may lose Balochistan».²⁰⁵

4.3.2. *Teetering on the brink of war? From the Uri terrorist attack to the «surgical» Indian military strikes inside Pakistan*

An already tense situation took a new turn for the worse on 18 September, when a four men commando coming from Pakistan-held Kashmir attacked an Indian military base at Uri. Before the four assailants could be disposed of, 17 Indian soldiers had been killed and at least 20 critically

202. The part of the formerly princely state of Kashmir now part of Pakistan has been divided in two different provinces: Azad Kashmir and Gilgit-Baltistan. For the full text of Modi's 15 August 2016 speech see: 'Narendra Modi's speech on Independence Day 2016: Here's the full text', *The Indian Express*, 15 August 2016.

203. India's claim is based on the fact that the last ruling maharaja of Kashmir, Hari Singh, signed an «instrument of accession» of its state to India.

204. 'Answering Pakistan's provocation', *The Hindu*, 17 August 2016.

205. Videos of Ajit Doval's speech at SASTRA University are available at <https://www.youtube.com/watch?v=N7ESR5RU3X4> and <https://www.youtube.com/watch?v=Ml44LwterWo>. See also Neha Dwivedi, '«You can do one Mumbai, you may lose Balochistan»: NSA Ajit Doval, in Feb 2014', *Saddahaq.com*, 6 January 2015. When Modi publicly took the new position on Balochistan, the «shifting of gear» (in Ajit Doval's words) to a more aggressive stance vis-à-vis Pakistan had been already hinted at more than once not only by Ajit Doval but by Defence Minister Manohar Parrikar. See Ashok K. Mehta, 'Talking tough with Pakistan', *The Hindu*, 18 July 2015.

injured in what was «the most deadly attack on Indian troops in Kashmir in more than two decades».²⁰⁶

Not surprisingly this brought about the vociferous request by the Indian public opinion to «punish» Pakistan. To it Modi responded with a set of different policies. While the possibility of a «swift» military strike against Pakistan was taken into consideration,²⁰⁷ Modi denounced Pakistan as a global sponsor of terrorism not only in India but also in Afghanistan and Bangladesh and announced that India would mount a global diplomatic campaign to isolate Islamabad.²⁰⁸

More ominously, the Indian Prime Minister chaired a meeting to review the Indus Waters Treaty, namely the 1960 water-distribution treaty which allocated the exploitation of the rivers flowing through historical Punjab (which had been partitioned by India and Pakistan in 1947).²⁰⁹ According to the treaty, the exploitation of the waters of the Indus, the Chenab and the Jhelum (the «western rivers») went to Pakistan and that of the Beas, the Ravi and the Sutlej (the «eastern rivers») went to India.²¹⁰ Although the Indian Government did not seem intentioned to violate the letter the treaty, it appeared willing to exploit to the maximum some loopholes in the treaty, which allowed India to make use of the waters of the rivers assigned to Pakistan for «non-consumptive» uses.²¹¹ Also, the Indian government decided to suspend the twice-a-year meeting between the Indus water commissioners of the two nations.²¹²

The problem of the sharing of the waters of the «eastern rivers» predated the beginning of the Uri-triggered India-Pakistan crisis and was such to cause much anxiety in Pakistan, namely a country which was already coping with a situation of increasing hydric scarcity. Even before the beginning of the Uri-triggered crisis, Pakistan was so alarmed by the cavalier manner in which India was planning to build two major hydropower projects on the

206. V. Gnana, 'War danger surges as India blames Pakistan for attack on Kashmir base', *World Socialist Web Site*, 19 September 2016, and Wasantha Rupasinghe, 'Bellicose campaign in India against attack on Kashmir base', *World Socialist Web Site*, 20 September 2016 (from where the quotation is taken).

207. Keith Jones, 'India and Pakistan teeter on the precipice of war', *World Socialist Web Site*, 21 September 2016.

208. 'Modi says India will work to «isolate» Pakistan internationally', *Dawn*, 24 September 2016; 'Behind Camouflage of Rhetoric on Pakistan and Terror, Modi Drops Talk of «Punishment»', *The Wire*, 25 September 2016.

209. 'PM Narendra Modi chairs meeting on Indus Waters Treaty', *The Times of India*, 26 September 2016.

210. The text of the 1960 Indus Water Treaty is available at <http://siteresources.worldbank.org/INTSOUTHASIA/Resources/223497-1105737253588/IndusWatersTreaty1960.pdf>.

211. 'India to speed up hydropower building on rivers flowing to Pakistan', *Dawn*, 27 September 2016

212. 'Blood and water can't flow together, says PM Modi at Indus Water Treaty meeting, Govt plans cross-border river strategy', *The Indian Express*, 27 September 2016.

Chenab and Jhelum rivers to have decided to bring the matter to the International Court of Arbitration.²¹³

Another diplomatic weapon brandished by Modi against Pakistan in the post-Uri attack period was the decision to boycott the November SAARC summit in Islamabad. On 27 September, it was officially announced not only that India would not take part in the November meeting in the Pakistani capital, but that Afghanistan, Bangladesh and Bhutan would do the same, which, *de facto* made the meeting impossible.²¹⁴

The above diplomatic strategies had convinced some observers that they were being implemented instead of a military reprisal. Eventually, however, even this was carried out (28 September). In a five-hour blitz, Indian ground forces supported by helicopter gunships allegedly crossed the LoC («Line of Control», the *de facto* border in Kashmir) and attacked seven «terrorist launching pads» inside Pakistan territory, inflicting «significant casualties» on «terrorists and those trying to shield them».²¹⁵

4.3.3. *Upgrading the military and diplomatic pressure on Pakistan: from the fire exchanges along the LoC to the denunciation of Pakistan as the «mother-ship» of international terrorism*

As a matter of fact, what had amounted to the 28 September «surgical strikes» and if they had been something qualitatively different from the usual more or less heavy exchanges of artillery and light weapon fire along the LoC remained contentious. The Pakistan army simply denied that any «surgical strike» had been carried out, whereas the Indian newspapers wrote enthusiastic articles describing – allegedly on the basis of «eyewitnesses living across the Line of Control» – the «brief but intense fire engagements that destroyed makeshift buildings that housed jihadists» and the «bodies of those killed in clashes» being collected and «loaded onto trucks for secret burials.»²¹⁶ On his part, Indian analyst and former

213. Khaleeq Kiani, 'No headway in water dispute talks with India', *Dawn*, 16 July 2016; Zofeen T. Ebrahim, 'Pakistan's water experts fear for the country's future', *Dawn*, 23 July 2016.

214. Wasntha Rupasinghe, 'India launches campaign to «punish» Pakistan', *World Socialist Web Site*, 28 September 2016. The SAARC meeting was officially cancelled by Pakistan on 30 September.

215. Annie Gowen & Shaiq Hussain, 'India claims «surgical strikes» against militants in Pakistan-controlled Kashmir', *The Washington Post*, 29 September 2016; Keith Jones, 'India launches military attacks against Pakistan', *World Socialist Web Site*, 30 September 2016, from where the quotations are taken.

216. Praveen Swami, 'Surgical strikes: Bodies taken away on trucks, loud explosions, eyewitnesses give graphic detail', *The Indian Express*, 7 October 2016. Indeed it is not clear to these authors how Indian journalists could interview «eyewitnesses living across the Line of Control», as claimed by Praveen Swami. After all, Indian journalists are not at liberty to cross the LoC in order to interview the people living on the Pakistan side of the border.

Ambassador M. K. Bhadrakumar, on the basis of a careful analysis of what had been officially stated by the representatives of both the Indian government and the Indian military, after noticing that «almost the entire Indian media coverage is based on off-the-record briefings or hearsay, or, worse still, the fiery imagination of journalists», appeared inclined to espouse Pakistan's version.²¹⁷ Also two Washington Post's journalists – who, differently from their Indian counterparts, were able to visit three areas along the Pakistan side of the LoC, supposed to be the theatre of the «surgical strikes» – could not find any confirmation that India «had sent armed troops to conduct late-night 'surgical strikes' on militant targets».²¹⁸ The point is that, as noted by a research fellow at a Singaporean centre studying political violence and terrorism: «Notwithstanding its superior conventional might, India does not possess the skills, knowledge and technical resources to conduct precision airstrikes or ground hot-pursuit inside Pakistani territory».²¹⁹

Summing up, a final judgement on the effective nature and consistency of the 28 September surgical strikes must wait for more substantial proofs than the ones available at the closing of the present article. What is indubitable, however, is that, from the time of the supposed «surgical strikes» the exchanges of fire along the LoC multiplied in intensity and number, continuing up to the end of the period under review. Of course, this caused losses in human life, amounting to several scores, particularly among civilians,²²⁰ without, on the other hand, changing in the least the military situation on the ground.

While the fire exchanges were occurring along the LoC, India upgraded its diplomatic pressure on Pakistan. As above noted, at the beginning of October, New Delhi renewed the attempt, already made in April, to have Jaish-e-Mohammad chief Masood Azhar declared as a UN-designated

217. M. K. Bhadrakumar, 'India's «surgical strikes» remain an enigma', *Indian Punchline*, 2 October 2016. See also, of the same author, 'India's terrorism narrative needs rethink', *Indian Punchline*, 18 October 2016, where Bhadrakumar states: «As regards 'surgical strikes', the only written statement or document so far attributable to government merely says that the 'surgical strikes' took place 'along the LOC'.» He rightly points out: «Now, you don't have to be a PhD in [the] English language to know there is some difference between 'along' and 'across'».

218. Aamir Iqbal & Pamela Constable, 'In Kashmir, doubts that Indian soldiers actually infiltrated across the border', *The Washington Post*, 2 October 2016.

219. Abdul Basit, 'India-Pakistan tensions back on the rise', *East Asia Forum*, 19 October 2016.

220. Alex Lantir, 'Death toll rises to 25, as India-Pakistan border clashes heighten war danger', *World Socialist Web Site*, 2 November 2016; Wasantha Rupasinghe, 'Indo-Pakistan tensions escalate', *World Socialist Web Site*, 8 November 2016; Sampath Perera and Keith Jones, 'Death toll mounts, as India-Pakistan tensions seethe', *World Socialist Web Site*, 24 November 2016. Even from the scattered references in the sources just quoted, it is clear that human life losses amounted at not least than 40, but possibly much more.

terrorist, and, as in April, the attempt failed because of China's opposition. Then, on 27 November, «breaking an unwritten 13-year old India-Pakistan code of conduct», Indian authorities detained a staffer of the Pakistan high commission in New Delhi, interrogated him and finally expelled him for «espionage activities». This triggered an unexpectedly wide round of expulsions and counter-expulsions by the two sides, from which India did not come out with flying colours.²²¹

More significant was the steady attempt carried out by India's political leadership, aimed at internationally isolating Pakistan. India's decision not to attend the November SAARC summit in Islamabad, followed by the identical decision taken by Afghanistan Bangladesh, Bhutan and Sri Lanka, forced Pakistan to cancel the meeting (30 September 2016). This was followed by Modi's attack on Pakistan, during the eighth BRICS summit, at Goa (15-16 October). The Indian Prime Minister alluded to India's western neighbour as the «mothership» of terrorism, and claimed that: «Terror modules around the world are linked to this mothership.» However, not surprisingly, Modi's attempt to make the BRICS countries «speak in one voice against this threat» got no response. Both China and Russia had increasingly strong ties with Pakistan, while, clearly, Brazil and South Africa did not appear over worried by «terror modules» which did not operate against them and had no interest to do that in a conceivable future.²²²

Modi was more successful at the 4th Heart of Asia meeting, held on 4 December in Amritsar. As stated in the organization website, the Heart of Asia – Istanbul process is a gathering of nations and international organizations which provide «a platform for sincere and results-oriented regional cooperation». This platform places Afghanistan at its centre, «in recognition of the fact that a secure and stable Afghanistan is vital to the prosperity of the Heart of Asia region.»²²³ Before the Amritsar meeting, Pakistan had signalled its intention to use that venue to try to re-launch the negotiation process with India. However, Sartaj Aziz, Pakistan's de-facto Minister of Foreign Affairs, was snubbed by his Indian hosts – who went so far not to allow him to hold a press conference or to leave his hotel when not engaged in the conference proceedings.²²⁴ More important,

221. 'India orders Pakistani embassy staffer to leave for «spying»', *Asia Times*, 27 October 2016; 'Tit-for-tat expulsions as Indo-Pakistani spy plot thickens', *Asia Times*, 28 October 2016; M.K. Bhadrakumar, 'When Smiley and Karla glare across Wagha', *Indian Punchline*, 3 November 2016, from where the quotation is taken.

222. Shubhajit Roy, 'India slams Pakistan over BRICS wall', *The Indian Express*, 17 October 2016.

223. Heart of Asia – Istanbul Process (<http://hoa.gov.af/299/hoa-history>). The Heart of Asia includes 14 participating countries, 17 supporting countries, and 12 supporting regional and international organizations.

224. Keith Jones, 'India rebuff Pakistan's «peace» overtures', *World Socialist Web Site*, 6 December 2016.

India and Afghanistan mounted a «coordinated attack» on Pakistan, accusing Islamabad to promote terrorism in both India and Afghanistan.²²⁵

At the end of the period under review, India's diplomatic offensive on Pakistan had had mixed results. New Delhi had been able to isolate its western neighbour inside the SAARC region, but, beyond it, its attempts had substantially failed. Of course, they had failed because they were unrealistic and overambitious. Modi had clearly counted on the fact that, while the US-India relations were on the upswing, US-Pakistan relations had become increasingly cold. However, the cooling down of US-Pakistan relations²²⁶ had been more than counterbalanced by the strengthening of Pakistan's economic relations with China and its military relations with Russia. To India's consternation, on the top of it, on 30 November, came US President-elect Donald Trump's unexpected phone conversation with Pakistan Prime Minister Nawaz Sharif, where the former praised Pakistan as a «fantastic country, fantastic place of fantastic people.»²²⁷ More ominously for India, Trump was reported saying to Sharif: «I am ready and willing to play any role that you want me to play to address and find solutions to the outstanding problems.»²²⁸ In other words, Trump offered himself as a mediator in the Kashmir question, going against India's long-standing position that Kashmir was an exclusively bilateral India-Pakistan problem. Of course, while writing these lines is simply too early to judge if Donald Trump's words will be followed by hard facts. Certainly, however, they helped to put a question mark on the success of Modi's policy aimed at isolating and pressuring Pakistan, rather than engaging it.

4.4. *The India-Nepal relationship*

The other South Asian neighbour with which India had a rather tempestuous relationship during the year under review was Nepal. The year opened while the unofficial blockade imposed by India on Nepal since mid-September 2015 was still on.²²⁹ However, already at the end of 2015 some

225. *Ibid.*; 'Heart of Asia conference begins with focus on tackling terror in region', *The Hindu*, 3 December 2016; Joseph McQuade, 'How tensions between India and Pakistan dominated Asian peace summit', *The Conversation*, 7 December 2016.

226. Anyway, the US still needed Pakistan's cooperation in Afghanistan. In spite of India's lobbying, Pakistan-US relationship could cool down, but was far from its breaking point.

227. Jon Boone, '«Terrific guy, fantastic country»: Trump heaps praise on Pakistan's leader', *The Guardian*, 1 December 2016.

228. *Ibid.*

229. On the reasons behind the blockade and the role of India in it, see Torri & Maiorano, 'India 2015: The uncertain record of the Modi Government', pp. 396-401. India claimed that the blockade was the handiwork of the Madhesi people, inhabiting the Terai region and dissatisfied because of the recently approved Constitution. According to India's spokespersons, trade from India to Nepal had stopped because, as a result of the ongoing Madhesi agitation, Indian truck drivers feared for their lives.

signs were visible that the blockade was about to be lifted.²³⁰ This indeed happened in early February.²³¹

According to some Nepal's official sources, already at the end of December, the blockade had inflicted economic damages on the Nepali population which were about to become bigger than those caused by the devastating earthquakes of April and May 2015, and were already causing a major humanitarian crisis.²³²

The unofficial blockade caused such damages because most Nepali foreign trade is mainly with India or, anyway, goes through India.²³³

Although the end of the unofficial blockade was followed by New Delhi's pledge (16 February 2016) to give US\$ 250 million to Kathmandu for post-earthquake reconstruction,²³⁴ the relationship between the two neighbouring countries had by then reached an all-time low. Not surprisingly, the bulk of the Nepali people, which had enthusiastically welcomed Narendra Modi's visit to Nepal less than two years before (August 2014), had now turned anti-Indian.²³⁵ On their part, the incumbent Nepali government had become convinced of the necessity to widen Nepal's connections with China, beside India the only other country with which Nepal has a shared border.

In March, Nepali Prime Minister K. P. Sharma Oli, invited by Chinese premier Li Keqiang, visited China and signed ten agreements. Among them there was a transit agreement, which allowed the land-locked Himalayan country to make use of the Chinese port of Tianjin; the Chinese pledge

Strangely enough, as noted by Indian senior journalist Prem Shankar Jha, «drivers of trucks carrying fruit and vegetables did not seem to share this insecurity» and went on undisturbed with their trade. Prem Shankar Jha, 'India's Big Brother Approach Will Not Work With Nepal Anymore', *The Wire*, 14 April 2016. To be badly hit was the trade of fuel and medicines, which severely affected hospitals, transport and power generation. W. A. Sunil, 'India steps up pressure on Nepal', *World Socialist Web Site*, 5 February 2016; 'Nepal blockade: Six ways it affects the country', *BBC News*, 12 December 2015.

230. Torri & Maiorano, 'India 2015: The uncertain record of the Modi Government', p. 400.

231. 'Nepal blockade: First vehicles pass through', *BBC News*, 5 February 2016; 'Nepal border blockade: Ethnic groups lift roadblocks', *BBC News*, 8 February 2016.

232. 'Nepal blockade: Six ways it affects the country'.

233. According to the last available trade report by Nepal's Finance Ministry, in the fiscal year 2014-15, 64.44% of Nepal's total import came from India. Government of Nepal, Ministry of Finance, Department of Customs, *Nepal Foreign Trade Statistics. Fiscal Year 2014/15 (2071/72)*. Part I, Tripureshwor, Kathmandu (http://www.customs.gov.np/upload/documents/part%201_2015-08-31-11-51-23.pdf), p. 6. See also Sujit Mainali, 'Envoy Upadhyay correct about Nepal's trade dependency on India', *South Asia Check*, 29 March 2016.

234. 'India pledges \$250 million to help rebuild quake-hit Nepal', *Asia Times*, 20 February 2016.

235. M. K. Bhadrakumar, 'India stares at complete breakdown of ties with Nepal', *Asia Times*, 8 May 2016; Biswas Baral, 'India self-Defeating Paranoia Over China in Nepal', *The Diplomat*, 14 May 2016.

to give Nepal US\$ 216 million to build both an airport at the Nepali city of Pokhara and a bridge at the Nepali town of Hilsa, connecting the western part of Nepal by road to Tibet. Even more important was the proposal to build a 562-km railway connection between Kathmandu and Lhasa, which would insert Nepal's railways into the Chinese network of high speed trains.²³⁶ Also, Oli signed a free trade agreement with China and engaged Nepal to join the OBOR initiative.²³⁷

All these projects, if implemented, would cause a major shift in the geopolitical position of Nepal, ending India's de facto monopoly on Nepali foreign trade, which, in turn, powerfully contributed to make of Nepal a de facto Indian protectorate. However, the implementation of the projects connecting Nepal to China would take time, given the extremely difficult configuration of the terrain on which the proposed infrastructures were to be built. This gave New Delhi all the necessary time to react.

Having discarded the blunt and counterproductive instrument represented by the blockade, India started to operate to bring down Oli's government. It did so by supporting Sher Bahadur Deuba, leader of the Nepali Congress, a pro-India opposition party, which, however, was the biggest party in the Nepali assembly, and by mediating an alliance between Deuba's party and the Maoist United Communist Party of Nepal (UCNPM), one of the main parties supporting Oli coalition government. The UCNPM was led by Pushpa Kamal Dahal, a former chief of the Maoist insurgency, still known with his old nom de guerre, Prachanda, namely the «fierce one». The India-mediated alliance between the two parties and their respective leaders had an element of irony, considering that in 2001, during the long civil war that had torn the Himalayan country apart, Deuba had put a bounty of 5 million rupees (US\$ 50,000) on Prachanda's head, and that, two years later, Maoist insurgents had tried to kill Deuba while he was travelling in West Nepal.²³⁸ However, the attempt to bring the two parties together – an operation which went underway already in April 2016 and saw the active participation of Indian Foreign Minister Sushma Swaraj – was eventually successful. After a false start, it eventually reached its target, bringing about the exit of the UCNPM from the governing coalition and causing the fall of the Oli government on 24 July.²³⁹

236. Prem Shankar Jha, 'India's Big Brother Approach Will Not Work With Nepal Anymore'; Sudha Ramachandran, 'Nepal inks 10 deals with China, cutting dependence on India', *Asia Times*, 24 March 2016.

237. Prem Shankar Jha, 'India's Big Brother Approach Will Not Work With Nepal Anymore'.

238. Gopal Sharma, 'Nepal picks Maoist as PM, amid revolving-door politics', *Reuters*, 3 August 2016.

239. M. K. Bhadrakumar, 'India stares at complete breakdown of ties with Nepal'; W. Sunil, 'Nepal accuses India of attempting regime change in Kathmandu', *World Socialist Web Site*, 26 May 2016; Utpal Parashar, 'Nepal PM Oli appears set to lose no-confidence vote as allies depart', *Hindustan Times*, 24 July 2016; Bhadra Sharma,

The new government, supported by the Nepali Congress, the UC-NPM and some minor parties, took over on 3 August, headed by Prachanda, who was supposed to leave the prime ministership before the next general elections, scheduled in 2018, to Sher Bahadur Deuba.²⁴⁰

Upon assuming the prime ministership, Prachanda announced that his policy would strike a balance between India and China. Indeed, his first step was sending special envoys to both New Delhi and Beijing to inform the respective governments that Kathmandu desired to maintain a balanced relationship with both countries.²⁴¹ However it soon became clear that the new balance in the Nepal foreign relations was heavily in favour of India. The already planned visit to Nepal by China President Xi Jinping did not take place. What did take place was a visit by Prachanda to New Delhi and a visit by India's President Pranab Mukherjee to Kathmandu. More important, up to the end of the period under review, the agreements inked by Oli during his China trip did not appear to have had any concrete follow up.²⁴²

Summing up, at the end of the day, India appeared to have re-established its hold on Nepal. However anti-Indian sentiments in Nepal were running high, as shown by the cold reception of the Indian President by the Nepali at large.²⁴³ Moreover, Indian paramountcy continued to be challenged by China, which still remained the main source of foreign investments in Nepal²⁴⁴ and, on 29 December 2016, agreed to provide a conspicuous one billion yuan (US\$ 145 million) loan to Nepal for the implementation of some infrastructure projects.²⁴⁵ Furthermore, in a move aimed at highlighting the fact that the Nepal-China ties were far from be-

'Nepal's Prime Minister, K. P. Sharma Oli, Resigns Ahead of a No-Confidence Vote', *The New York Times*, 24 July 2016.

240. Gopal Sharma, 'Nepal picks Maoist as PM, amid revolving-door politics'.

241. Ankit Panda, 'Seeking Diplomatic Balance, Nepal's New PM Dispatches Special Envoys to India, China', *The Diplomat*, 16 August 2016; Srinivas Mazumdar, 'Nepal's new PM seeks to balance ties with India, China', *Deutsche Welle*, 14 September 2016.

242. Pratik Karki, 'Prachanda's India visit: What's next for India-Nepal relations?', *FirstPost*, 16 September 2016; Ashik KC & Deepjyoti Chand, 'The Tangled Knot of Nepal's India Policy', *The Diplomat*, 3 October 2016; Yubaraj Ghimire, 'President Pranab Mukherjee in Nepal: No tangible outcome to the visit?', *The Indian Express*, 4 November 2016; Sharachandra Bhandary, '2016 AD: A year with mixed results for Nepal in foreign relations front', *Nepali Headlines*, 1 January 2017; Kamal Dev Bhattarai, 'India and China's Tug of War Over Nepal', *The Diplomat*, 6 January 2017.

243. 'Fruitless Mukherjee's visit further weakens Nepal's sovereignty', *People's Review*, 9 November 2016.

244. 'China tops in FDI pledges to Nepal in 2015-16 fiscal year', *Xinhua*, 28 July 2016. According to this source more than one-third of total FDI commitments received by Nepal during FY 2015-16 originated from China.

245. Binodkumar Singh, 'India-Nepal Ties in 2016: A Relationship which remains troubled – Analysis', *Eurasian review*, 15 January 2017.

ing decisively weakened, the holding in 2017 of joint military Nepal-China drills was officially announced.²⁴⁶ It was the first time that such drills would be held, as, previously, Nepal had held them with India and the US only.

246. 'China confirms joint military drill with Nepal for first time', *myRepública*, 29 December 2016. Previously Nepal had held joint military drills only with India and the US.