



INDIA-US INSIGHT

"Advancing the Strategic Potential of India-US Relations, Accelerating India's Economic Development"

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A Fresh Start for India-US Relations

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In the past few weeks, India and the US have taken steps to revive momentum to bilateral relations. Recent cabinet level interactions between the Obama administration and the new

Indian leadership have been businesslike, with no major announcements. However, they appear to have created the basis for more concrete outcomes at the Modi-Obama summit due on September 30, 2014.

Secretary of State John Kerry visited India (July 30-August 1, 2014) in a "listening mode."¹ Defence Secretary Chuck Hagel followed (August 7-9, 2014), observing that his visit was all about creating possibilities for action in the near future.² Their focus, clearly, was on creating processes that can yield results. If the principal motivation behind the visits of Kerry and Hagel was to signal a recommitment to engage and a willingness to reset the bilateral agenda, they can be said to have made progress.

To make a fresh start with the government of Prime Minister Narendra Modi, it was imperative for the US to address, and move beyond, the overhanging issue of denying a visa to the Indian leader for the past nine years. Kerry distanced the Obama administration from the visa controversy by pointing out that the travel restriction was imposed by an earlier dispensation.³ He also made a personal gesture to PM Modi by endorsing his slogan "Sabka Saath, Sabka Vikas," which he pointed out was similar to Obama's own vision.⁴ Defence Secretary Chuck Hagel completed the US outreach by drawing parallels between the rise of Modi and Obama from very modest backgrounds.⁵

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On his part, PM Modi had already opened the door for a new beginning with the US by asserting that “a country's relations are not determined by what happens or happened with an individual.” He had responded positively to President Obama’s invitation, making it clear that he attaches great importance to the bilateral relationship.



*Prime Minister Narendra Modi meeting with US Secretary of State, John Kerry in New Delhi (August 1, 2014)
Source: MEA Photo Gallery*

Significantly, while receiving Secretary Kerry, PM Modi called on both sides “to prepare for concrete outcomes to take the relationship to an entirely new level, on the basis of vision, strategy and action plan.”⁶ It remains to be seen how much of this “vision” can be concretised over the next month.

Economy and Trade

Over the past two years, India-US economic relations have been in disarray despite the robust expansion of trade in goods and services to \$96 billion in 2013, a five-fold increase since 2000.⁷ In its last years, the UPA government was markedly lacking in purpose with respect to the bilateral economic agenda with the US. During the same period, there was a corresponding lack of cohesion and high-level direction in the Obama administration’s engagement of India. While President Obama had referred to the relationship as a “defining partnership” of the 21st century, the US Congress and USTR busied themselves in launching unilateral investigations of India’s trade and investment practices, which carried the threat of punitive trade measures.

The measured tone adopted by Secretary Kerry on trade and investment issues signalled a moderation in what was increasingly perceived by New Delhi as a diplomacy of pressure and demands. Revival of high-

level dialogue to discuss bilateral concerns “in a spirit of partnership”, including under the Trade Policy Forum (TPF), is to be welcomed, but expectations should remain modest.

The US side is unlikely to find satisfaction from India if it continues to push the maximalist line on IPRs promoted by lobbyists for the US pharmaceutical industry; India can at best offer an open dialogue on IPR issues, greater transparency and stronger enforcement. In particular, if the US side expects that India will dilute the provisions of its Patents Act of 2005, or accept commitments beyond TRIPS, it is likely to be disappointed.

Similarly, the Modi government is yet to signal a clear stance on economic policy, apart from mild signals contained in the budget and increased FDI limits in sectors such as railways, e-commerce, insurance and defence. India’s approach to global trade issues also remains uncertain, as exemplified by the unexpected hardening of its stance at the WTO, prioritising national food security goals over negative repercussions to India’s image abroad.

Nonetheless, there is an expectation that given the stable majority it enjoys in the Lok Sabha, decision-making under India’s new government will be faster, more predictable and largely beneficial for India’s business climate. In its early days, the Modi government appears to be focusing on nuts and bolts issues, coming to grips with India’s economic situation and getting the wheels of government moving again. The time for forward looking economic reform measures will hopefully come in stages, perhaps after the next round of key state elections due later this year, drawing strength from “cooperative federalism”.



External Affairs Minister Sushma Swaraj meeting with US Secretary of State, John Kerry in New Delhi (July 31, 2014) Source: MEA Photo Gallery

The decision at the Strategic Dialogue to identify specific areas for US investment in India's manufacturing and infrastructure sectors can potentially go well with PM Modi's "come, make in India" statement, welcoming FDI in manufacturing, made in his national address on August 15, 2014.⁸ What remains to be seen is a matching trend, even if this is progressive, to reform the areas that hold back labour intensive manufacturing in India: poor infrastructure, problems with land acquisition, antiquated labour laws, high tax burdens, persisting regulatory constraints, and bureaucratic lethargy. India has to move up the ladder of ease of doing business to become the manufacturing power that PM Modi envisions.

Defence and Security

The joint statement of the latest US-India Strategic Dialogue marks a greater willingness on the part of the US to recognise India's regional security concerns, ranging from terrorism to Afghanistan, than was the case last year. The prospect of an enhanced dialogue on Afghanistan promised by Hagel is to be welcomed. With the rapid emergence of ISIS/ISIL as an extremist force in Iraq, the US will certainly be aware of the adverse consequences of a precipitate US withdrawal from Afghanistan. From India's perspective, re-emergence of the Taliban as a destabilising force in Afghanistan presents a major challenge to regional security. In this scenario, artificial distinctions which continue to be made by US officials between "moderate Taliban" and "conservative Taliban" are hardly reassuring.



*U.S. Defence Secretary Chuck Hagel reviews a ceremonial guard of honor during his visit to New Delhi (August 8, 2014) Source : U.S. Department of Defence DoD**

Compared to other areas of bilateral engagement, the India-US defence relationship has shown remarkable progress and resilience. Figures released to the Indian Parliament by India's Defence Minister on August 12, 2014⁹ indicate that the US has overtaken Russia as India's largest arms supplier over the last three years. A number of major acquisitions of weapons systems from the US are under consideration.

In this context, Defence Secretary Hagel's effort to revitalise the Defence Trade and Technology Initiative (DTTI) is timely. Put together in response to India's repeated demands for technology transfer, co-production and joint development, the DTTI has surprisingly received scant attention by India's Ministry of Defence since its launch last year. With the Modi government emphasising defence preparedness as well as the strengthening of domestic defence manufacturing, it can only be hoped that the dozen or so concrete proposals for joint collaboration put forward by Hagel will find greater receptivity.

It is significant that Hagel defined DTTI as a framework designed "to support the development of a strong and self-sufficient Indian defence industrial base - one that develops mutually beneficial, long-term partnerships with top American defence companies."¹⁰ If the potential of DTTI is utilised to help India create a robust defence industrial base, it can become a critical new component of the India-US strategic partnership. The ball rests firmly in India's court.

Some conclusions

Evidently, a lot of work lies ahead if India and the US are to begin a new chapter towards "a truly strategic India-US partnership" at the Modi-Obama Summit. Despite inevitable differences of approach, there is growing convergence of interests on handling the complexities of the Indo-Pacific and establishing an open, inclusive and balanced regional security architecture that can underpin Asia's continued economic dynamism.

Here are some of the issues and initiatives which India and the US can consider ahead of the bilateral summit next month:

- Reorienting the discourse on bilateral trade, investment and economic issues will continue to test both sides, requiring time and patience, high-level direction and the involvement of all stakeholders, including the India-US CEOs Forum.
- A US commitment to India's economic rise through investments in manufacturing and infrastructure presupposes that India will work with greater vigour to offer a better and more predictable business environment.
- To reflect greater understanding of India's security concerns as it withdraws from Afghanistan, the US must deliver on its promise to expand regional security consultations on India's "arc of crisis".
- India's Ministry of Defence must play a proactive role to operationalise the Defence Trade and Technology Initiative, with mutually agreed projects being advanced against established timelines.
- India's Minister of Defence, Arun Jaitley, should respond positively to the invitation extended by Defence Secretary Chuck Hagel to participate in high level consultations in Washington, D.C. this fall and begin discussions on a renewed and expanded defence cooperation framework when the current ten year agreement expires in 2015.
- Jaitley and Hagel should also examine ways to expand trilateral defence and security

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cooperation with Japan beyond the annual Malabar exercise, including through regular trilateral consultations at the ministerial level.

- With growing challenges and shifting power equations in Asia, the India-Japan-US trilateral dialogue needs to be upgraded to the political level to guide cooperation on regional connectivity infrastructure, economic integration and open, inclusive and balanced security architecture which upholds norms based on international law.

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