JPMorgan's Hands-On India and Pakistan Series

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The View on India and Pakistan from Dr. Stephen Cohen
India and Pakistan- Beyond the Headlines

JPMorgan held a Hands-On India and Pakistan Series with Dr. Stephen Cohen on India and Pakistan- Beyond the Headlines at JPMorgan's Asia Pacific and Emerging Markets Equity Conference 2007 on Monday, September 24, 2007 at the New York Palace Hotel in New York. This document includes a synopsis and transcript of the event.

Synopsis of Hands-On India and Pakistan from Dr. Stephen Cohen- India and Pakistan- Beyond the Headlines on Monday, September 24, 2007

Several factors will influence the movement of India & Pakistan, nations that constitute a quarter of mankind, for the next seven years. In India, the States are gaining power and the center is losing power. So the next trend in Indian politics and economy is that the States will more greatly lead the Indian agenda. In India, while it may appear chaotic, there is a fundamental stability. The fundamental stability grows out of the fact that the country is so large and the combinations and permutations of political power so great that it is meta-stable.

India is about 15 years behind China. In order to succeed India needs to increase the pace of liberalization. The second obstacle to growth that is less understood is that the there is a shortage of well trained Indians. China and India are a very different culturally, which produces different kinds of spirit and entrepreneurship. Both China and India are buying as much energy as they can. India is concerned that China might one day turn into an aggressive state, and they want to have close relationships with other countries including the United States, Japan, Russia and Vietnam. India is hedging its bets as are other countries against each other. This is a new kind of "hedgemonism". This new strategic competition is limited by the fact that all of these countries are so economically interdependent that no radical tearing apart of economic ties should be expected. Also, given that most of these countries are nuclear weapon states it is unlikely that the situation could deteriorate to a level of concern.

Turning to Pakistan, the Islamists are not a present threat given the barrier of Pakistan's civil society. Basically Pakistanis are essentially South-Asian moderates. But Pakistan is headed towards greater instability because Musharraf has failed to broaden his political base and become a more inclusive regime.

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About 600 people, a third of them generals, a third of them politicians and a third businessmen, really run the country.

The positive side is that the India-Pakistan relations are leveling off. Pakistan understands that their major security problem has shifted from India to the Afghan frontier. Pakistan's economic growth is very dependent on American aid. With the enormous amount the US is providing the economy is doing well, but it is very superficial and it is largely fueled by denationalized industries or things that can't move too far. While India used to hope for a failed Pakistan, they realize now that a failed Pakistan would unleash terrorists, nuclear weapons and other issues they do not want to face. So there is a shar ed interest between the United States, India, China and the Europeans to help Pakistan stabilize its domestic political order.

Indian politics also look chaotic on the surface. There will be more politicians from the rural areas. While the Indians are in awe of China's progress, there are more checks and balances In India. The Indian environmental movement is very powerful and while in the short run this may retard growth the longer term benefits are considered worthwhile. There is still strong opposition to foreign investment in India but increasingly progressive firms understand how to work in India.

Bio

Stephen Cohen joined the Brookings Institution as Senior Fellow in Foreign Policy Studies in 1998 after a career as a professor of Political Science and History at the University of Illinois. Dr. Cohen is the author, co-author or editor of over twelve books, mostly on

South Asian security issues, the most recent being The Idea of Pakistan (2004), and an edited volume published by the National Academy of Science that explores the application of technology to the prediction, prevention or amelioration of terrorist acts. A book on four recent South Asian crises is forthcoming from the Brookings press, and a book on the future of the Indian military is now in progress.

Dr Cohen has taught in Japan (Keio University) and India (Andhra University), and has consulted for numerous foundations and government agencies; he was a member of the Policy Planning Staff (Department of State) from 1985-87. Dr. Cohen is currently a member of the National Academy of Science[1]s Committee on International Security and Arms Control, and was the founder of several arms control and security-related institutions in the

U.S. and South Asia. He received undergraduate and graduate education at the University of Chicago, and the PhD in Political Science and Indian Studies from the University of Wisconsin.

Dr. Cohen is married to Roberta Brosilow, and they have six children and seven grandchildren.

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Detailed Transcript of Hands-On India and Pakistan from Dr. Stephen Cohen- India and Pakistan- Beyond the Headlines on Monday, September 24, 2007

Indian culture can be summarized in five words that I learned when I was a graduate student: cows, caste, communism, congress and corruption. There was a joke among graduate students that the optimists were studying Russian, the pessimists were studying Chinese, and the fools were studying Hindi. Nobody could figure out why they bothered with it. That was in the 1960's. Clearly the predictions embedded in those characteristics have been quite radically disproved.

We're all familiar with what you read in the newspapers, Tom Friedman's columns about India, and the pessimistic writings about Pakistan. India is a new emerging market, a potential rival of China, the world's largest democracy and very sympathetic to American investment. And Pakistan is a dangerous state, potentially a failed state, and at risk of takeover by Islamic crazies. There's some truth in these characterizations, but they are caricatures as well.

Let's explore several key factors that will influence the movement of this quarter of mankind for the next five to seven years, say to 2015. Second, let's project alternative features, or the most likely future for India and for Pakistan. It's very hard to write something that's going to hold up a month or even a year later, but projection is essential. Thirdly, let's look at some policy implications for the United States with regard to India and Pakistan; and, speculatively, what implications there might be for investors in these countries.

There are two domestic developments in India, which are not quite fully understood but which have implications for Indian economy, Indian politics and Indian-US relations.

Indian domestic politics are characterized by a deepening of one of the revolutions taking place: the Federal Revolution. What is happening in India is that the States of India are really gaining in power, and the center is losing in power. That is, the two major political parties, the Congress Party of Jawaharlal Nehru and Indira Gandhi, and the BJP, the Bharatiya Janata Party, are really declining in influence. And they can only govern by going into a coalition with parties that have their roots in the States. So right now you see a Congress-dominated Government held in power because of a coalition with the communist parties and several other parties.

Now, what this means is that there's going to be less coherence at the center, but it doesn't mean that India as a country is going to be less coherent. Because what is happening slowly - but the process is evolving - is that the States are beginning to learn from each other as to what works. So the next trend in Indian politics and the Indian economy is that the States which have been characterized as the backwater of Indian society will turn around. And you're going to see it first led by Indian companies and then Indian multi-nationals. Eventually the American and true multi-nationals will go into some of these States and actually take a risk and invest in them. You see this in West Bengal, where there's a Communist Government that eagerly invites foreign and especially American investment. So

while India is going to look chaotic and governments will be unstable, there's a fundamental stability.

The fundamental stability grows out of the fact that the country is so large and the combinations and permutations of political power so great that it is meta-stable. That is: parts of India will be in chaos, disruption. 25 per cent of all Indian districts right now, essentially, are not under government control. But other parts of India are under government control and are stable and moving very quickly ahead. The overall Indian growth rate has probably doubled in some States and some districts, and has got much less than that in others. So overall India will remain meta-stable, despite the appearance of political chaos. It will also remain democratic because Indians have learned, after the emergency of Mrs. Gandhi almost 20 years ago, that it can't be governed any other way. So if you imagine a Europe under one government, that's the functional equivalent of India, with diversity that actually exceeds that of Europe, from Sweden to Italy. That's a major trend in India domestic – it will look chaotic but in fact there's a fundamental stability.

India's economic revolution began in the late 1990's, almost ten years after China. It is accelerating, and every time I go back to India – and I go two to three times a year now – from trip to trip I see change. Whether it's physical or political or whether it's in the minds of Indians or in their approach towards the future, I do see remarkable change. So the economy is in a state of revolution itself, generally for the good. The fact is that India is about 15 years behind China, in terms of reform, and its most spectacular manifestation - the information technology revolution in India - was really spurred on by the Indian role in Y2K, when the Indian firms took the lead there and did a marvelous job. That became the symbol of Indian economic growth, but in fact most growth comes in the manufacturing center. The sector that is lagging is agriculture, and Manmohan Singh has pointed this out. It's an area where he does want and certainly needs American assistance to improve Indian agriculture.

But there are two major obstacles. One is widely understood: India needs to increase the pace of liberalization. Fortunately for India the top three or four leaders in India are among the world's finest economists, beginning with the Prime Minister. It is hard to imagine a Prime Minister in the world who understands his own economy better than Prime Minister Manmohan Singh, so the problem is well understood. It's just a question of getting this down to the second and third tiers and also the States. So in terms of liberalization, the importance of this, especially in terms of labor laws, is cutting down the time it takes to open a business or invest in India. They understand the problem, perhaps better than outsiders do.

The other obstacle is not so widely understood and it consists of a great irony. About a year ago an American secretary of education went off to India and he wanted to find out how the Indians produced so many really smart people, how the Indian educational system worked. Somebody could have saved him the trip, by saying, Mr. Secretary, you start with a billion people at this end and even if you have one of the world's worst educational systems in the middle, you're still going to get a lot of good people at that end. And there are a lot of great Indians out the back end, and many of them actually go abroad. And the graduates of the leading Indian technology institutes and management institutes all wind up in the west or elsewhere in Asia, working for multi-nationals.

The Indian economy is basically run by second and third tier educated Indians, and that is the revolution that has to take place. There are a lot of political obstacles, such as teachers' unions, which are highly fragmented, and which are a State subject rather than a Federal subject; but still, that's where the reform has to take place for the Indian economy to move faster. Indian businessmen complain that they really are running up against a shortage of well trained Indians, and that's one obstacle to growth that's not widely understood.

Let's finally turn to the Indian rivalry with China and the so-called Chindia, the Chinese Indian competition. The Chinese are far ahead and will remain ahead for some period of time. There's no question about it. When I wrote my India book I checked with Boeing and others about what their projections were about the Indian economy, and Boeing said the Indian curve will catch up with that of China. And Boeing made its largest ever sale to Indian Airlines this year, so in terms of growth of transportation and other sectors, Indians are catching up with China but they've got a long way to go. And you'll find if you look closely at it, that the Chinese do some things extremely well and Indians do other things very well. They're not the same kind of economies and they're not the same kind of people. Culturally a very different base, which produces different kinds of spirit and entrepreneurship and so forth. But the most concerning rivalry is the strategic rivalry. If you talk to Indian strategists, military, security, and political, their views of China pretty much mirror that of the American strategist. There's a segment at one end that sees China as an inevitable threat to India, and they see an inevitable conflict between India and China for rivalry and dominance in Asia. At the other end, there're the optimists who see an opportunity for trade, commerce, adjustment, and cooperation in Asia. In fact, there's some in India who argue – although not in China – there should be a joint Indian-Chinese front against the great American hegemony. That doesn't get much buyers, but still in the middle in India most of the strategists have a 'wait and see' attitude. They're not quite sure, but they want to be prepared if China does turn out to be a bully, an aggressive state. After it absorbs Taiwan, if it turns its energies elsewhere, they want to be prepared. And they want to have a close relationship with the United States, with Japan, with Russia if necessary, and certainly with Vietnam. These are the countries that India would look for, for contingencies.

So in summary, there is a rivalry right now in places like Burma where the Indians flip flop their policy now, supporting the Burmese Government after dumping Aung San Suu Kyi. Then Tibet potentially if the Chinese should loosen their control over Tibet. The Indians would be ready and able to intervene. The Indians are also moving closer to Taiwan, but again, these are strategic gambits. They're moving a pawn here, moving a pawn there, because the Chinese have already done this to India. The Chinese have an alliance with Pakistan, they have strong military and cultural relations with Bangladesh and they're economically involved in Sri Lanka, so there's a tacit implicit competition between these two countries. The largest area of competition, however, is in energy. Clearly, the two countries are out there buying as much energy as they can. They don't have a clear strategy, but they see themselves as rivals in terms of acquiring new energy sources. So Indian strategy resembles that of America towards China, that is, they're hedging their bets. The US are hedging towards China. The Russians are hedging towards China. The Japanese are hedging. I call this the new kind of hedgemonism. Everybody's hedging against everybody else, and the limiting factors in terms of the likely outcome of this strategic competition are really the two mentioned below.

The first is that we're so economically interdependent with each other, you simply can't imagine tearing ourselves apart in terms of economic ties – although they said that before World War I. But secondly, all the major players except for the Japanese are nuclear weapon states. The Chinese, the Americans of course, the Russians, the Indians – they are all significant military nuclear powers. And in the minds of reasonable decision makers in all of these countries, if their generals say "Well, we're competing with the other side, we've got to catch up with them!", they will see the end of that competition in a nuclear mushroom cloud. And that instills some caution in terms of the policies of American policy makers, and certainly of their Chinese and Indian counterparts. And in the case of the Chinese, they do not want to see an open competition break out, which would lead Japan to become a nuclear weapon state. So in a sense, that is one guarantor of good Chinese strategic behavior, because they're very much afraid of Japan becoming an active rival with them in Asia. Most Chinese understand if they do become a bully, if they start to throw their weight around, you'll see a Japanese response, which would transform the global strategic system.

Now a few things about Pakistan. I'm writing a book now about Indian military modernization. I spend 90 per cent of my private time writing that book, and I spend 100 per cent of my public time talking about Pakistan. I've just finished a book on Pakistan two years ago, called *The Idea of Pakistan*, and I wouldn't change a word in it. I was very pessimistic then and I can only be pessimistic now about the future of Pakistan. Pakistan presents far more serious political economic and strategic problems for the United States, and above all for Pakistanis and Pakistan's neighbors. It's got fundamentally weakened political and administrative institutions. The army is coherent. You'll hear General Musharraf boasting about the army being the only coherent organization in Pakistan. That's because the army helped take down all the others. But the army cannot govern Pakistan. There's no question that generals do not know how to run a complex state of 160 million people, complicated by caste, by religion, by sectarianism. It just won't work. They don't have the training, the background. So the army is coherent, but it cannot govern Pakistan.

The Islamists are not a present threat. This is something that Musharraf and some Pakistani officials like to build up. About a year ago I testified before Congress, and I said this is General Musharraf's policy: if you don't support me the Islamists will get you. In other words, if you don't support Musharraf, Pakistan will turn into a raging Islamist state, a truly radical state. It's not true. It could happen and it might happen, but it's not going to happen soon. The barrier to a raging Islam, a really radical Islamic state, is quite substantial and it consists of the army, most of Pakistan's civil society. And basically Pakistanis are essentially South-Asian moderates. They're not attracted to the kind of extremism that you find in the Middle-East. That's something of a 'green herring'.

Pakistan's allies have not been intrusive. In a sense, Pakistan has been let alone by its friends, but this is not necessarily a good thing. If you look at its friends - the Saudis, the Chinese, and the Americans - none of them, none of the three countries, have urged Pakistan, have urged Musharraf to broaden his political base. It's a fundamental mistake on our part, and we are busy redressing that mistake right now. But the Saudis are not going to Pakistan - nor will the Chinese - and say, "General Musharraf, you ought to democratize yourself". That's the last thing they want. They want stability. But that Pakistan is headed towards great instability, because Musharraf has failed to broaden his political base and become a more inclusive regime. Basically the military has failed to govern Pakistan effectively. So we won't see a Pakistan that's going to undergo a major revolution, but we will see the continuation of this present system, of essentially an oligarchy.

Aristotle talks about government of the one, the few and the many, and the few is an aristocracy or an oligarchy. Pakistan is an oligarchy. About 600 people – maybe a third of them generals, a third of them politicians, a third of them businessmen and journalists and so forth – really run the country. And they are slow to change, they do not understand fully – certainly not the military – that Pakistan has to reform itself very quickly, otherwise its social and cultural problems will catch up with it. We will not see a pleasant future for Pakistan unless they do that, and they're very slow in coming round to that position.

If they don't do that, if they don't undertake the kind of domestic reform that Ataturk did or others have done in other cases, then five, seven years down the road, you could see a Pakistan which is really a frightening state.

Now, one bright spot is that India-Pakistan relations, which are always characterized as really on the edge of total war or a nuclear war, are really leveling off. I'm going to publish a book in a month or two about the four major India-Pakistan crises, and it concludes that the conditions are there for a normalization between India and Pakistan. It's not quite as gloomy as it was five or seven years ago, partly because nuclear weapons make a crisis between the two somewhat unthinkable – but still possible. So the Pakistan army is going to have to think this through. They understand that their major security problem has shifted from India to the Afghan frontier, and that's where the Americans are on their case. The US concern with Pakistan has grown out of the US military concerns about Taliban based in Pakistan. There's a direct relationship between the hearings I testified before a couple of weeks ago, and Pakistan's tolerance or support of Taliban. And this is something the US military is very upset about. Clearly,

Pakistan has to reconsider its whole military strategy, and of course that requires Indian participation.

Indian democracy, looking ahead to 2013 or 2015, will become more chaotic on the surface. And the kinds of Indians you'll meet who are politicians, are going to be more rustic. A former student of mine runs a very distinct, important Indian private school – the Eton of India. And he says that many of their students come not from the elite families of India, the beautiful English speaking high-flown and highly cultured families of India, but from rustics who have made a lot of money in the smaller cities and the regions of India. And this is a changing face of Indian politics; you may have to deal with Indian officials and Indian bureaucrats, who are not quite as smooth as they would have been say 15 years ago, but that doesn't mean that they're not smart. It doesn't mean that they're not influential. It doesn't mean that they don't have grass root support, because the nature of the Indian system is, if you become a politician in India, you've got to have some grass root support. That's unlike Pakistan, where there's a free floating elite who have no popular support at all. So the Indian democracy will be more chaotic. Indians you will be meeting with and talking to will be 'more country'. It's not quite as smooth perhaps as the elegant Indians of the past, but still they're very able and they've come up through an effective system of competition.

They are fast learning from China. They're now in awe of what China has done, and every time I meet a group of Indians who have gone to China and come back, they're sort of goggle eyed. At first they're despondent. They think, "We can never do this ourselves." But then they've actually done some things, which are quite remarkable, the Delhi Metro for example. They built it on time and under budget, and the man who did it is going to start building metros everywhere else in India and also the world. So they can do even construction efficiently. A lot of the Indian companies have won several awards from Japan. So the revolution is fast moving, and the Indian economy is going to grow. It's not going to look quite like China, but it does have one thing that the Chinese do not have and that is a responsible public opinion.

There are checks and balances in India that you don't get in China, especially in things like environmental issues. The Indian environmental movement is very powerful. While it may retard growth, we now see what the cost of an uncaring environmental policy can bring to China, so I think that the Indians have great advantage over China in that regard.

India is the world's largest diamond importer and exporter. It will remain that. They're going to go to manufacturing, construction, building airports around the world, and the traditional soft art and handicrafts and textiles will still be strong. But India's largest contribution to the world may well be in terms of productivity and it may well be Indian talent. The universities do produce a lot of good people. Their English is generally good and they really are part of this globalization process moving forward.

Pakistan is more problematic, and again, it could be a stable democracy but a percentage on that probability is 10 per cent. It could be a radical Islamic state, perhaps 10 per cent also. Very unlikely but it could happen. More likely is - say 40 or 50 per cent - that the present oligarchy will continue. But it does carry with it some fundamental internal contradictions as the Marxists used to say, and really they cannot continue to float their country on a bubble of American foreign aid.

When you look at the history of Pakistan economic growth, it goes up and down with American aid, and right now American aid is booming. It's like $12 billion or more - $15 billion indeed - which is an enormous amount of money, some of which are under the table payments. And so the economy is doing well, but it's very superficial and it's largely fueled by denationalized industries coming on stream, energy, or things we can't move very far. And of course, Musharraf did appoint a good economic management team to do what they could do with the economy. So the continuation of this present system, an oligarchy system, and the possible emergence of a tyrant or another Bhutto in Pakistan is really concerning. It could happen, which would push Pakistan in strange directions.

Now, let's come to policy implications for the US. First, the separate but unequal policy that the US developed in the Reagan administration when I was in policy planning: treat Pakistan as if it were a Middle-Eastern country, and treat India as if it were East-Asian. That dehyphenated the India-Pakistan relationship, which was good, but on the other hand they are bound together by culture, history and geography, and the Indian strategic plan is to sort of encircle Pakistan. The Indians are very active in Afghanistan. Of course they have the Kashmir dispute. The Pakistanis are active in Bangladesh and Nepal, which of course is a separate problem in its own right. So the two countries themselves regard each other as their chief rival, so an American policy can't work unless we take this into account. What is needed is a slightly more proactive American policy, in terms of helping the two countries normalize their relationship. And we may see that what a next administration should do - if they have time to look around - is to not only restart the Middle-East peace process, but indirectly to help kick start a South-Asia peace process. Certainly not with American sponsorship, but there are ways of doing this politely and discretely so the Indians and the Pakistanis will accept an American role.

Secondly, the Pakistan domestic politics is a key regional problem and as David Ignatius said, what happens in Pakistan, what happens in Lahore leaves Lahore, literally. And as the British know, Pakistani-trained British citizens are often of Pakistani origin, but sometimes Americans and others have gone back and forth to Lahore and other Pakistani cities, and Pakistan has become a base for training of terrorists. Almost all the recent groups that have been picked up have had some Pakistan connections. This Bush administration has fundamentally failed, because it dealt only with Pervez Musharraf. It did not look beyond him to the Pakistani people, and they do resent that and we're beginning to see a change in that policy right now. There are other countries concerned about Pakistan domestic politics. But the Indians are very concerned about a failed Pakistan. For years, the Indians

dreamt, wished for a failed Pakistan. It would solve all their strategic problems. But now they understand that a failed Pakistan, a truly failed Pakistan, would unleash terrorists, nuclear weapons, mass migrations back into India, and they don't want that. So they have a strong interest in sort of keeping Pakistan strong enough to hold itself together but not so strong that it can challenge India. Finding that balance is going to be difficult.

Another country that is very concerned about Pakistan is China. The Chinese don't speak or do anything about it publicly, but privately they're very concerned about the fate of one of their best allies. Because in Pakistan, Chinese Muslim radicals were being trained in large numbers and may still be there in Pakistan and Afghanistan. So the Chinese are concerned about where Pakistan is heading. They want a stable Pakistan, but unless they understand what's happening, they're going to wind up with a very unstable one five or seven years down the road. So there's a shared interest in this between the United States, India, China and the Europeans to help Pakistan stabilize its domestic political order.

Third, there's a shared US and Indian concern about China. The greatest danger is a revival of Chinese hyper-nationalism. We've seen that in the case of the attack in Belgrade on a Chinese mission there. We've seen it in the case of the captured American plane. And China is no longer a communist country, but it's a very intensely nationalist country, and the leadership uses nationalism as a way of whipping up popular support. India is also a nationalist, and we could see a crisis emerging over the common border. The largest territorial dispute in the world right now is between India and China. Either country could turn that up and make it an issue. Not likely, but wise diplomacy would begin to address this now so it doesn't become a problem in the future. The US has an interest with India in not containing China but reinsuring each other that should China turn into a bully, we can talk to each other.

Now, what is some of the relevance for investment? The risk of major war between India and Pakistan has diminished but it's still there. There's still a small risk of war, not something to worry too much about. Investors take risks and do these kinds of things all the time, but it's much less than perhaps in other parts of the world, certainly the Middle-East where we do have major investments. Second, there's still strong opposition to foreign investment in India but increasingly progressive Indian firms understand how to work in India and the Tata's are sort of the gold standard of this. They understand how to deal with Indian politics, Indian politicians, and GE does this also. GE has been in India for a very long period of time. They've got operations all over India; they understand the local conditions. In fact, in the India forum JP Morgan is going to sponsor, some of these companies are going to describe their experience in India. And those of you who have not been in India or have not worked in India, really should listen to them very carefully.

The great irony is that the Communist Party formally opposes the United States, doesn't like us, and opposes American investment. That's the communist line in

Delhi. The Chief Minister of West Bengal, a thorough communist, actually welcomes American investment and would like to get it, so there are contradictions even among the communists about welcoming American money. If you pick your spots, if you know and understand the local conditions – internal politics is relatively under control – there's very little risk at all. There's probably a greater risk in parts of the United States.

But Pakistan is more problematic. Frankly I'm asked all the time by American and other companies whether they should invest in Pakistan, and clearly some have done well but they're in sectors which are sort of out of the way: power, energy, which are really basic and vital, where any Pakistan government in the future would have to accommodate them. So they feel comfortable in that position. Very few of them send many Americans over for their operations, because Karachi in particular is not a terribly safe place to live in. But still, to a limited degree, we may see people putting their money in Pakistan. But clearly India has more opportunity.

The following issues are going to be important out to 2015, maybe increasingly so. First of all, energy - energy is going to be a big issue for India. There's no way in which India can get all the energy it needs. There are conflicting reports from economists as to whether a 1 per cent increase in energy translates to a 1 per cent increase in growth. Some say yes, some say no. But clearly they're desperately trying to get energy.

That's the basis of their close relationship with Iran, and so they are out there with the Chinese trying to buy up or grab as much as they can. Climate change is going to be a big issue. It is already in India. It's going to affect the Indian economy in ways which we're still trying to puzzle out. Clearly the Himalayas – there is the largest repository of snow and ice, except for the Antarctic – and really the glaciers are disappearing, the same thing that's happening elsewhere. That's going to change the balance in India, and some parts of India may become less habitable than others. We may see large irrigation projects in India linking rivers. There's a lot of rain in India, but it tends to disappear. So that's an area where clearly climate change is important.

Environmental decay is important for Indians, but again, unlike China, there's an enormously active environmental NGO community, and the government itself is pretty much committed to this. Indians used to boast about how dirty their air was and how they could get away with it. I remember flying over an Indian city with a businessman. He pointed and said that's my factory. "See all that little lake there," he said. It's totally polluted! "We just dump the crap in there and don't worry about it, they'll never catch us." Well now they would catch them, and there's far more concern in India and even in the government about environmental decay, so that's a positive factor.

Finally, access to India is going to be increased dramatically. Boeing made its largest sale of jets to Air India and Indian Airlines, and we have seen a tremendous boom in Indian air transport. As soon as they build decent airports, it's going to be a lot easier to get in and out of India.

There's one final factor, and that is the X factor. There's always something I haven't thought about, and nobody else has thought about it, but something that will appear so obvious and transparent two, three, four, or five years from now. There may well be surprises ahead, but generally the outlook for India is quite positive and for Pakistan quite restricted.

Question & Anwer Session

Q: Can you compare and contrast China and India, since you said there're some areas China is good at and there're some areas India is good at?

Cohen: The Indians don't have yet the kind of fantastic ability that the Chinese have to turn a village into a production factory for some particular commodity. Perhaps they never will, because Indian culture and social structure may prohibit that, whereas Chinese social structure encourages it, where the whole village starts to make rip-offs of Gucci purses et cetera. India maybe, maybe not, but I've heard from an American auto manufacturer who has a plant in India. He said what they can do there very easily is to make small runs of things and change them for the market. They can sort of tailor it to the market. He said they're very good at that. They have no problem with that at all. This happens to be a plant in South India.

So in terms of manufacturing, where India was always regarded as simply hopeless, even Indians until very recently would not buy Indian things, but now Indians can make things which are quite good. Not competitive with China in ordinary goods.

I've talked to Indian companies, and a man I knew was making things in China for the Indian market. So in a sense the countries are learning how to use each other.

In another case, another company thought that they could sell to the Chinese. Not just software but other things which undercut the Chinese companies. They felt they had an advantage. And you have to sit down – and again this is out of my area – and really look at it sector by sector.

But overshadowing a lot of this is the fact that in the Chinese system, while the government is responsive to some kinds of events, they're generally not responsive in the short-term. They're responsive to markets. But in India you get political hot buttons all over the place, so if there's a pollution issue or an environmental issue, the government hears about it right away as they would in the US. It's a highly responsive democracy.

There may be a democracy tax for India. That is, the Indian economy suffers by being a democracy to some extent, but that's a tax I don't mind paying as a consumer. Now a businessman may feel that if he can get the last penny out of an investment he's going to do it, but still in the long run the Indian way of having a responsible corporate sector is probably a better one.

Q: You talked about the drift of power away from the main parties towards the State? Could you elaborate further on this?

Cohen: India still has a powerful central bureaucracy and it's not that big but it carries on with the tradition of the Raj. A central civil service which ties the country together in an amazing way, and a national civil service which in turn subdivides itself on a state by state basis.

So a young kid will grow up in South India for example. He'll pass the Indian administrative service exam. He may be assigned to a North Indian state. He'll

come to the center. He may go back to South India. He'll be moved around but he will have a national perspective very quickly – with regional expertise. And that's one of the things that ties the country together.

Secondly, the corporations now do that. In the past, India business was not an issue. They were simply not factored. They bribed the parties and that was their major role, but now they have an interest in getting the State Governments to look outward. And they can offer a State Government a lot of growth and a lot of jobs and a lot of investment, if they work with the corporate sector. Even the communists are doing this now. The State politicians understand they've got to get jobs for their citizens, they've got to improve living standards, otherwise they're not going to get re-elected. And as one State does well, other States look at it. And they say well we can do that also; and that is happening in India.

The State of Bihar was an incredibly badly run state. What happened was Lalu Prasad wound up as railway minister for political reasons, and the Indian railways have never been better run in their history. Incredible. He just listened to the bureaucrats. He was simply doing what the bureaucracy told him to do. So the Indian railways are now really quite good by Indian standards, by any standard, and certainly better than Amtrak in many ways.

So the system learns from itself, it learns from its mistakes. The process of democracy is a self-correcting mechanism. Don't worry about anything, anybody breaking away. The Indians have learned something that Europeans have learned or are learning now. And if you look at India, you see where Europe is heading, that is, it's better to have one big entity where people work and compromise than to have rival entities. So the separatist movements that existed in the 50's in the south, in the 70's in the north – a few of them are gone.

What you do have now is something quite different: 25 per cent of Indian districts are out of government control. And that's largely a belt on the East Coast of India stretching from Madras or Tamil Nadu all the way up to the north and round to the north-east. Those districts have experienced rapid educational growth, but not rapid economic growth. So you have a large class of dislocated young kids, girls as well as boys, young men and young women, who have no real future in a modern economy. So they are picked up by the political parties, by gangs, by sects, and they're recruited and in a sense the law and order problem is very acute.

That doesn't happen in the west as much, in western India at all. It's primarily an eastern Indian phenomenon, eastern and south-east. What will happen is as growth hits those areas, you'll see more of them in a sense absorbed into the system. Pakistan faces a similar problem, but in Pakistan the problem is Islamites: out of work young men simply recruited by Islamic groups, Islamic terrorist groups. So it has a different connotation than Indian radicalism, but it is a political problem. Again, the people who understand this best are the central security people in Delhi. So the chances of India breaking up or even losing a few parts just don't exist at all.

There is also an Indian nationalism that's grown up, and I had a graduate student who did a PhD on this. And she came back embarrassed, and had to admit that it was Indian cricket, Indian films, which sort of created Indian nationalism. And as in America, popular culture is very important in tying people together. That's one industry where the Indians are doing very well. Bollywood makes more films than Hollywood, and the US is now becoming Indianised in terms of our film tastes. You're going to start watching movies made in India here for the American market. It will happen, as Disney has established a production company in India and so has Universal, so Indian companies are going to start making films for the American market.

Q: Could you comment about the different educational systems in India and China?

Cohen: The Indian system, the lead institutions in India, are centrally funded. The Indian Institute of Technology, the Indian Institute of Management – they are basically centrally funded universities. There're a few others also, but I would compare them with a third tier American university.

What works is that to get into those universities, Indians have to be very, very good. So even if they get a bad education, they're so competitive, they're so smart that they will do well globally. Of course when they come here and they get access to American technology and libraries, you can't stop them. I've seen this among my own students.

China, of course, has poured a lot of money into elementary and secondary education, where India has not. But you do see in India enormous popular pressure for education. It is probably the most important new development, and those private schools are starting up all over. What they're now trying to do is to link up with American universities and colleges to have a joint operation in India, which would be the private sector where Indian kids could go to school and get an American degree in India. And if that works, then you will see India educating kids from all over the world in India. But again, there're political obstacles to that and that's mostly V P Singh, among others, who in a sense really does not want to see Indian education transformed.

It is a bad British system made worse by Indian history. Of all the educational systems in the world, the British was the worst for India. The American system of higher education, where there's a lot of opportunity and a lot of lateral mobility, is what India needs. It's a complex Federal system and you have to have that horizontal mobility as well as vertical mobility. They're not there yet, and that will hinder Indian economic growth. But they are trying to do it in the private sector.

Q: Are there any primary concerns with the Indian growth rate?

Cohen: Concern comes from Indians who believe with some credibility that rapid growth has left huge numbers of Indians behind, and the left in particular makes this case: globalization has helped the top 20 per cent not the bottom 80 per cent. Perhaps that's not quite true. I go to a particular Indian village all the time, and I've seen a transformation of that place and other parts of India also. Yet, on the other hand you have farmers committing suicide all over India, where farmers

simply cannot make it. It's the agricultural sector in particular that has failed to modernize, but they're very much concerned that once you start modernizing agriculture, you'll have in India what happened here. The land becomes swept of people and you have the cities absorbing hundreds of millions of people that they can't absorb, so the economy has to grow fast enough to absorb the people who are going to be dislocated from the agriculture.

Now, the one man who understood this perfectly, and is sort of a voice from the past, is Mahatma Gandhi. Much of Gandhi's economics were devoted to making the villages habitable places for modern Indians. And in a sense through television, better roads, hopefully better schools, Indian farmers or peasants can live a better life now than they could have 20-30 years ago, but again it's a race and a question of whether the State has the resources to provide those facilities so that people will stay in the villages and not rush to the cities.

The biggest Indian cities are going to grow quickly. So urban growth is going to continue but they're very much concerned about a massive migration out of the countryside, if agriculture modernization takes those. But you have to have modernization to feed Indians, and it can be turned into an industry which will feed Europe and feed the Middle-East, and that's a tough political choice for them to make.

It will be made out of a series of compromises and adjustments. India is always three steps forward two steps backward – it's always like that. But the trend has been revolutionary since the early 1990's. India has changed more in this last five years than in the previous 40.

Q: Could you envision any change in American policy towards Pakistan?

Cohen: Congress has already moved in the direction of establishing conditionality for Pakistan. It's sort of soft legislation because the President can request a waiver. So it's a bulldog without any teeth in it. But if a Democratic President comes to office, then Pakistan is going to be one of the big problems.

My personal view is that aid should be linked to particular targets and achievements in Pakistan. US aid to the Pakistani educational system should be unqualified and probably doubled or tripled in size. Our aid to Pakistani social sectors should also be increased. Our military aid to Pakistan, which is the biggest pile of it, should be linked to Pakistani good performance and specifics.

America's problem as a country is that we want five or six things from Pakistan. We want them to round up Al-Qaeda, we want them to round up Taliban. We want them to control A Q Khan and the nuclear program. We want them to reform the Madras's. We want them to have free elections - that is, sort of stop generating terrorists.

The Pakistanis look at that and they say, well here's this long list. The Americans give us $2 billion a year. They're not terribly specific, and we'll do what we can on those things, but basically we have a free ride. That will change. It will change, and the Democratic administration will probably say, look, if you help us in Al-

Qaeda you get $500 million, which is sort of a cash and carry offer. We should be more honest with the Pakistanis so they'll be more honest with us as to what they can do and what they can't do.

The biggest fear is that perhaps what Pakistan can do is not going to be enough. Then we have to face a future where Pakistan might be essentially a state out of control. But there're enough good Pakistanis running the country, or potentially running the country, and that's not necessarily a future that will happen.

Q: Are there signs of a more relaxed relationship between India and its neighbors?

Cohen: There's some recent talk about China aligning itself with India and Russia to oppose the US. That goes back to Yevgeniy Primakov, way back like 10 or 15 years ago, and he proposed this alliance between the Russians, India and China. It was a big joke. They distrust each other more than they distrust the United States. Each wants to have a relationship with the US more than they want a relationship with each other. There's not much complementarity of economies or politics.

The Indians made a decision around 1990 or so that they would get on the American bus. They would not oppose America for the sake of opposing America. They would get what they can with us, they would ride the American bus to the point where they could get off and drive their own car. So they see this an opportunity for the future, where they will then become an independent country.

The Indian vision of the future simply put is that there will be four or five major civilization culture powers, namely Europe, America, China, India, and Japan. That's sort of a Huntingtonian view of the world. So they see the US essential in providing the technology and the economic growth for them to become an independent state. They do not want to be our ally. They want to be our friend but not our ally, and that's the direction in which they're headed. That view is also shared pretty widely among Indian strategic leaders.

The Chinese have a different vision of themselves in the world, but clearly the Indians don't want to ally with China against the US. However they are deeply upset with the way the US behaves, especially in Iraq. They're nervous about being close to a country which from their point of view is so unpredictable.