

Rethinking South Asia

Scenarios for a Changing Geopolitical Landscape

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A number of developments suggest that South Asia's political geography will be restructured in the medium to long term. The main external drivers are infrastructure projects – first and foremost the Chinese Belt and Road Initiative (BRI) – which open up new development opportunities for many countries in the region. At the same time relations between India and Pakistan, which were the heart of any analysis on South Asia, are becoming increasingly decoupled. The already weak South Asian Association for Regional Cooperation (SAARC) may become even less important and is likely to be replaced by new cooperation formats.

Economic growth of 6.5 percent in 2016 makes South Asia 2016 one of the world's fastest-growing regions. Yet it is also still one of the poorest globally, and – with the lingering Kashmir conflict between the nuclear powers India and Pakistan – one of the most dangerous crisis regions. South Asia is also one of the economically least integrated regions, with intra-regional trade accounting for just 5 percent. The SAARC, founded in 1985, draws regular criticism for producing “reports but no results”. Although its summits have sometimes contributed to confidence-building at the highest levels, they have often had to be postponed on account of tensions between India and Pakistan, most recently in autumn 2016.

The regional configuration of South Asia as manifested in the SAARC appears to be undergoing a deep transformation. India

and Pakistan, whose volatile relationship has for decades been the epicentre of any discussion about South Asia, are increasingly setting new foreign policy priorities. And at the same time external factors like China's BRI are offering new incentives for cooperation.

India and Pakistan: New foreign policy priorities

India and Pakistan find themselves facing new foreign policy challenges, leading each to reinterpret their relationship.

Following a brief warming in 2014 after Narendra Modi took office, India's bilateral relations with Pakistan have cooled noticeably again. Tentative dialogue initiatives, for instance in late 2015, were dashed by terrorist attacks in 2016. Countless skirmishes and incidents along the interna-

tional border and the Line of Control in Kashmir have cost many casualties and make the cease-fire agreed in 2003 appear increasingly futile. The September 2016 attack in Uri by militant groups from Pakistan provoked two Indian responses. Firstly, New Delhi launched a commando operation against the infrastructure of militant groups on the Pakistani side of the Line of Control – revealing publicly the form of covert warfare both sides have practised there for many years. Secondly, India began working to isolate Pakistan in the region, starting by withdrawing from the November 2016 SAARC summit in Islamabad; other SAARC members joined the boycott. Instead, New Delhi threw its weight behind the November 2016 Goa summit of the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC), inviting two states – Afghanistan and the Maldives – that were members of SAARC but not of BIMSTEC. Given that Pakistan is not a member of BIMSTEC, the meeting could thus be viewed as a “SAARC minus one” summit. In their final declaration the participants underlined the importance of working together to combat terrorism – very obviously pointing a finger at Pakistan.

While Pakistan’s foreign policy is still defined by India and the Kashmir question, its priorities are changing too. A strong turn to China and growing financial dependency resulting from heavy Chinese investment in the China-Pakistan Economic Corridor (CPEC) (see below) is reconfiguring Islamabad’s foreign policy options, as is the simultaneously cooling of political and economic relations with the United States (see SWP Comment 25/2016).

The conflicts in the Middle East have become increasingly important for Pakistan, above all the rivalry between Saudi Arabia and Iran. Pakistan is home to the world’s second-largest Shia population, surpassed only by Iran, and sectarian violence between militant Sunni and Shiite groupings has been an issue since the 1980s. Pakistan has maintained very close economic, poli-

tical and military relations with Saudi Arabia for many years. Riyadh took in Pakistani Prime Minister Nawaz Sharif following the 1999 coup, and almost 900,000 Pakistanis work in Saudi Arabia. Pakistan has joined Saudi Arabia’s military alliance fighting Shiite rebel groups in Yemen.

Even as the conflict with India drags on, the urgency of the Kashmir question appears to be fading in Pakistan too. In January 2017 the new Chief of Army Staff, General Qamar Javed Bajwa, said that the fight against terrorism within Pakistan remained one of the most important security challenges. In January 2017 Jamaat-ud-Dawa leader Hafiz Saeed was placed under house arrest charged with terrorism offences. Jamaat-ud-Dawa is regarded as the political wing of Lashkar-e-Taiba, which has been responsible for countless attacks in India and Kashmir. In the past Lashkar-e-Taiba has received significant support from the Pakistani security forces.

In April this year General Bajwa declared that “political” support for the Kashmiri struggle would continue – raising questions over the future relationship between the security forces and the militant groups. Although Pakistan encouraged the wave of protests in Indian-administered Kashmir in summer 2016, the signs of Islamisation observed in the protest movement were directed not only against India but now – in a new departure – also to a certain extent against Pakistan.

These developments reveal a shift in the foreign policy priorities of both countries. Pakistan has indicated this year that it would be willing to resume dialogue. But New Delhi insists that talks will only be possible once attacks within India have ceased. The death sentence for an Indian spy in Pakistan and Modi’s remarks on the deteriorating human rights situation in Pakistan-administered Kashmir and Balochistan underline the low odds on dialogue resuming any time soon.

Infrastructure projects

The most significant factor driving long-term change in South Asia's political geography is a string of infrastructure projects, first and foremost the Chinese Belt and Road Initiative (BRI).

Pakistan has to date been the biggest beneficiary of the BRI in South Asia, with Beijing promising investments of more than \$60 billion for the China-Pakistan Economic Corridor (CPEC). Despite reservations over issues such as growing debt and business concerns over Chinese competition, Islamabad places great hopes in CPEC. In Pakistan the project is discussed as a "game changer" or even a "fate" or "destiny changer".

China has also invested massively in other South Asian states. In 2016 Beijing promised Bangladesh state and private investments amounting to roughly \$38 billion. In spring 2017 it said it would invest \$8.3 billion in Nepal. Sri Lanka, where China invested more than \$14 billion between 2005 and 2015, also illustrates the problems and challenges facing Beijing in the region. Infrastructure projects like the Hambantota New Port are regarded as economically unprofitable while criticism of Sri Lanka's growing Chinese debts escalates. In response the government of President Maithripala Sirisena has been rebuilding ties with India since his election in 2015. As such, the success of Chinese investments depends on domestic political factors like democratic elections and changes of government – over which Beijing has little sway.

As well as BRI, other infrastructure projects also play their role in reshaping the region. Iran, Russia and India are pushing ahead with the International North–South Transport Corridor (INSTC). In May 2016 India committed to invest \$500 million in developing the Iranian port of Chabahar, which will improve its access to Afghanistan and Central Asia. Although speculation has arisen as to whether and to what extent these two major projects will exacerbate geopolitical rivalries among India,

Iran, China and Pakistan, some of the participating states regard the projects as essentially complementary. China has already declared its interest in the Chabahar development, while Iran intends to participate in CPEC. China and India are working together with Bangladesh and Myanmar to establish the BCIM Corridor linking the southern Chinese provinces by road with the Indian subcontinent.

Beijing wanted India to participate in the BRI summit in May 2017. But New Delhi refused because CPEC runs through Pakistani-administered Kashmir, which is claimed by India. Moreover, the Indian government criticised the high levels of debt generated by the Chinese infrastructure investments. New Delhi fears that this will increase the political dependency of the recipient countries on China. Indian security experts regard the Chinese investments in port facilities in South Asia as potential military bases that could serve to encircle India (String of Pearls). But despite bilateral problems and regional rivalries, India and China cooperate closely at the international level. Both belong to the BRICS group (Brazil, Russia, India, China, South Africa), and India also participates in the Asian Infrastructure Investment Bank (AIIB) initiated by China. Further, in June 2017 India joined the Shanghai Cooperation Organisation (SCO), which is led by China and Russia.

Scenarios: SAARC 2.0, South Asia 2.0

These developments may lead to two scenarios: SAARC 2.0 and South Asia 2.0. In the SAARC 2.0 scenario, the organisation's members use Chinese investment to improve their national infrastructure and expand intra-regional trade. This could help to enhance regional connectivity and thus strengthen SAARC as a whole.

In contrast, the South Asia 2.0 scenario will see only a marginal role for SAARC. As long as the South Asian countries neglect structural reforms and economic diversification they have few incentives to expand

intra-regional trade. Their trade flows will tend instead to gravitate towards China and other attractive export markets. China is also politically more attractive than India for most of the states in the region: India's neighbours have repeatedly grasped opportunities to play the "China card" to counter what they regard as overpowering Indian influence.

In view of the scope of investment, Pakistan appears at first glance to be the biggest beneficiary of this trend. Yet CPEC represents an economic and political wager for Islamabad. The economic benefits will need to be large enough to offset growing long-term debts to China. At the same time, CPEC could curtail Pakistan's foreign policy options, especially vis-à-vis India. And the large volume of Chinese investment is also a bet on the status quo in the region. China will have little interest in the Pakistani security forces embarking on new military adventures like the 1999 Kargil War in order to internationalise the Kashmir question.

India might appear to be the biggest loser, joining in the process of expanding regional connectivity but unable to match China's growing economic investments and political presence in the region. Yet through its Pakistan policy of recent years India is also a driver in the process of re-configuring South Asia, with regional formats like BIMSTEC and the Indian Ocean Rim Association (IORA) becoming increasingly attractive. They are more politically homogeneous than the SAARC and fit into India's "Act East" policy orientated on East Asia.

If developments proceed along such a trajectory, they will transform the political geography of South Asia in the medium to long term.

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