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## The Formation of Preferences in Two-level Games: An Analysis of India's Domestic and Foreign Energy Policy

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**Joachim Betz and Melanie Hanif**

**No 142**

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## **The Formation of Preferences in Two-level Games: An Analysis of India's Domestic and Foreign Energy Policy**

### **Abstract**

This paper examines the formation of India's energy-policy strategy as an act of double-edged diplomacy. After developing an analytical framework based on the two-level game approach to international relations (IR), it focuses on the domestic context of policy preference formation. India's energy strategy is shaped by a shortage of energy and the scarcity of indigenous reserves; these problems have together resulted in a growing import dependence in order to sustain economic growth rates, outdated cross-subsidies, overregulation, and nontransparent bureaucratic structures which are adverse to private investment. The Indian government still dominates the energy sector, but large electoral constituencies within the country exert a considerable indirect influence. The paper analyzes how all these domestic necessities combine with India's general foreign policy goals and traditions to form an overall energy strategy. We finally discuss how this strategy plays out in a competitive international environment where global resources are shrinking (with most claims already distributed) and environmental concerns are on the rise.

Keywords: preferences in two-level games, Indian foreign policy, energy security

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## **Zusammenfassung**

### **Präferenzen und Mehrebenen-Diplomatie: Eine Analyse indischer Energiepolitik im Kontext nationaler und internationaler Einflussfaktoren**

Der vorliegende Beitrag untersucht die Herausbildung der indischen Energiestrategie unter dem Gesichtspunkt der Mehrebenen-Diplomatie. Zunächst wird ein Analyserahmen – aufbauend auf der Literatur zu „Two Level Games“ in den Internationalen Beziehungen (IB) – entwickelt und anschließend die innenpolitischen Einflüsse auf den Prozess der Präferenzbildung erörtert. Die indische Energiestrategie wird sowohl von Energieknappheit als auch mangelnden eigenen Reserven geprägt. Dies hat aufgrund des rasanten Wirtschaftswachstums, durch überholte Subventionen, Überregulierung sowie intransparente bürokratische Strukturen – was wiederum private Investoren abschreckt – zu mehr Importabhängigkeit geführt. Die Regierung ist nach wie vor der wichtigste Akteur auf dem indischen Energiemarkt, jedoch üben bestimmte Wählergruppen indirekt einen beachtenswerten Einfluss aus. Die Autorin und der Autor analysieren darüber hinaus, wie die verschiedenen internen Faktoren mit Indiens allgemeinen außenpolitischen Zielen und Traditionen zusammenwirken und sich in eine umfassende energiepolitische Strategie einfügen. Abschließend diskutieren sie, wie sich diese Strategie im internationalen Wettbewerb vor dem Hintergrund schwindender Energieressourcen und zunehmender Beachtung der Umweltproblematik entfaltet.

# The Formation of Preferences in Two-level Games: An Analysis of India's Domestic and Foreign Energy Policy

**Joachim Betz and Melanie Hanif**

## **Article Outline**

- 1 Introduction: Energy Policy as a Two-level Game
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- 3 The Impact of Economic Structures on Indian Energy Preferences
- 4 Collective Values and Identity as the Source of Indian Energy Preferences
- 5 The Institutional Apparatus and the Aggregation of Indian Energy Preferences
- 6 The Integration of India's Energy-policy Preferences into a Strategy
- 7 Conclusions

## **1 Introduction: Energy Policy as a Two-level Game**

The distinction between domestic and foreign policy has become more elusive in recent years. Growing political, economic, and informational interdependence has contributed to this development, as have the simultaneous processes of globalization on the one hand and the tendency towards economic and security regionalization on the other hand. In certain sectors the threshold between domestic and foreign affairs appears to be more fluid than in others. Energy policy is certainly one of those sectors where internal and external logics of action overlap and sometimes even contradict each other.

This is due to the fact that, on the one hand, domestic groups, which decide on the re-election of national governments, are interested in economic growth, something that normally increases a country's energy consumption, especially in developing economies. There are also international factors which influence these domestic needs. Thus a country's prestige and leverage within international organizations and global governance forums is usually re-

lated to its economic performance and, as a result and indirectly, to sufficient and secure energy supplies. On the other hand, international energy reserves are shrinking and claims to existing resources have in large part already been distributed. Given that energy politics are barely regulated at the global level, "energy latecomers" such as China and India, whose aggregated energy consumption has skyrocketed during the past decade, now resort to the principle of self-help and compete fiercely for the remaining resources and reserves in order to sustain the growth of their economies (Rittberger/Kruck/Romund 2010: chap. 8). In addition to the fact that emerging economies' increasing consumption of energy is likely to cause confrontation given the at best stagnating supplies, environmental concerns are also putting pressure on energy policies. During the last couple of years, the growing preoccupation with climate change at the global level has constrained national energy policies. Again, emerging economies, with their spiraling energy consumption and the resulting greenhouse gas emissions, have been the preferred scapegoats.

Thus, the overlapping of global energy and climate policies has already created a complex bargaining environment, especially for rapidly developing energy latecomers. Calls for the continuation of high economic growth rates and, at the same time, for the equal distribution of its fruits further complicate energy-policy choices for these countries. Their growing demand for energy makes certain foreign policy strategies, such as the conclusion of long-term contracts with energy-exporting countries and equity investments in oil-producing countries or countries with proven oil and gas reserves, attractive. But as claims in many oil- and gas-exporting countries have already been staked out, the latecomers may not shy away from cooperating with so-called rogue states in order to enhance their energy security. This behavior, in turn, clashes with international efforts to isolate noncompliant states and fuels confrontation with established powers, particularly the United States. Two-level game approaches are most suitable for shedding light on the complex dynamics of bargaining as well as on policy formulation in fields such as energy policy where domestic and international challenges are highly interrelated.

According to the logic of two-level games (Putnam 1988; Moravcsik 1993), governments sometimes need to reconcile contradictory domestic and foreign pressures in the process of formulating and implementing policies. This is especially difficult when these governments face a relatively diffuse international distribution of capabilities and powerful domestic veto players (Alons 2007: 212). Domestic power polarity, that is, the government's domination of society vis-à-vis societal groups and forces, is obviously less favorable for the government in democracies and federal systems, particularly when the interplay of governmental and electoral systems tends to produce fragmented parliaments and executives. The government's "transmission belt" function (Moravcsik 1997: 518), however, also provides it with certain advantages since it is informed about the state of affairs at both the domestic and the international level and can use this edge as an additional bargaining chip in relation to both domestic constituencies and international counterparts (Putnam 1988: 434; Moravcsik 1993: 15).

When analyzing two-level games, it is advisable to treat an actor's preferences as "independent of the strategies of other actors and, therefore, prior to specific interstate political interactions" (Moravcsik 1997: 519). Because interest in India's energy policy is growing, an increasing number of energy reports and policy papers are being issued (e.g., Madan 2006; Joshi 2009). Helpful as these publications are, they usually take Indian preferences as given and then try to analyze Indian behavior and interaction against the backdrop of contextual factors such as the distribution of natural resources (and other material capabilities) or existing bilateral and international treaties. When we begin with the notion of preferences, however, an analysis can go in both directions: it can investigate either the formation of preferences before interaction or the impact of the specified preferences on the process of interaction. At this point in the debate, a theory-guided examination of Indian preferences may be the most reasonable contribution to the topic. Our findings could provide new input for future analyses of India's interaction with other international actors concerning energy issues.

We begin with a short literature review on preference formation and strategies in two-level games. This serves as the basis for the empirical exploration of Indian energy-policy preferences. Our empirical research is based mainly on official and nongovernmental documents on India's energy policy. To conclude, we interpret our findings in light of India's domestic and foreign energy strategies.

## **2 The Formation of Preferences and Their Role in Two-level Games**

Preferences are central to the study of international politics. They have been a constant subject of investigation as well as a cause of friction within the field of international relations (IR). Following Jeffrey Frieden, the authors of this paper do not consider it useful to assert that actors per se (that is, preferences or strategies) matter more than environmental features (such as anarchy or the distribution of material capabilities) in international politics or vice versa. Rather, we believe that it is the specific question that determines whether actors' preferences, the strategic setting, or the process of interaction itself should be treated as the dependent— or independent— variable (Frieden 1999: 47-48).

In general, the investigation of preferences can be carried out either inductively or deductively. The problem with an inductive approach is that mere observation cannot separate preferences from strategic calculations since an actor's behavior and statements usually reflect both (Frieden 1999: 45). The problem with a deductive approach in our case is that no single comprehensive theory of national preferences exists (Frieden 1999: 53-54). Traditionally, preferences are given more weight in liberalist theories than in other IR paradigms. In a seminal article, Andrew Moravcsik links different strands of liberalist theorizing by arguing that the study of foreign policy needs to include the ideational and economic sources of preferences which influence state action as well as the mode of representation which allows for some domestic interests to be more assertive than others (Moravcsik 1997: 515).



In this vein, ideational liberalism stresses the impact of collective values and identities on the formation of foreign-policy preferences (Moravcsik 1997: 525-28). Economic liberalism points to the importance of economic structures at both the national and the international level and to the role of subnational actors with stakes in the international exchange of goods and services (Moravcsik 1997: 528-30). Last but not least, republican liberalism concentrates on the aggregation of domestic preferences and the question of which interests are privileged in this process (Moravcsik 1997: 530-33). Moravcsik's account suggests including theoretical elements from the fields of international political economy and comparative politics in order to examine national preferences. This means that the study of national preferences requires one, firstly, to scrutinize the particularities of a country's political system and, secondly, to assess the country's position in the international economic and political order. Finally, these variables may be looked at not only as direct constraints to foreign policy but also as influences shaping domestic coalition patterns and regime types and, thereby, the process of preference formation (Gourevitch 1978: 882-900).<sup>1</sup>

To summarize, national preferences are formed at the foreign-domestic nexus and are exposed to both outside-in and inside-out dynamics, pressures, and constraints. This means that governments are "forced to balance international and domestic concerns in a process of 'double-edged' diplomacy" (Moravcsik 1993: 15), that is, in a two-level game. The two-level game framework was introduced by Robert Putnam in an attempt to combine the "second image" and "second image reversed" approaches to foreign policy analysis (Putnam 1988: 430). He argues that during international negotiations, governments have to take into account the interests of powerful groups at home just as they do those of international bargaining partners (Putnam 1988: 434). Putnam analytically disaggregates the bargaining process into two phases: Level I negotiations take place between governments; during Level II negotiations each government seeks the approval of its constituencies for the tentative Level I agreement (Putnam 1988: 436). The "set of potential agreements that would be ratified by domestic constituencies in a straight up-or-down vote against the status quo of 'no agreement'" defines the Level II win-set (Moravcsik 1993: 23). Accordingly, the Level I win-set is the set of agreements that gain

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<sup>1</sup> The last point refers to the so-called second image-reversed perspective. The fact that preferences can have both domestic and external causes as well as both domestic and external effects again highlights the analytical independence and priority which we attribute to preferences in this paper: preferences are to be kept separate from environment and to be specified before they help to explain (inter)action. Consequently, our focus on the actor (and/or its preferences) is an analytical choice based on our research interest and not a theoretical necessity. Theoretically, the characteristics of the actor that give rise to certain foreign-policy preferences and strategies could just as well be considered to be contingent upon the international environment or international interaction. Thus our findings are connectable in both directions: Preferences may be treated as independent variables explaining Indian behavior in international interactions concerning energy issues. They may also be treated as dependent variables caused by the nature of the domestic system. This very system may furthermore be treated as an outcome of international pressures, which are in turn created by the interaction of actors.

the required international support. "Thus, agreement is possible only if those win-sets overlap, and the larger each win-set, the more likely they are to overlap" (Putnam 1988: 438).<sup>2</sup>

This paper focuses mostly on the first stage of the bargaining process: the process of Indian energy preference formation and aggregation in the domestic context. Empirically we draw upon the content analysis of government documents and nongovernmental reports on India's energy policy. We order Indian energy-policy preferences according to the priority they are given in these documents. In line with this prioritization, India's core preference is to secure a sufficient energy supply in order to sustain economic growth and development. Therefore, we first analyze how existing economic structures impact the process of energy-policy preference formation; second, we examine the ideational sources of Indian energy-policy preferences; and third, we scrutinize the institutional apparatus responsible for Indian energy policy. Last but not least, we outline how the preferences we have derived from the sources mentioned integrate to form an energy strategy and how this strategy might play out in the international context. For a comprehensive picture of the second level of the game—India in international energy politics—a deeper investigation of India's interaction with international partners and rivals as well as their stakes in the energy sector would be necessary. This is, however, beyond the scope of this paper.

### 3 The Impact of Economic Structures on Indian Energy Preferences

"Ten percent" has become something like an overarching mantra in Indian politics. It refers to the widespread belief in India that the country (only) has a realistic chance of overcoming its abundant social and political problems if its economic growth rate approximates the magic "10 percent" benchmark. Therefore, the Indian government's utmost concern is to secure energy at competitive prices in order to sustain an uninterrupted economic growth rate of at least 8 percent annually until 2030/31 (Planning Commission 2006a: xiii; Planning Commission 2006b: 1-3, 46; Government of India 2007: Chap. 4). This growth rate is considered necessary to reduce the level of absolute poverty in India (27 percent of the population) and to meet the energy needs of the population, especially of those who have not yet been linked to the electricity grid. This latter group still constitutes 56 percent of the Indian population (Government of India 2005a; Planning Commission 2006a; 2006b).<sup>3</sup> The Indian National Congress (INC)-led government has referred to the relationship between poverty reduction, economic growth, and energy supply with the term *inclusive growth*. Indian government publications argue that the country's energy demand is a direct function of its development necessi-

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<sup>2</sup> Negotiations at each level may be iterative, and Level II ratification does not necessarily include a formal voting procedure. Actors potentially involved at Level II are bureaucracies, interest groups, and the media (Putnam 1998: 436).

<sup>3</sup> Newer figures speak of 44 percent of rural households or approximately 400 million people with no access to electricity in India (Friedman/Schaffer 2009: 1).

ties (Planning Commission 2006b: 49). They calculate a fixed relationship between growth and energy demand, usually anticipating a 0.9 percent increase in energy demand for each percent of growth (*ibid.*).

India was able to pursue its version of import substitution and state-led development longer than most other developing countries because of its huge internal market. Its economic strategy coincided with the foreign policy principles of nonalignment, noninterference and third world solidarity, all of which are scrutinized in greater detail in the next section. India's development strategy relied upon the tight control of the private sector and the dominance of public enterprises in key sectors of the economy: the heavy industries and the banking and insurance sectors. Enterprises in these sectors have been heavy energy consumers (Ahmed/Ghani 2007; Narlikar 2006: 63).

With regard to the current market structure, India's energy production is still dominated by state-owned enterprises. Coal India, for instance, produces more than 80 percent of India's most important energy source, coal. Due to the high degree of regulation within the coal sector, private investors are rare. The oil and gas sectors are more flexible and therefore demonstrate more private activity. Reliance Industries is an example of a relevant private actor on the gas market. Nevertheless, state-owned enterprises such as the Oil and Natural Gas Corporation (ONGC), Oil India Limited (OIL), and the Indian Oil Corporation (IOC) are still the most important players. Electricity production is also largely in the hands of public companies such as the National Thermal Power Corporation, the National Hydroelectric Power Corporation, and the Nuclear Power Corporation. Public-sector companies also dominate the transmission and distribution of energy supplies to the end consumers (IEA 2007: 446-50). The various efforts to unbundle the services of the state electricity boards according to the guidelines offered by the Central Electricity Board (established in 2003) have had mixed success to date. The same holds true for efforts to encourage private-sector involvement in the exploration and exploitation of energy resources as well as in electricity generation (Madan 2006: 37-39; Herd et al. 2007: 204-209).

The dominance of state-owned companies, which are still not competitive internationally and are overstrained with domestic energy challenges, goes hand in hand with high energy subsidies, the overregulation of the Indian energy market, and its insulation against the global market as a legacy of India's mixed-economy model. Nonetheless, the liberalization of the economic regime since 1991 has had a massive impact on India's energy demand and strategy. Firstly, it has brought India to a higher growth trajectory, which has rapidly been increasing its energy demand. Secondly, it has opened the coal and oil sectors to foreign capital. Thirdly, it has altered the sectoral structure of the Indian economy because capital- and energy-intensive sectors have developed best. Energy demand has also increased because of the growing use of home appliances and cars by the expanding middle class.

Indian primary energy demand has been growing at an accelerating rate, from 209 MTOE in 1980 to 537 MTOE in 2005, making India the fifth-biggest energy consumer in the

world (Madan 2006: 1; IEA 2007: 444). According to an Indian government scenario, primary energy demand in the country will have grown fourfold by the year 2032 (Planning Commission 2006a: xiii, 31). By that time India will have become the third-largest energy consumer and carbon dioxide emitter worldwide (IEA 2007: 463). India's per capita energy consumption has remained fairly low (far behind that of developed countries or China). Although decreasing, its energy intensity is still high (Ahmed/Ghani 2007: 144-45; Razavi 2009: 5). Among the BRICs, India will become most dependent on foreign energy supplies, especially oil (Scholvin 2007: 4-5).

Natural gas covers an increasing amount of India's energy demand (today up to 7 percent). This demand is currently being met mainly by local sources, but imports will grow drastically in the next two decades. With regard to coal, which still accounts for the biggest part of Indian energy consumption, import dependence remains relatively low (IEA 2007: 445-45). However, the low quality of domestic coal reserves and infrastructural deficits will make augmenting coal imports unavoidable. India is poorly endowed with uranium and extracts this commodity from extremely low-grade ores. In terms of nuclear fuels, the country thus has two options: either it enriches uranium in its own fast-breeder reactors or it relies upon increasing deliveries made possible by the US-Indo nuclear deal. It is not certain whether India's hopes of a rapidly growing share of nuclear power within its energy mix will materialize.<sup>4</sup> The construction and putting into service of new nuclear power plants has always trailed far behind the national requirements as set out in government planning (Friedman/Schaffer 2009: 1-2). When summarizing the supply side of India's energy policy, one has to state that India itself does not possess sufficient natural resources. The security of its energy supply will become an even bigger concern in India's foreign policy if economic growth rates remain comparable to those of the last five years and the boom in vehicle production persists (Planning Commission 2006a: 45; IEA 2007: 458-59, 463).

In addition, a successive structural shift from agriculture to industry, accompanied by the growth of industrial production, is also expected to increase India's energy demand. During the era of "Hindu growth rates" (3 to 3.5 percent annually) and even in the initial phase after economic liberalization, there was no peak in India's energy consumption due to the fact that the economic boom was mainly led by the service sector. But as the importance of the energy-intensive industrial sector has been growing disproportionately quickly since 2004, industrial energy demand is expected to increase accordingly. Given that the construction of power plants trailed behind planning even in times of economic stagnation, current developments must be alarming. In light of India's industrial growth rates since the year 2000, the already energy-intensive character of India's industry, and the persistence of subsidies and transmission losses of up to 40 percent, it seems inevitable that India will face a dangerous energy shortage (Madan 2006: 9).

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<sup>4</sup> Nuclear power currently accounts for 2.3 percent of India's electricity generation. India hopes to increase this share to 25 percent by the year 2050 (Friedman/Schaffer 2009: 2-3).

The changes in India's economic structure have also altered India's energy-policy preferences through the new presence of foreign enterprises in the Indian market (although their profile is still underdeveloped). Furthermore, the sheer dynamic of the Indian economy in the last decade has created new opportunities for international cooperation. The interdependence of the Indian economy has thus increased—a fact which has also impacted India's energy strategy. Firstly, competitive bidding has been introduced in the exploration and exploitation of new coal, gas and oil fields. This reform has stirred moderate interest on the part of foreign investors (Madan 2006: 37-39). Secondly, simultaneous to the growing global interdependence of the Indian economy, the United States has become India's primary trade and investment partner. The conclusion of the Indo-US agreement on civil nuclear energy has opened further avenues for trade and cooperation in this field.<sup>5</sup> As a consequence, US and Indian enterprises and research institutions are likely to integrate into a network and thus become stakeholders in open trade and friendly relations between the two countries.<sup>6</sup> In this vein, a new lobby group of Indian companies engaged in Western countries (bolstered by almost three million Indian expatriates in the United States) has come into being; this group's interests need to be taken into account by the Indian government if it becomes powerful enough in the domestic setting. Before we proceed to the analysis of this domestic setting, the next section addresses the ideational sources of India's foreign policy in general and India's energy-policy preferences in particular.

#### **4 Collective Values and Identity as the Source of Indian Energy Preferences**

India's energy policy reflects a mixture of internal pressures and general preferences for a certain world order which have guided Indian foreign policy since its independence in 1947. Sometimes these internal and external compulsions overlap, sometimes they contradict each other. Thus, a growing dependence on foreign energy supplies clashes with India's traditional foreign policy principles, above all the value of self-reliance, which is linked back to historical experience. Since its independence from British colonial rule, India has developed a strong anti-imperial identity and tried to minimize the influence of foreign companies. It was a leader of the Non-Aligned Movement (NAM) at the time of the East-West confrontation and was one of the masterminds behind the movement which demanded a new international economic order to the benefit of poorer countries. India's strict anti-imperial stance has also included adherence to the principle of nonintervention in the domestic affairs of countries that are considered to be partners (Mohan 2003: 268 ff.).

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<sup>5</sup> In the meantime, India has concluded similar agreements with Russia and France which are likely to have comparable effects (Friedman/Schaffer 2009: 2).

<sup>6</sup> For a theoretical elaboration of this argument cf. Moravcsik 1997: 528.

The influence of these traditional values is reflected in Indian energy policy, particularly in the preferences for exploring domestic oil, gas, and coal reserves and for expanding domestic energy production through new nuclear power plants. There is ongoing controversy over whether India's goal should be "energy independence" or "energy security." Those who are most skeptical of an external energy supply, such as the former Indian president A.P.J. Abdul Kalam, advocate a strategy to achieve "energy independence" by 2030 (Kalam 2005). Most other actors argue that reaching this goal will be impossible. They plead for energy security instead (Madan 2006: 17), that is, the "continuous availability of commercial energy at competitive prices to support its [India's] economic growth and meet the life-line energy needs of its households with safe, clean and convenient sources of energy [...]" (Planning Commission 2006a: xxiv).

From India's perspective all available fuel options and forms of energy need to be pursued in order to achieve the goal of energy security. This means that India aims to diversify both its energy sources and its supplying countries. In order to minimize outside influence, the expansion of competitive national sources is, from an Indian point of view, desirable (Planning Commission 2006a: xxiv). In the same vein, reducing energy requirements and increasing the efficiency of the production processes would be mandatory. Diversification and reduction targets have to be seen in terms of self-sufficiency and self-reliance, which have always been cherished overall goals of India's foreign policy.

Traditional friend-and-foe patterns have been a strong ideational source of Indian foreign policy and have had an impact on energy-policy preferences. India has tried to position itself as a leader of the developing world in North-South negotiations, even in the post-Cold War era. In what could be characterized as a confrontational approach to international affairs, India has tried to portray conflicts as a struggle of the poor against the rich with itself at the forefront (Narlikar 2006: 62-63). While energy dependency is generally considered deplorable, even today many Indians prefer the fostering of friendly relations with African and West Asian countries, which guarantee approximately two-thirds of India's oil imports (Planning Commission 2006a: 60), over energy cooperation with Western countries, especially with the US. Thus, India has never definitely given up its pipeline projects with Iran, despite US pressure to do so (Wojczewski/Hanif 2008: 5). The US government has also articulated concerns with respect to India's plan to construct a gas pipeline from Myanmar through Bangladesh to India, though to a lesser extent (Müller-Kaenner 2008).

The month-long blockade of the US-Indo nuclear agreement ("123 Agreement") and related debates in India are another example of residual anti-Western resentment and its impacts on Indian energy policy. The deal was not blocked by American resistance (as had been expected), but rather by anti-American groups within India. They interpreted the deal as Indian subordination to US hegemony. The skepticism towards a too-close relationship with the West is articulated by leftist parties in particular, which constitute small fragments of India's political landscape. Their influence during the years of the first Manmohan Singh gov-

ernment (2004–2009) was based on the precarious balance of a multiparty coalition under the necessarily soft command of the INC.<sup>7</sup> In general it can be said, however, that more pragmatism and less ideology have been demonstrated by India in dealing with the West. The 123 Agreement was ultimately ratified in India, despite continued criticism by the political and intellectual left (Hanif 2008: 17-19; Bidwai 2008).

As indicated above, India's opening towards the West is not due simply to the modernization of collective values after the Cold War. The economic reform process in India, which was initiated in 1991, has also created new incentives. Seen from a second image-reversed perspective, the international political and economic order during the Cold War—in concert with India's own development needs and domestic political landscape—led to the adoption of a mixed economic model. India's mixed economy, a combination of market-based and state-led elements, went hand in hand with a nonaligned foreign policy which avoided a clear decision on whether to join either the capitalist or the socialist block. According to this reading, India's nonaligned stance in the international system was not so much an ideologically inspired decision but a product of the interplay of domestic economic and societal needs and foreign pressures. This is not to say that genuinely ideological convictions, especially anti-imperialism and third world solidarity, did not have a strong bearing on India's foreign policy during the Cold War. Indeed, the values associated with the policy of nonalignment have been an ideological source of India's foreign (and energy) policy.<sup>8</sup>

Today these traditional orientations still influence India's foreign and energy-policy preferences, as explained above. They have even endured the changes in both the global and the Indian economic and political order which have taken place since the end of the Cold War. Nevertheless, as economic globalization has gained momentum and India has become more integrated into the world economy, pragmatism—that is, the absence of any particular ideology—seems to have become the dominant mind-set of the Indian foreign and economic policy elite. In this way, the economic reforms since 1991 and their impact on trade and investment partnerships, which are now mainly focused on North America and Southeast Asia, have led to the gradual reorientation of foreign policy towards Western countries and to the acknowledgement of shared values (Betz 2010).

Last but not least, India's energy security has been jeopardized by the regional conflict configuration in South Asia, which also has a strong ideational dimension. Thus, India's self-perception as a natural and benign leader in the region has time and again come into conflict with the smaller neighbors' view of India as a regional bully. The divergent collective identities in post-colonial South Asia are most visible in border disputes, especially those between

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<sup>7</sup> In July 2008 the leftist parties withdrew their support for the Singh government because of differing stances on the US–India nuclear deal. Singh was, however, able to find a new partner (the Samajwadi Party) and his coalition government remained in power until the next regular elections in 2009.

<sup>8</sup> The argument developed in this paragraph is based on various expert interviews conducted by Melanie Hanif in New Delhi in February and March 2010.

India and Pakistan.<sup>9</sup> This is relevant to India's energy security as the conflict with Pakistan has cut off India geographically from the oil-rich countries around the Persian Gulf and in Central Asia, many of whom it maintains friendly relations with. South Asia still constitutes a blind spot on international pipeline maps. As an example and to conclude this section, we would like to point to a regional obstacle to India's goal of enhancing energy security, namely, the planned Iran-Pakistan-India pipeline (IPI pipeline). The project has constituted an attempt to overcome the energy deadlock in South Asia. But while India has remained undecided on the risks, Iran and Pakistan have finalized negotiations and now want to move forward with the construction without India (Times of India, March 19, 2010).

In the next section we scrutinize the influence of domestic institutions on India's energy-policy preferences before we finally turn towards a more general assessment of India's energy strategy.

## **5 The Institutional Apparatus and the Aggregation of Indian Energy Preferences**

Its dominant market position reveals that the Indian state is still central to the development of the Indian energy sector. The administrative apparatus concerned with energy policy is, however, confusing and undermines determined action. In 1992 India created a central energy ministry, but later it divided it up (Friedman/Schaffer 2009: 3). At the moment, four different ministries are directly involved in India's energy policy: the Ministry of Power, the Ministry of New and Renewable Energy, the Ministry of Petroleum and Natural Gas, and the Ministry of Coal. In July 2005 the prime minister established an Energy Coordination Committee to meet demands for more consistency. In 2006 the Planning Commission inaugurated a working group for the Eleventh Five Year Plan's energy program comprising eight panels and covering nearly every aspect of energy policy (Government of India 2007). The continuous creation of new energy agencies is proof of the growing priority of energy policy but also adds to the already considerable fragmentation of the governmental apparatus responsible for energy issues. The consistency of policies is therefore just as hard to achieve as the transparency of processes for users and investors. Moreover, reforms of the energy sector proceed at a very slow pace (Friedman/Schaffer 2009: 3). They are complicated by the fact that "many of the current beneficiaries of opaque accounting, cross-subsidies, patronage in appointment of regulators and senior management [...] have an interest in preserving the status quo, including low prices that deter efficient commercial competition" (Ahmed/Ghani 2007: 37). On the other hand, the results of this administrative struggle tend to be politically inclusive since nearly all important players are already on board.

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<sup>9</sup> Moravcsik conceptualizes borders as a public good whose allocation is influenced by convergent or divergent fundamental beliefs and social identities (Moravcsik 1997: 525).



In the committees working to reform Indian energy policies, representatives of ministries and state agencies make up approximately 50 percent of the members; the other half are representatives of employers' associations, trade unions and think tanks (Planning Commission, 2006a: 138-140; Government of India 2006: 20). In this way, members of civil society have been given the opportunity to define the reform agenda together with the ministries. Nevertheless, the statements of industry associations regarding energy policies often merely replicate government statements, so that this group can hardly be considered an independent source of Indian energy-policy preferences. A contrasting example of domestic actors that try to influence India's energy policy is provided by social and environmental groups. Their growing veto position has been demonstrated by the delays in the development of hydro-power projects (because of inadequate compensation for displaced farmers). Nonetheless, environmental groups have so far not been able to enlist sufficient financial incentives in order to attract private investment for solar and wind energy technologies (IEA 2007: 518-19).

As indicated above, energy policy has also become an important factor in state and national elections. This explains the influence of farmers and poor consumers on the maintenance or enhancement of energy subsidies. Because farmers and poor consumers make up a considerable part of the constituency, parties include pledges for low and stable energy prices, regardless of international price hikes, or even promise a free energy supply in their electoral programs. Low prices have been achieved by increasing subsidies for dysfunctional public energy companies and boards. These subsidized prices have then acted as an additional stimulus to domestic energy consumption (Brookings 2006: 24-25; Herd et al. 2007: 204; Planning Commission 2008: 382). The costs of this ignorance of market mechanisms have to be born by national oil and gas companies (Government of India 2006: 26) and—as the companies are compensated by the Reserve Bank of India through oil and fertilizer bonds—by the Indian tax payers (Asian Development Bank 2008: 156).

## **6 The Integration of India's Energy-policy Preferences into a Strategy**

The way in which India's energy-policy preferences have arisen in light of scarce indigenous resources, high economic growth rates, and energy-intensive industrial and agrarian production has been discussed above. Efforts to save energy have also remained limited in India. Additionally, India's conflict with Pakistan as well as instabilities within Pakistan itself hamper the flow of Central Asian and Caucasian energy supplies to the subcontinent. It is also clear that India's energy-policy preferences are closely related to its overall strategic goal of sustaining economic growth while alleviating poverty. In addition to these general necessities, limitations, and ambitions, we have identified particular nonmaterial and material factors which also influence India's energy-policy preferences.

Firstly, the influence of the collective values and identities developed during the struggle for independence and in the early post-independence years is evident in Indian energy-

policy preferences. Thus, the value of self-reliance figures prominently within the Indian energy discourse, sometimes even in the form of the unrealistic goal of energy independence. Furthermore, traditional South-South solidarity and anti-Western resentments are still observable in the current Indian energy debate, especially in the skepticism regarding closer cooperation with the US and the relatively uncritical view of so-called rogue states in Africa and Asia. Secondly, India's energy market continues to be strongly regulated and distorted by subsidies and the dominance of public companies. Private activity is rare, although lately we have been witnessing the consequences of economic growth and a moderate market opening also in the energy sector. The trend of incremental augmentation of the number and amount of private and foreign investors is thus likely to continue. Thirdly, we have found that while the Indian government is very influential in the energy sector, there is a high level of institutional fragmentation. The government's aim of keeping energy companies under state tutelage and of steering the whole sector is—as in many developing countries—stifled by its inability to properly coordinate the relevant ministries and agencies. Thus we have detected a certain activism on the part of the government in creating ever more entities concerned with energy policy, but few efforts which aim at cohesion. This might weaken the position of the government when it comes to implementing policies. Nevertheless, the tight network of linkages in the sector between political, economic, and societal actors blurs the different ambits and might indeed improve inclusiveness and the assertiveness of the ruling elites.

After all, one must not forget that India is a democracy—though one with corporate traits. This means that despite the government's still-influential position in the economic realm and a relatively low degree of civil society activity, Indian policy makers are subject to democratic voting procedures and thus to domestic constituencies' opinions on energy policy. Here it is relevant that 60 percent of the Indian labor force is still employed in the agricultural sector, where cheap and unmetered electricity supply is the general rule. Additionally, many households only pay a small flat rate, and in some rural areas electricity supply is even completely free (Friedman/Schaffer 2009: 1). It is obvious that the electoral weight of these groups is enormous. Thus, parties in different Indian states have often promised to maintain or initiate the provision of cost-free electricity before elections. The practically insolvent State Electricity Boards and public energy companies, moreover, employ a huge number of people.<sup>10</sup> Unions and leftist parties have therefore exercised stiff resistance to institutional reforms and any kind of privatization. Thus, to conclude this summary of the domestic sources of Indian energy-policy preferences, it can be said that the institutional effects on Indian preference formation appear to be the most complex variable at this point of the analysis, even more so because they are partially blended with economic factors.

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<sup>10</sup> Coal India, for instance, is the second-largest employer in the world (Friedman/Schaffer 2009: 3).

The domestic necessity of developing a cost-efficient energy strategy while sustaining subsidies as well as the ambitious growth and distributional targets limits India's room to maneuver at the international level (Joshi 2009: 4). Internationally, the country's dependence on only four countries (Saudi Arabia, Nigeria, Kuwait, and Iran), which account for nearly two-thirds of India's oil imports, understandably causes concern on the part of the Indian government, particularly against the background of the special value of self-reliance discussed above. Since energy independence is not a realistic option in the near future, the current situation has produced a strong preference for the diversification of energy sources and for gaining more leverage at the international level (Planning Commission 2006a: 60). In combination with the constraints the Indian government faces at the domestic level, these preferences translate into the strategy of favoring the full exploitation of India's international scopes of action by tapping new sources via equity or long-term contracts. Thus, the country is attempting to alleviate its excessive dependence on mainly Middle Eastern external suppliers by investing in oil exploration and equity participation, even in highly unstable or politically difficult countries (Müller-Kraenner 2008; Ganguly/Pardesi 2009).<sup>11</sup>

Today public Indian oil companies are involved in Angola, Sudan, Iran, and Siberia and have reached an agreement on gas supply with Myanmar, the durability of which nevertheless appears uncertain. Furthermore, two pipeline projects are in the planning stages, one from Iran through Pakistan (IPI), the other from Turkmenistan through Afghanistan and Pakistan (TAPI) to India (Müller-Kraenner 2008). Whether these projects—if ever realized at all—will enhance India's energy security is questionable. The Indian government is well aware of the problems related to equity, especially the political risk of disruptions to the supply of equity oil through embargos or nationalization (Planning Commission 2006a: 62). At the same time, India's policy is causing friction with Western countries—either because the supplying countries are politically unacceptable to the latter or because the latter countries themselves have claims at stake. As described above, however, its traditional friend-foe patterns make India less responsive to the political or ideological reservations of the West (Ganguly/Pardesi 2009).

The structural variable of shrinking international oil and gas reserves is likely to add to India's preference for tapping new sources. On the other hand, it will probably also augment the level of confrontation between India and its competitors for energy resources (mainly the established powers and China) and thus limit India's freedom of action on the international stage. Although India and China agreed on the joint exploration and development of new energy resources and technologies in 2005, the two countries are considered to be in a competition for energy supplies (Government of India 2005b: 64; Khurana 2009). China normally dominates in this competition because it supplements oil and gas agreements with development credits at highly concessionary rates. This could explain why India is already working

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<sup>11</sup> Claims in more attractive sites were already distributed to multinational companies when India became active.

at improving its domestic leverage while continuing to play the hardliner in international negotiations, especially when it comes to international greenhouse gas reduction targets. As the developed countries still have higher emission levels than India and as they are primarily responsible for global warming (IEA 2006: 199), India's nay-saying policy also has a normative foundation. But despite its resistance to internationally agreed-upon greenhouse gas reduction targets, the Indian government has put forward an impressive list of measures to save energy,<sup>12</sup> to reduce transmission losses,<sup>13</sup> to streamline energy prices,<sup>14</sup> to reduce the energy intensity of production,<sup>15</sup> and to develop local<sup>16</sup> and renewable<sup>17</sup> energy sources. If all these opportunities were seized, India's energy demand could be cut by approximately 35 percent by 2030; its greenhouse gas emissions would be expected to decrease at the same rate (Government of India 2007: 50).

## 7 Conclusions

This paper has shown that a two-level game approach is suitable for shedding new light on India's energy policy. The "double-edged" nature of India's energy policy has become most obvious through Indian policy makers' attempts to use the increasing cost of energy subsi-

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<sup>12</sup> In order to save energy within companies and public offices, energy audits were made mandatory. The new Bureau of Energy Efficiency (BEE) will set energy-saving norms for 15 energy-intensive sectors. The small-scale sector, which is responsible for 70 percent of industrial greenhouse gas emissions has, however, not been included yet due to administrative difficulties (Government of India 2007).

<sup>13</sup> In India, transmission losses account for between 34 and 40 percent of generation, as opposed to 4 to 8 percent in developed countries (Chikkatur/Sagar 2009: 17). Since the passing of the Energy Conservation Act in 2001, transmission losses have been reduced only marginally. In 2005 the Indian president announced his government's aim of reducing transmission losses to 15 percent (Kalam 2005).

<sup>14</sup> Electricity costs for corporate customers in India are higher than in most countries at a similar stage of development. This is the result of cross-subsidization to the benefit of poor clients and agriculture as well as the previously mentioned transmission losses (Herd 2007: 204). The Indian Planning Commission aims to further dismantle the administered price mechanism regime to arrive at trade parity prices in all energy consumption sectors (Government of India 2006: 33; Planning Commission 2008: 364-67).

<sup>15</sup> Energy intensity in India has dropped considerably (by 50 percent since the 1970s) and already compares with that of China. There is, however, still scope for improvement, especially concerning coal power plants, heavy industries, and the private and public transport of passengers and goods.

<sup>16</sup> As a local energy source to be developed, nuclear energy, particularly the enrichment of thorium, takes pride of place in official statements (cf. Government of India 2007). Hydropower is also classified as an ecological sound source. However, because of the dislocation of people that results, its exploitation is often met with popular dissent. Therefore, additional capacity from hydropower is modest. The same holds true for the development of wind and solar energy (Planning Commission 2006a: 13, 33, 36-38), although India has considerable potential in these fields (Friedman/Schaffer 2009).

<sup>17</sup> The Indian government plans to add 13,500 MW of renewable power during the current Eleventh Plan period (Government of India 2007). The greatest share of this will be made up of wind energy. Overall, the nonconventional energy sector is still largely underdeveloped. It is therefore very unlikely that nonconventional sources will have a significant influence on energy availability in India (Madan 2007: 87).

dies and the country's dependence on foreign supplies to contain domestic demands for stable and low prices. On the international stage, the same politicians have played the domestic card by arguing that India is unable to meet international emissions standards because of domestic resistance to the adoption of an energy-saving development strategy (Brookings 2006: 21). The analytical framework we have developed here on the basis of the existing literature on two-level games in international relations has enabled us to consider both the national and the international exigencies which have an impact on India's choices in the energy realm, as well as its attempt to balance these sometimes contradicting forces in light of the government's internal and external power position. In this vein, India's energy policy can be explained as the result of the interaction of domestic factors and relatively stable traditional foreign policy orientations on the one hand and international factors and pressures on the other hand.

The two-level game approach maintains that international agreements will only be achieved if domestic and foreign win-sets overlap (Putnam 1988: 438). India's domestic win-set is characterized particularly by its desire for self-reliance, its traditional friend-foe patterns, the legacy of its mixed-economy model, and a paradoxically fragmented but equally overintegrated institutional apparatus. Another decisive factor shaping India's domestic win-set is the fact that groups of consumers (mainly low- and medium-income households) and the farmers' community, whose sheer electoral size decides the fate of incumbent governments, have—more than is the case elsewhere—become accustomed to low prices for electricity, oil, and gas. This considerably narrows India's domestic win-set and thus the chances of international agreement on energy or climate issues. The comparatively soft position of the Indian government vis-à-vis its domestic constituencies weakens its ability to follow through with necessary price adjustments in the energy sector and the implementation of measures to reduce the energy intensity of industrial and agricultural production. Altogether, the particularities of India's current political and socioeconomic makeup, as well as its position as an emerging economy and an energy latecomer, dampen the prospects of consensus with established powers in energy and climate negotiations. However, if the domestic and international dynamics are rather divergent, as is currently the case with Indian energy policy, the question is which arena prevails. Here our findings support Alons's claim that internal necessities tend to dominate foreign policy when internal polarity, that is, the extent to which the government dominates society, is low and power in the international system is relatively decentralized.<sup>18</sup>

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<sup>18</sup> Alons's hypotheses were developed for liberal middle-sized democracies such as Germany or Canada and are therefore not applicable to the Indian case on a one-to-one basis. Nevertheless, the question of how our findings fit into Alons's polarity framework and whether our mixed result for internal polarity in India are representative of other emerging powers could be a direction for further studies in the tradition of the two-level game.

Thus domestic necessities, which have been overshadowed by the overall goal of sustaining economic growth, have resulted in India's policy of seeking adjustment at the international rather than the national level. Instead of, for instance, developing energy-saving policies or alternative, nonfossil fuels, India has tried to address its scarcity of domestic resources by adopting a confrontational external energy-policy strategy. This, however, brings about difficulties at the international level, mainly in the form of disadvantageous competition with China and the alienation of Western powers, which India has provoked by cooperating with states such as Myanmar and Iran or by rejecting responsibility for global warming. These sites of confrontation are not likely to diminish in the foreseeable future.

Notwithstanding these potential causes of conflict, our findings have to be viewed from the perspective of India's quest for improved status in the international arena, which demands enhanced cooperation between India and the United States in particular. Signs of a more cooperative attitude towards the West have become increasingly visible, for example, through India's vote with the US against Iran within the International Atomic Energy Agency or through its attempts to gain international acknowledgment of its nuclear power status. These developments can be interpreted as indications that India will handle internal and external energy-policy constraints in a more balanced way in the future. Indeed, the Indian government has recently tried to broaden its domestic leverage by reducing those constraints that arise from the inefficient use of energy by both private and commercial consumers in India. Subsidies have proven to be a major hindrance to efforts to improve energy efficiency. The wasteful use of energy as well as the exploration and exploitation of new sites with marginal value are the consequences thereof. Reforming the Indian energy sector is, however, difficult because of its nontransparency and the many actors involved who benefit from the current system. This again emphasizes the fact that the institutional apparatus is a crucial variable in India's double-edged energy policy.

To summarize, our analysis of the first phase of the two-level game has revealed the ideational, economic, and institutional sources of India's energy-policy preferences. It has, furthermore, outlined how these preferences combine to form an energy strategy. We would like to encourage more detailed studies of the bargaining processes in the international context, both in energy and in climate politics.<sup>19</sup> Comparing India's positions and the outcomes of specific bargaining situations to the general preferences identified in this paper appears to be a promising topic for future research.

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<sup>19</sup> Narlikar (2006) offers a general account of India's international bargaining behavior, with an empirical focus on trade negotiations. This could provide a basic framework for enquiring into India's role in international energy politics.

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