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Indispensable Partners: Reenergizing US-India Ties

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Chairman Kaine, Ranking Member Risch, members of the Sub Committee, it is an honor to be with you today to discuss “Reenergizing U.S.-India Ties.” As Vice President for National Security and International Policy at the Center for American Progress, I see the U.S. – India relationship as one of the most critical priorities for our country. The timing of this hearing could not be better, with a new government in place in New Delhi, the fifth Strategic Dialogue scheduled for the end of the month, and President Obama meeting Prime Minister Modi in September.

All of you on the Subcommittee and many members in the India Caucus have been vital to advancing the U.S. – India partnership. I’m pleased to be here with my dear friend and mentor, Ambassador Frank Wisner, along with two esteemed experts Richard Rossow and Lisa Curtis. I know you have also just heard from two true friends of this relationship, Assistant Secretary Biswal and Deputy Assistant Secretary Searight who succeeded me at the Pentagon.

Today I will touch briefly on each area you have highlighted, with special emphasis in areas in which I have the most experience: defense, security and the Asia-Pacific region.

Since the end of the Cold War and the launch of economic reforms in India in the early 1990s, the United States and India have lived with a permanent sense of expectation. It seems that the world’s oldest and largest democracies are always on the cusp of becoming true strategic partners. The relationship has gained strong support across party lines in both countries. Cold War-era gaps in trust have faded even through periods of significant tension, and by every objective measure – increased trade and investment, collaboration on regional and global security, people-to-people ties – we are closer than ever. Successive Indian and U.S. administrations have made this relationship a central priority.

Yet with a few notable exceptions, progress has fallen short of expectations. Even great breakthroughs in defense ties or the civilian nuclear deal have been accompanied by serious obstacles to real, measurable progress in terms of deals signed, projects launched and joint activities undertaken. We have extremely deep and substantive ties today and are able to consult on a multitude of issues, but most observers of the day-to-day relationship continue to be underwhelmed.

There is broad agreement that U.S. and Indian strategic requirements are in almost complete alignment



on major issues including terrorism, the environment, regional stability, and counter-proliferation. We agree on the need for an international order based on rules and norms of behavior, secure flows of energy and commerce, and global action to combat climate change. Our goals are most often in sync. The challenges our nations face at home are also surprisingly similar: ensuring the growth of the middle class and good jobs; providing good governance; dealing with violence and discrimination based on race, religion, gender; and securing sustainable energy and water for future generations.

Not surprisingly, however, given our very different history and circumstances, American and Indian approaches to problems – the ways we choose to pursue these often similar ends – frequently differ and sometimes clash. This will remain true under a Modi administration, and leaders in both countries will need to confront this reality if they want to realize the potential of this partnership.

Both the United States and India are coming through difficult periods. Both will do much better if they take this partnership to the next level. The diplomatic infrastructure exists to make substantial progress: we have a robust and broad Strategic Dialogue and a well-established set of bilateral defense forums. We see good signs of commitment from both sides with the early scheduling of a Strategic Dialogue in New Delhi and with rapid steps to restart the nearly defunct U.S. – India Trade Policy Forum. The early meeting of President Obama and Prime Minister Modi can give these efforts the strategic direction they require.

At the Center for American Progress, we believe this new political phase in India provides an opportunity to make substantial progress in the next five years. Next week we are launching a project we call “India: 2020” to develop a vision for what our nations can realistically achieve by the end of this decade. Real progress will require high expectations from leaders in both nations and extreme candor about obstacles as well as opportunities.

A Warm Welcome and High Expectations

Narendra Modi ran on a promise of delivering *surajya* (सुराज्य) or good governance to Indian citizens from all classes, castes, and communities. That is the bar against which he will be judged by the Indian electorate, and it is a promise the United States should welcome and help with wherever possible.

Prime Minister Modi is sending good signals, especially to India’s famously complex bureaucracy, with rules against nepotism and steps to improve efficiency. But his to-do list is extraordinarily long and the release of his first budget suggests a careful, step-by-step approach, offering glimpses of what might lie ahead without any radical changes.

Caps on Foreign Direct Investment for the defense insurance sectors were lifted to 49%. Defense spending was increased about 12%. A commitment to “smart cities” and major infrastructure was restated, but resources were not allocated. No major changes were made to entitlements. The FDI cap increases will be welcomed by American business, but they are relatively minor changes that were advocated for by members of the previous government. It will take more than this to get India back to 8% growth. So while we should welcome these steps as an opening salvo, we await what future steps



Modi will take.

Modi's commitment to good governance is the best way to engage on the difficult and often emotional issues that come with his elevation to power as a strong nationalist with conservative Hindu credentials. He is not likely to let lingering resentment over the denial of his visa in 2005 undermine U.S. – India cooperation in areas that will advance his national priorities. However, the warmth of his welcome in the United States this fall is important. There is no point in taking half measures with the duly elected leader of the world's largest democracy. Congress should invite Prime Minister Modi to address a joint meeting, as was done by his two immediate predecessors, Prime Minister Singh and Prime Minister Vajpayee.

This does not mean being timid about concerns: Prime Minister Modi's commitment to secularism, human rights, and harmony among India's majority and minority communities will ultimately define his legacy and India's continued success and stability. But the United States must take a forward-looking approach. Modi has been cleared by Indian courts of any charges in the 2002 Gujarat riots, which claimed over 1000 lives and elicited no apology or compensation for victims. Now, as the duly elected leader of the country, he has promised good governance, and that will require him to deliver justice for all Indian communities.

Modi has made positive steps so far in the conduct of international affairs, starting with his invitation of all India's neighbors, including Pakistan, to his inauguration. The United States will be able to engage with Modi on regional issues – not just on stability in Afghanistan and Pakistan, but also on Nepal, Bangladesh, Sri Lanka, and the Maldives. We will be able to work with India on relations with countries from Myanmar to Japan to Australia. Modi is likely to seek a productive dynamic with China, but on the campaign trail he showed that he will be willing to stand up to China by criticizing Beijing's expansionist tendencies.

The potential to work with Modi is very high and crosses every important policy area. Challenges will come if he proves unable or unwilling to make the more difficult reforms that bring India into the global system or if he seeks to over-centralize control. India is a decentralized system, somewhere between the United States and the European Union in the way it functions. The states will demand a significant degree of control over how reforms play out in their own territories.

Deepening the Defense Partnership

A decade ago, defense sales were virtually zero. Today, sales have topped \$9 billion dollars and defense remains a consistent bright spot in U.S. – India relations. The 2005 New Framework for Defense Cooperation set the stage for this robust defense trade, and U.S. systems like the P-8i to the C130-J have delivered capabilities and reliability that India needs without the scandals and corruption of many other Indian procurements. The U.S. and India have also continued to deepen a very substantial slate of defense exercises, including India's full participation for the first time with 22 other nations in RIMPAC, the world's largest naval exercise underway right now off Hawaii.

The Modi government seems committed to substantial reform of the Indian defense sector, with steps



likely to include more flexible offset policies, greater foreign investment as seen in the FDI cap increase, and moves towards breaking up some of the state-run defense sector. These are the kinds of reforms that will make investment in India worthwhile for big international defense companies.

These reforms are also necessary steps for India to be able to take advantage of the various offers pending from the Department of Defense through the Defense Trade and Technology Initiative, or DTTI. Launched by former Secretary Panetta and continued by Secretary Hagel, DTTI offers a breakthrough path to move from sales to high levels of co-production and co-development of future defense systems. The initiative serves to identify possible joint projects of strategic value and streamline and make the U.S. technology transfer and licensing processes more transparent. It has not yet been fully matched by a similar effort on the Indian side, and the U.S. should encourage India to identify its own priorities for co-development and to analyze its own bureaucratic constraints on cooperation.

The most exciting offer from the DTTI was for co-development of the next generation Javelin anti-tank missile, an offer the U.S. has made to no other country. India could procure Javelin to meet near term needs and join the U.S. in developing the next generation, which is something the U.S. Army and the Indian Army will both need. The U.S. government worked with industry to identify dozens of possible options for co-production and co-development in everything from helicopters to communications equipment, and an Indian decision to move forward with one or more of these by the time Prime Minister Modi and President Obama meet in September would be a very strong signal that effort put into this partnership can pay off.

Reform of the India's Defense Public Sector will be key to making more of these co-production and co-development deals feasible. U.S. companies will be more interested given the new 49% FDI cap, but they will be seeking to make a good business case, and that will be easier with private rather than public sector Indian partners.

There are several short-term steps to take in order to set a positive tone for defense. First, some long-pending sales could be concluded. For example, Chinook and Apache helicopters, as well as M777 Howitzers could be finalized by the time Secretary Hagel visits India later this summer. Second, India and the U.S. could increase their mutual commitment to defense exercises. India was frustrated last year when the U.S. canceled Red Flag air exercises due to the sequester, and the U.S. has been frustrated by India's refusal to include multilateral partners in some U.S. – India exercises. The previous Defense Minister indicated an intention to reduce the overall number of exercises as well. Both nations should commit to a robust set of exercises of increasing complexity and to involving more multilateral partners, including a resumption of Japanese participation in the Malabar naval exercises.

The defense relationship is governed by the 2005 New Framework on Defense Cooperation, which established a strategic partnership in defense and paved the way for remarkable progress. The New Framework created several regular forums to meet and discuss key issues, all reporting to the annual Defense Policy Group. The 2005 agreement was drafted for a 10-year term, and the time is now for the U.S. and India to take stock of that agreement and set forth a new vision to run through 2025. This should be a rigorous reappraisal, looking at both successes as well as where the framework came up

short. It should ideally be reviewed as part of an effort led from the White House to rationalize the entire slate of U.S. – India cooperative forums.

Economic Liberalization and Ties of Commerce, Energy, and Business

India was unprepared when financial turmoil struck. As growth stagnated, the previous coalition government was unable to drive through additional liberalization and resorted to short-sighted and damaging moves like retroactive taxation and curbs on capital outflows. Coupled with the continued inability to address major obstacles on trade and investment like Intellectual Property Rights, or IPR, protection and excessive local content requirements, these steps seemed to put economic liberalization in a deep freeze and drove away investment.

India ranks 139th on the World Bank's Doing Business Index, and Modi's reforms will improve that rating if they can make India more appealing to international business. The BJP campaigned on a commitment to jump start reform. The current budget is incremental with modest improvements in FDI caps and few changes from the interim budget of the prior government. Former Finance Minister Chidambaram went so far as to claim credit for the BJP budget as a continuation of his policies. This may have disappointed business, but it could give the Indian government much needed time to explain to the public what specific reforms it plans to undertake and how they will help the nation.

Finance Minister Arun Jaitley tried to calm international business leaders still smarting under the retroactive taxation on companies like Vodafone, but he didn't undo the taxation, saying instead, "The sovereign right of the Government to undertake retrospective legislation is unquestionable. However, this power has to be exercised with extreme caution and judiciousness keeping in mind the impact of each such measure on the economy and the overall investment climate. This Government will not ordinarily bring about any change retrospectively which creates a fresh liability."

Jaitley's statement provides cold comfort to multinational firms who have been hoping for something more like what they heard in the campaign when Modi called retroactive taxation a "breach of trust" that could drive away investment. The new Indian government also looks poised to block the World Trade Organization trade facilitation agreement reached in Bali last December over concerns about the impact on India's food security program. The deadline is July 31. This could make India the cause of failure for the first significant WTO accomplishment in years.

The United States and India have some options on trade. The best remains conclusion of a bilateral investment treaty, or BIT, but the negotiations have been mired since they started five years ago. U.S. Trade Representative Mike Froman has made the right gestures by planning to restart the U.S.-India Trade Policy Forum while holding firm on IPR and local content issues. The distance between the two sides on a BIT, especially with regard to a dispute resolution mechanism, could remain too great to bridge in the near term. Intensified negotiations with the new government are the only way to proceed, perhaps with a new and realistic target date for completion. It's also worth introducing India to the idea of eventually joining a future Trans Pacific Partnership, should that process prove successful.

Energy and Climate

India faces significant and intertwined energy security, energy poverty, and climate challenges. It is currently on track to become the world's largest coal importer in about a decade, and Prime Minister Modi aims to provide basic access to power and water for every Indian house in less than 10 years -- an important and large task given that 300 million Indians currently lack electricity. India is also one of the world's largest greenhouse gas emitters, and is highly vulnerable to the impacts of climate change.

With the United States simultaneously grappling with its own energy and climate challenges, there are untapped opportunities for mutually beneficial cooperation. Since 2010, CAP has co-chaired a Track II dialogue on climate change and clean energy with India comprised of high-level former government officials, thought leaders, and influential individuals from the NGO and business communities. With annual meetings in Delhi and Washington DC, the Track II has provided a forum for the exchange of new and innovative ideas, as well as produced insights that have helped to shape government policy and define new areas for enhanced bilateral cooperation. At its most recent meeting in February, it recommended:

Enhancing cooperation on clean energy development: To enable the rapid growth of renewable energy, the U.S. and India should continue expanding their R&D collaboration, while also building capacity in science, engineering, and other business models to spur technological innovation and entrepreneurship in the field. It also should do so by avoiding trade disputes in the renewable sector. Both countries have immense opportunities for growth in renewable energy, yet we find ourselves locked in WTO disputes with one another over local source requirement, subsidies, and tariffs surrounding solar power. The two sides should seek to develop a set of principles to avoid future WTO filings. They should aim for prior consultation on national policy requirements, identify bilateral dispute resolution methods, and exercise restraint in filing disputes that affect renewable energy. Resolving the current solar dispute in ways that meet the aims of both nations will open the door to substantial cooperation on large solar projects.

Reducing Hydrofluorocarbons: The U.S. and India have the opportunity to advance global action on phasing down hydrofluorocarbons, a short-lived but highly potent greenhouse gas. The U.S. and India can lead the pursuit of a global agreement on HFCs by pushing for technology-agnostic global standards to curb HFCs and ensure energy efficiency performance so that new technologies do not increase other greenhouse gas emissions.

Building Climate Resilience: In addition to lowering emissions, the U.S. and India will need to ensure community resilience against climate impacts including sea-level rise, more frequent flooding, and extreme weather. Hurricane Sandy demonstrated how damaging intense storms can be, even in a prepared city. We need much more research on the most effective ways to respond to climate change. Urban and coastal resilience are two key areas for the U.S. and India to pursue joint research and pilot projects. The research partnership could be modeled on the existing U.S.-India Joint Clean Energy Research and Development Center.



India is exploring other energy options that would reduce its coal dependence and expand energy access, such as through increased use of natural gas and nuclear power in its electricity mix. It is in the United States' interest to engage India on the safe and responsible development and use of such fuels. This would include discussions about the safe development, transmission and use of natural gas. Engagement should also include discussion of the political and legal issues that surround development of nuclear power generation projects in India. They are difficult and complicated, but should be grappled with.

India's role in the region and Asia-Pacific

For the past decade, The United States has played a critical role in welcoming India's rise as a global power. The Bush Administration drove international acceptance of India as a responsible nuclear power outside the confines of the Non-Proliferation Treaty. It is easy to forget how controversial and politically difficult that was. The Obama Administration welcomed India as a partner, with public calls for India to gain a permanent seat on the UN Security Council. And the United States has supported Indian membership in global non-proliferation regimes and treats India as an adherent so long as it keeps its export controls in conformity with the regimes. In many ways the United States has embraced a form of Indian exceptionalism because it calculates that India will work to advance mutual interests. That is a good bet, and India is rising to the challenge of global and regional leadership.

India is the anchor of the most strategically vital region on earth, stretching from the Persian Gulf and spanning northeast to Japan and southeast to Australia. The challenges across this region are growing and the United States and India should look to one another for ideas and leadership from the Middle East to Central Asia to East Asia. India will be deeply impacted by developments in the Middle East given its dependence on energy flows and large expatriate communities. It will play a critical role in the long-term stability and connectivity for Afghanistan and Central Asia. It is leading efforts to build eastward connectivity given the new potential of a reforming Myanmar, and it is managing, what should now be termed major power relations of its own with Japan and China.

The United States decision to treat India as a major power can continue to encourage India to take a greater role. The United States has important stake and conviction in maintaining free and safe trade lines and waterways throughout the Pacific, and while India has traditionally remained hesitant to active participation in maintaining regional security, it supports unimpeded rights of passage and maritime rights in accordance with international law. For example, India offers naval support to the counter piracy mission in the Gulf of Aden while refusing to join the multinational task force there.

Seventy years ago, India's first Prime Minister Jawaharlal Nehru stated, "The Pacific is likely to take the place of the Atlantic in the future as the nerve center of the world [and] though not directly a Pacific state, India will inevitably exercise an important influence there...[and] is the pivot around which these problems will have to be considered." Nehru's words have proven true, and India's is seeking a greater leadership role in the rest of Asia. It is welcomed by ASEAN nations and the United States. Total India-ASEAN trade increased by 37% in 2011 – 2012 to reach US \$79.3 billion and the total U.S.-ASEAN goods trade increased by 60% in the past decade, peaking at US \$206 billion in 2013. The United States and India have a shared interest in collaborating to ensure global standards and international



norms and should look instinctively to each other to mitigate territorial disputes and transnational threats that arise throughout this stretch.

India's eastern and western neighbors provide great economic opportunity and partnership within its own region. Managing these relationships will be a crucial challenge that will necessitate paramount energy and diplomacy. There have been positive signs from Pakistan and India's new governments to seize this opportunity to build towards trade normalization and regional security, and there are high hopes that this remains a positive upward trajectory.

The complexities of South Asia's transnational problems, such as refugee crises stemming from ethnic violence to climate-related migration, defy national solutions. There is urgency for India and its neighbors to build cooperative relationship and promote a regional framework that incorporates the perspectives of all nations involved.

Conclusion

Mr. Chairman and members of the Committee, let me close by saying that the U.S. - India bilateral relationship has quietly and steadily grown under the leadership of like-minded individuals across party lines in both countries. There remain gaps between what our two nations are doing and what our two nations are capable of doing. However, I do agree with President Obama that the U.S. - India relationship will be one of the defining partnerships of the 21st century. This partnership will need continued engagement and nurturing and it's a commitment that would reap mutual benefits.