



Turning Words into Action

Next Steps in the U.S.-India Strategic Partnership

Rich Verma and Michael Werz June 2012

A strategic bet

Early on, the Obama administration made a calculated bet on India. The world's oldest and largest democracies were to become major trading partners, with India opening its markets to U.S. investors. In addition, both nations pledged to forge strong security ties and join forces in battling terrorist elements, with India playing a critical role as an emerging regional power. It was no mere coincidence that the first State Dinner President Barack Obama hosted was in honor of Indian Prime Minister Manmohan Singh.

Three years later some critics contend neither President Obama nor Prime Minister Singh have much to show for all their good intentions. Critics in the United States point to a stagnant and closed Indian economic system that has kept U.S. business on the sidelines. They point to a lost fighter jet contract, stalled economic reforms, failure to move on the promised liability protection for the U.S. nuclear industry, and a counterproductive relationship India continues to maintain with Iran.

Similarly, in India skeptics cite the failure to reform the U.S. export control system, stagnant negotiations on a bilateral investment treaty, the imposition of unilateral sanctions targeting India's central bank, and the mounting difficulties confronting Indians seeking work and tourist visas in the United States as evidence that the relationship is not advancing.

Given this narrative, despair and handwringing would be appropriate. This narrative, however, tells only part of the story and presents an unduly pessimistic picture—particularly if one takes into account the many areas where cooperation has grown and where the vast network of U.S.-Indian connections has become deeper and stronger. India is, in fact, becoming the “indispensable U.S. ally” President Obama spoke of nearly three years ago.

The third annual U.S.-India Strategic Dialogue, scheduled for June 13, offers an opportunity for the countries to make progress on a number of issues and strengthen their ties. Ahead of this summit we review why India is an important ally to the United States, which issues the countries will focus on at the summit and where they can make headway, and why there's reason to be optimistic about the relationship going forward.

Why India is important for the United States

India has the world's second largest population (just behind China), and it ranks 11th in the world in nominal gross domestic product.¹ The country has emerged as a major economic player, enjoying impressive economic growth for three decades, and now constitutes 5 percent of the global economy.²

More than a decade into the 21st century, India's increasing influence can be felt throughout Asia and beyond, not only because of its economic growth rates, but also because of the experiences the world's largest democracy can convey to developing nations. The country is already adopting an important position in several global areas, such as international climate negotiations, and as one of the main players in the BRIC—Brazil, Russia, India, and China—group of emerging countries in terms of economic development.

Over the past decade India has also expanded its role in multilateral institutions. It helped launch the G-20 Group of Developing Countries with Brazil and South Africa in 2003, and it has been an active (though sometimes difficult) participant in the World Trade Organization's Doha Round of trade negotiations and the Major Economies Forum.

Yet India faces domestic challenges that have the potential to hinder its future growth prospects and long-term development. Over 40 percent of India's vast population falls below the international poverty line and one-third of its citizens are under the age of 15.³ India's economic growth projections have recently been revised sharply downward, calling into question its ability to lift millions out of poverty and into the middle class.

President Obama's trip to India in October 2011 underlined the United States' vision of India as an important stakeholder and partner in international affairs with which it shares important values, such as a commitment to democracy, equitable growth, and engagement in regional stability. The Obama administration, as well as the Bush administration before it, made the calculation that it was very much in the interest of the United States to strengthen ties with India as New Delhi seeks to assert more of its leadership in the world. The U.S.-India Strategic Dialogue is one way to achieve this.

To further develop the U.S.-India partnership in years to come, a nuanced understanding of India's domestic challenges will be critical to crafting U.S. policy toward India. The United States also needs to take into account the complex regional issues that impact India's growth, among them an implicit competition with China and instability from Pakistan to Nepal.

Framing the U.S.-India Strategic Dialogue

The Strategic Dialogue and its subworking groups tackle a broad range of issues in education, energy, science and technology, economics and trade, health, agriculture, and defense. The first official dialogue took place in Washington in 2010, and the second occurred in Delhi in 2011.

In addition to the core economic and security issues, the 2011 dialogue addressed cybersecurity, aviation and maritime safety, counternarcotics, humanitarian assistance, women's empowerment, space cooperation, clean energy, and the expansion of student exchanges. Key intergovernmental working groups related to education, energy, homeland security, and counterterrorism cooperation are ongoing and have set ambitious schedules for the coming year.

The upcoming 2012 Strategic Dialogue also has many items on its agenda. While the 2010 dialogue focused on 10 key areas, the 2012 dialogue is expected to cover some 20 different topics. The expansion of topics is an indicator of both the complexity of the relationship as well as the growing list of unresolved issues that exist between the two countries.

In preparation for the dialogue, a number of U.S. and Indian officials have been shuttling back and forth over the last several months to finalize the agenda, including Secretary of State Hillary Clinton, who visited New Delhi and Kolkata last month, and Secretary of Defense Leon Panetta, who traveled to India this week.

In addition to following up on the bilateral issues that were discussed in the past two years, there are a number of consequential issues simmering. These include:

Defense and security

- **Afghanistan**—managing the transition after the redeployment of U.S. and international troops in 2014 and defining India's role in this process
- **Asia pivot**—crystallizing India's leadership role in Asia as the United States rebalances its strategic footprint in and commitment to Asia
- **Export control reform**—examining what, if anything, can be done to eliminate or soften some of the more stringent controls in the U.S. export of dual-use and defense items to India
- **Iran**—locking in India's commitment to purchase less Iranian oil and formally offering India an exemption from tough U.S. unilateral banking-related sanctions designed to punish the importers of Iranian crude

- **Syria**—getting India’s support for a more active role by the international community in ending Syria’s conflict
- **Terrorism**—working jointly to address the threat of international terrorism

Trade and investment

- **Central Asia**—solidifying India’s footprint in Central Asia through the New Silk Road initiative—designed to enhance connections in central Asia—and building support for the recently agreed upon Turkmenistan-Afghanistan-Pakistan-India pipeline, which would open up an important new source of energy into India⁴
- **Economic growth**—examining the impact from the slowdown of Indian economic growth, and supporting development and poverty alleviation programs in India
- **Market reforms**—addressing the continued lack of Indian economic reforms, especially in the multibrand retail, insurance, and pension sectors
- **Nuclear**—establishing a level playing field for U.S. companies in the Indian nuclear sector to include yet again a push for civil-liability protection
- **Pharmaceuticals**—examining India’s recent protectionist measures against U.S. pharmaceutical firms
- **Taxation**—assessing the damage from India’s attempt to retroactively tax foreign firms operating in India
- **Visas**—addressing perceived U.S. protectionism in the issuance of visas to Indian information technology industry workers

Obviously, a single forum cannot deliver breakthroughs on all these fronts. Many if not most of these matters will be carried forward to the next dialogue and to future dialogues and future administrations—but that is not evidence of failure. To the contrary, the long to-do list demonstrates that both countries are facing exceedingly difficult bilateral and global issues that offer few easy answers. They can only reach solutions through the concerted efforts of parliaments, bureaucrats, politicians, civil society, and business leaders working together to discuss issues of importance, find common ground, and move the countries collectively forward through identifiable and measurable steps.

The Obama administration is on the right track by establishing a broadened strategic framework for U.S.-India relations. It is time to move beyond 20th century balance-of-power and containment strategies in Asia. India should not become a battleground for proxy politics

because it is a major actor in its own right, and a U.S. partner for decades to come. A progressive position also needs to weigh the significance of India's democratic self-determination, which could produce results that are not always aligned with U.S. interests.

Defining progress in the 2012 Strategic Dialogue and beyond

Meaningful developments can emerge from this year's Strategic Dialogue. As many watchers of the U.S.-India relationship like to say, there probably won't be any home runs, but there are likely to be a lot of singles. Progress in any of the following areas at the dialogue and over the coming year would bring the two countries closer together and deepen the trust and engagement at multiple levels:

Iran

With diplomatic discussions with Iran coming to a head, now is the right time for the United States and India to take steps to stop the development of an Iranian nuclear weapon, and to reaffirm that there is no distance between them on proliferation. Currently, India imports around 80 percent of its oil consumption. Sixty-three percent of this is from the Middle East and about 12 percent comes from Iran.⁵

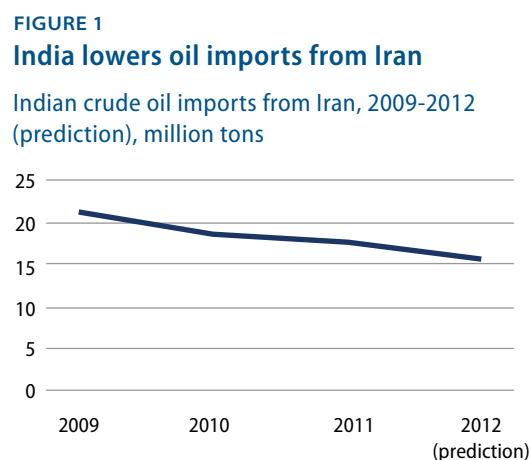
Still, the United States now has sufficient evidence of substantial Indian reductions of Iranian crude to exempt it from congressionally mandated sanctions, which if fully implemented could cut off India's Central Bank from the U.S. banking system.

After Secretary Clinton's visit last month, Indian officials did acknowledge they would reduce Iranian oil imports by approximately 11 percent.⁶ India's largest private importer of crude oil, MRPL, has itself declared a reduction in Iranian crude by some 20 percent.⁷ The country is expected to make up for this shortfall through increased imports from Saudi Arabia, Iraq, and Kuwait.

India should also find a way to make more formal its commitment to reduce its imports of Iranian crude oil. These steps would be a big confidence builder in both capitals.

Bilateral investment treaty

The negotiation of a bilateral investment treaty between the United States and India has languished since 2006. This year's dialogue is the right place for both sides to restate their



Source: "Payments to Iran for crude oil imports resume," The Hindu Business Line, March 3, 2012; "Oil imports from Iran reduced under US pressure: CPI(M)," The Economic Times, March 1, 2012; Sanjay Dutta and Sachin Parashar, "India bows to US pressure, cuts Iran oil import by 11 percent," The Times of India, May 16, 2012.

formal commitment to pursue a treaty. India has signed 61 bilateral investment treaties with other countries and the United States has signed 47 bilateral investment treaties.⁸

Discussion about a U.S.-India free trade agreement is just talk until the important investor protections of a bilateral investment treaty are established. The dialogue can be used to lay out the process and timeline for making this a reality.

U.S. export control reform

While the effort to reform the U.S. export control system may be dead on arrival on Capitol Hill, the Obama administration has been moving aggressively under executive branch authorities to ease the licensing burden for the export of defense and dual-use goods. Already, the United States has decontrolled a number of items or moved them to a category with lesser controls. They have also streamlined export-licensing procedures.

As has been promised before, the U.S. export control system should be realigned in a way that recognizes India's role as a strategic partner of the United States. The dialogue can reaffirm this commitment and set forth a schedule for getting it done. This would be important to the aerospace, defense, and high-tech sectors in both nations. In return, India should more fully commit to U.S. re-export controls to prevent the unauthorized transshipments of U.S. origin goods and technology.

Indian foreign direct investment reform

India's failure to lift foreign direct investment limitations and make meaningful progress on long-stalled economic reforms is becoming more than an irritant to U.S. investors. Many economists, including those in the country, now believe India's protectionism is hurting economic growth. Indeed, India just revised downward its targeted annual GDP growth estimate to 5.8 percent, instead of its celebrated 8 percent to 10 percent growth in recent years.⁹

The insurance, pensions, and multibrand retail sectors in particular are ready for some loosening of current caps on foreign direct investment. On his visit to the United States this past April, Finance Minister Pranab Mukherjee indicated that economic reforms were very much still a priority, and that the government would prioritize bills in the insurance, pension, and banking sectors.

Indian officials should use the dialogue to commit to reforms once again and reassure U.S. businesses that have grown tired of waiting for Indian commitments to materialize. It would be a welcome and important signal.

Tax fairness and intellectual property protection

Foreign investors are growing increasingly concerned about the safety and stability of their investments in India. Decisions taken by the Indian government and court system authorizing the retroactive collection of taxes and weakening the protection of intellectual property (particularly in pharmaceuticals), in addition to underlying concerns regarding corruption in India, have prevented many investors from looking at India seriously.

Using the dialogue to allay investors' fears and to reassure investors that India will maintain and respect basic international standards of investment protection would provide an important boost to investor confidence and could help bolster the Indian economy.

Security cooperation

Security cooperation has become the bedrock of the U.S.-India relationship. Joint military exercises are too numerous to mention, intelligence-sharing and counterterrorism cooperation is reported to be robust and growing, and a number of Indian aerospace and defense contracts totaling over \$8 billion have been awarded to U.S. firms over the past decade.¹⁰

But while both militaries may be cooperating closely, the countries' respective defense industries are still not completely synched, and the market for non-Indian firms still remains unusually narrow. India's investment limitations and its byzantine bureaucracy and procurement system have put off many U.S. and multinational defense companies. The U.S. defense industry is also still smarting from its failure to advance in the Indian multirole fighter procurement in 2011.¹¹

U.S. and Indian officials should use the dialogue to make more explicit the path to greater security cooperation, which should include the possibility of enhanced foreign investments in the Indian defense and homeland security sectors as a part of this cooperation.

Energy

Given their collective size and growing demands for energy, the United States and India have a responsibility to lead. They are off to a good start.

The Partnership to Advance Clean Energy, announced by Secretary Clinton and Minister Krishna in 2009, has mobilized over \$4 billion for clean energy development and deployment.¹² In tandem with the Strategic Dialogue, both countries have also held the U.S.-India Energy Summit in cooperation between The Energy Resources Institute and Yale University, where scientists and policymakers from both nations have come together to collaborate on clean energy initiatives.¹³

Without a breakthrough on the multilateral climate negotiations, the commitments made by the United States with India on improving energy access, while simultaneously addressing climate change mitigation, will be even more important in the coming months and years. A restatement of these commitments at the dialogue would be welcome, as would any new research-funding commitments to bolster the development of clean energy technologies. Finally, a commitment by both countries to address and reduce remaining barriers, such as the lack of intellectual property protection and local content requirements in India, would help pave the way for increased sharing of cutting edge energy technologies.

A solid foundation to build upon

One could easily be bogged down by the challenges and frustrations in this complex relationship—and there are many. But there are also many opportunities to build and transform this partnership into something stronger and better for each nation. Now is the time to advance our common interests, develop smart strategies to build upon the cooperation that has grown in past years, and tap into the vast network of U.S.-Indian connections.

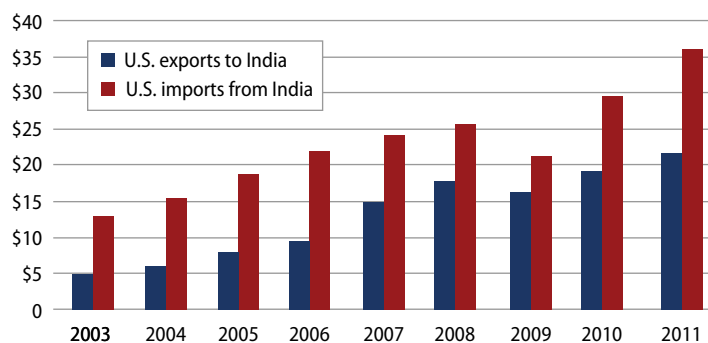
Military planners in both countries, for example, have established an extensive program for joint exercises and training, and intelligence-sharing and cooperation is also strong and growing.

And despite the struggling economies in both countries, Indian businesses are increasingly building and investing in the United States. In fact, Indian investments in the United States are at an all-time high.¹⁴ For U.S. businesses, India is no longer simply a place to house back-room operations and call centers, but rather it has become a destination for joint research and development, innovation, and discovery.

Perhaps most importantly, people-to-people relationships are growing increasingly strong. The Indian-American diaspora, which some now estimate to be nearing 3 million, has provided a critical bridging function connecting the countries in ways the governments could never achieve. Cultural connections through film, art, literature, food, music, and sports similarly provide a rich and vast network of connections for millions of people in each country as well.

Another often unreported facet of the relationship is the closeness and connectedness between U.S. and Indian officials. President Obama and Prime Minister Singh are said

FIGURE 2
Trade grows between the United States and India
U.S. and India trade in goods, 2003-2011, in billions of dollars



Source: Census.gov

to have developed an especially close bond and friendship. National Security Advisors Tom Donilon and Shivshankar Menon are also quite close and reportedly speak frequently, and the same holds true for Secretary of State Hillary Clinton and her counterpart, External Affairs Minister S. M. Krishna.

Up through the ranks of the ministries, militaries, and bureaucracies, the two countries have established robust, reliable, and ongoing lines of communication. The result has been a much greater degree of trust and confidence between the governments. Things may not always be perfect in this complex relationship, but there are now structures and forums that can deal with the setbacks when they arise.

Importantly, the policy conversation is not solely dependent on the personalities or political parties of the countries' leaders. Regular dialogue and exchange of information is now constitutive of the U.S.-India relationship. It happens as a matter of routine and transcends regular diplomatic communications, and it is further evidence of the growing closeness between the two nations.

Talk may sometimes be cheap, but in this relationship it has become essential. As we have discussed here, no forum or event may epitomize the newfound communicative nature of the relationship more than the U.S.-India Strategic Dialogue.

The road ahead

The U.S.-India relationship will undoubtedly have its highs and lows over the coming years. But with forums like the Strategic Dialogue, stronger ties between leaders, and ongoing diplomatic communications, the two countries are building the foundation for a stable and steady relationship that will grow closer over time and be able to withstand disputes when they arise. These open lines of communications between the governments and the people will be crucial in the coming years.

And while there are certainly many common interests and shared values, differences do indeed remain. The United States wants India to play a more active global role and stand up against proliferators like Iran and human rights abusers and autocrats from Syria to Burma. But India's historic ties and its domestic considerations and pressures do not always allow it to march in lockstep with U.S. interests or assume the mantle of global leadership the United States thinks India should take. As U.S. policy toward India is fashioned, these considerations must be kept at the fore.

And as the relationship moves forward, the evolution of U.S.-India security and military cooperation must keep in mind the broad interests of both countries. The United States cannot, for instance, credibly address security issues with India without accounting for the complex relationship between India, Pakistan, Afghanistan, and China.

Ultimately, the strategic relationship should lead to a joint assessment as to how both countries can revitalize international institutions to better address the complex challenges of our time. The United States and India share an interest in enhancing peace and security across Asia and in moving global governance institutions beyond their current structures into the 21st century. Now is the time to have that conversation.

The U.S.-India relationship is not a failure, nor has it been oversold, as many in Washington and Delhi contend. Both sides have to keep “hitting singles,” settling for incremental gains, and converting, wherever possible, the important words uttered at these dialogues into plans for action. To realize President Obama’s notion of a special and indispensable relationship between India and the United States, these policy conversations need to be broad and deep at the same time.

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