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THE STATE OF THE U.S.-INDIA RELATIONSHIP

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PROCEEDINGS

MR. COHEN: Good afternoon. My name is Steve Cohen. I'm a senior fellow at Brookings. I'm happy to invite you to a function organized by the India initiative of Brookings.

We hope to have many more. We know that there's a number of activities in conjunction with Manmohan Singh's forthcoming visit, and that's a visit that's going to be presumably filled. I was in New Delhi 10 days ago, 12 days ago, and clearly, they're preparing for this visit, as well as for the next Indian election.

Today, we have a panel discussion to discuss the visit, and also, the larger framework of U.S.-Indian relations. And I could only say by way of preface, with a few people like Woolf Gross nodding his head in agreement, that this has been a strange relationship over the years. And it began when I got into it in the 1960s at a very high level, and Woolf was in New Delhi trying to sell your defense attaché there. So, I was introduced to the relationship at a very high level in 1963.

Then of course, it plunged to the point -- 1965 in a sense, that the U.S. and India went their separate ways. India for its own reasons; the United States because of a place called Vietnam. It's been a slow climb back up to a normal relationship and there's been many ups and downs, but I think that the turning points seem to be a U.S.-India nuclear deal.

That's a deal that may produce no electricity, may light no light bulbs, but still, it was an important symbolic occasion. And I could tell from going to India that it really broke the ice on the Indian side. It sort of opened the floodgate here a little bit, but there's more things to do, which we will talk about.

I think that the relationship is to be seen in terms of age and in terms of experience. Those of us who were involved with India many years ago, saw it at a peak and then at a valley, and now, climbing back up to something more normal. But for many Indians, the memory still is better, and I think it's an age problem. That is, the Indians saw the U.S. as one of the countries that encircled India during the Cold War along with Pakistan and China. Still, a very great skepticism about India.

On the American side, this is less the case. The classic India baiters are Indian -- those who dislike India the most are the Republicans, after it warranted for a number of reasons, not least of which is the Indian-American community being a major presence in this country. There's also reasons in terms of the strategic relationship. The world has changed since the Soviet Union disappeared. It has now assumed a different role in the world, and we're trying to figure out where India belongs in that world. So it's a complex relationship.

We'll begin the discussion, I think, by a presentation by

Tanvi Madan, who's laying out the present state of play along a number of the issues; which are the promising ones, which are the less promising ones. Then, we'll go to Subir Gokran -- Dr. Subir Gokran whose bio is with you. He's the new research director of the Brookings India program. Brookings has established a satellite in India -- there's a separate satellite in India which calls itself Brookings -- I'm not quite sure of the relationship between us. But clearly, it will be an important contribution to the Indian intellectual policy community.

Thirdly, we'll have Charlie Ebinger, who actually goes back as far as I do, and maybe remembers the bad old days as well as the new good old days. We'll talk about one of Brookings' -- one of the world's leading experts on water and security. He began his career in South Asia and has continued to work on South Asian water issues ever since then.

And finally, we'll conclude with Neil Ruiz, who is a senior research scholar with the metropolitan program, one of Brookings' new programs which is doing very innovative and creative work about metropolitan areas all around the world, including, I believe, Mumbai. So let me begin with Tanvi. Tanvi?

MS. MADAN: Thanks, Stephen. Thank you all for coming. Prime Minister Manmohan Singh is coming at a time when India itself is quite domestically preoccupied, as many of you know, focused on both

political developments in India and the economy. It's a very different context from when he visited in November, 2009.

Of course, all of you will remember the infamous state dinner. When he came in November, 2009, he was a few months away from what many thought was a surprise victory for his coalition in the Indian elections that year. And the growth rate in Indian in that quarter was 7.9 percent. Just to give you a comparison, he's a few months away now from an election next year in India where expectations are mixed in terms of what the results will be, but there's clearly unhappiness with what's happening on the political side. And the growth rate this quarter was 4.4 percent. It's a very different context for him in which he's coming here.

On the foreign policy front broadly and on the visit -- his visit to the U.S. specifically, many in India -- I was just there, and somebody told me, you know, the visit we're really interested in that takes place in the U.S. is not necessarily the one that'll take place in D.C. between President Obama and Prime Minister Singh, but on the potential one with Pakistani Prime Minister Nawaz Sharif on the sidelines of Ungar in New York.

The state of the U.S.-India relationship, which was going to be something that gets us focused on affair, but next week when the

Prime Minister comes, I'd say today, compared when -- if you asked what is the state of the U.S.-India relationship compared to when the Prime Minister visited four years ago, the word I'd use is different.

Some argue that it's better. Some say worse. In my opinion, on my many fronts, there's been progress, some of it not so obvious. So, you hear people talking about the relationship plateauing. Some talk about taking it steps backwards. But if you look at it across time and relative to other relationships, but also the U.S.-India relationship over time, it is strong. And it might not be as fast moving as it was a few years ago, but it's also not moving backwards.

It's not just a cliché that the bilateral relationship is broader and deeper on many fronts than ever before. It's a fact. And you can look at it across statistics. But it's also a fact that as the two countries engage each other more on these various fronts, even as they're -- at a time when they're dealing with domestic difficulties, differences are also coming to the fore. And some are ones that they've grappled with in the past, and some are new, because they're engaging on new fronts.

I'm going to draw out a few of the kind of differences that are likely that already exist and that are likely to come up over the next year or so, and some of the convergences -- points of convergence and greater cooperation in the relationship.

First, on the geo-political front, a key difference or a potential area of difference -- an area of concern for the Indian side has been what happens with the draw down -- the U.S. draw down of forces from Afghanistan in 2014? What will this mean for India's role there? What will this mean for India's relationship with Pakistan, for the U.S. relationship with Pakistan, as well as the U.S. attitude towards counter-terrorism and specifically, terrorism stemming from that part of the world.

On the economic front, and we can go into these Q&A in detail -- I don't want to take up too much time drilling down too deep. On the economic front, on the trade and investment side, there have been concerns here. We've heard from the Hill over the last few months about allegations of trade barriers in India. Unhappiness about investment policies there and economic policies in general, as well as the kind of pace of economic reform in India.

On the Indian side, Indian companies have been concerned about -- and this is something Neil will talk about in greater detail, about some provisions of the Immigration Reform Bill that the Senate passed. And on both these issues, it involves a constituency that had been key in terms of driving the relationship, the private sector. And this is something that -- you know, that constituency is fairly mixed. It's clear that one of the reasons there are differences that they be -- continue to actually want to

be involved in the country. But this is obviously setting up some differences.

And then a third area of differences is, on this front, on the economic front, has been the implementation of some existing deals that had already been signed, including of course, the nuclear deal and U.S. companies that we want to be involved in that sector in India. A third area of differences or potential differences will be on the multi-lateral front. One is on the issue of climate change.

One of the things that we are watching out for is whether there will be some sort of deal or agreement on the side of India to come to an agreement on HFC's, kind of along the lines of what China did with the U.S. a few months ago. There are mixed indications we're getting. At least news reports indicate on the Indian side that there is not going to be movement on this, but other indications we hear is that there might be some announcement on this front.

On trade, with global trade talks due later this year, that might be an area of disagreement, especially with some of the new build in doing the food security bill in India. This is going to bring up the subject of subsidies. If you remember last time in the Doha round, U.S. and India negotiators clashed, and quite publicly, on this issue. So one of the things that we'll watch out for is how this is handled. There are clearly

differences in interest on, and approach on that question.

In terms of areas of convergence, a key area has been defense and continues to be defense cooperation. There have been a number of military exercises, defense trade has increased. The U.S. is selling India about \$10 billion of equipment. Deputy Secretary of Defense, Ash Carter, was just in India over the last couple of days. He has indicated that the U.S. continues to look for opportunities to coproduce and co-develop military hardware in and within India. This has been something of a subject of discussion for a number of years now.

There's been concern on the Indian side about technology transfer issues. There have been indications from the Deputy Secretary and offers of potential co-development and co-production of the Javelin anti-tank guide missile and others, as well. And some such offers were made years ago. There wasn't a response, so we'll see where this goes, and if any announcements are made next week when the Prime Minister is here.

Another front, which Charlie will talk a little bit more about is energy. There are clear areas that could be areas of potential cooperation. It depends on how these work out. One is clean energy technology. A second is the potential for -- on the shale gas front. Both Indian companies investing here, but also, the U.S. Geological Survey, for

example, helping India kind of survey its reserves within India.

A third is L&G export -- potential L&G exports from the U.S. to India. The potential for this actually results in reality on the ground. It will depend on a number of factors. We could talk about them, and Charlie might in his remarks. But this is something that there is much interest in.

A third area, and this is kind of a more geographic area, is East Asia. We can talk about the C word there in greater detail in questions and answers. But this is an area which Indian officials have called a potential area -- or strategic glue between the two countries. There are other areas, as well, education and healthcare, that there could be cooperation. There are mixed indications of what new provisions, potential provisions on the Indian side for how opening up the higher education sector might mean that the U.S. educational institution is interested in India.

One of the things across these areas of convergence is, and this is quite apparent in this, I think is cross cutting is -- and not often noticed, is that you clearly see a learning by doing on the part of both countries. You see this in a couple of fronts. One is in terms of managing differences. I think if you see how two countries have handled potential differences on Iran that could have flared up over the last year, it's quite

informative in terms of the learning that has taken place; how they handle it.

The second is the area of how you actually publicly handle differences in the relationship. Criticism has, in many cases, even when officials have been asked about differences, they have tended to use language to indicate that while they're private differences, they're not going to discuss them publicly. A couple of areas that this has been apparent -- one has been Afghanistan, and the other, for example, the Indian foreign minister's comments or lack of comments on NSA and surveillance issues, even though he was pressed on the subject.

And one of the things in terms of both the convergences and divergences, if you look at any one of these issues that I outlined both in the basket of areas of difference, areas of potential cooperation, is a lot of this will depend on how both countries -- and not just kind of government to government stakeholders where you do see a fair amount of progress, but the private sector -- how it's dealt with it in a public setting in terms of how the media handles discussion about this relationship.

How they're handled could actually play out both ways. So, some of the areas that I talked about in terms of differences -- Afghanistan, for example, worked out well. This could actually be an area where the two countries work closely together. On the other hand, East

Asia, for example, managed differently. It could actually -- instead of being the strategic glue, it could be a strategic obstacle for both countries.

So how these two countries actually deal with the process side, in many instances in the U.S. and India, history has shown that often they agree on interests, on goals. It's in the tactical areas, in the approach that they actually differ and where the key obstacles come. So that's something that we will have to watch out for.

In many ways, if you look at it -- I mean, overall, the Prime Minister's visit marks an end of an area in terms of this relationship, the stage that it's reached over the last 10 years. Overall, it's been a good decade for U.S.-India relations. Even if you're a pessimist these days in terms of where it has stalled, the dreaded word "plateau" that gets used often, even if you look at it that way -- if you look at where it is compared to where it was, it's been a good decade. Things might have slowed down.

The question moving forward is whether the two countries have two key capabilities. One is stamina. Over the next year, when both are going to be domestically preoccupied, and on the foreign policy front, have other priorities. Are they going to be able to momentum that they have developed, that it's not moving backwards. Is it going to start to stall? And will they have the stamina to take it to another level.

And the other is multi-tasking ability. Are they going to find the ability, both in terms of just bureaucratic capacity, but also level of interest in the other to continue to go while doing other things at the same time. And I'll stop there.

MR. COHEN: Thank you, Tanvi. Subir, do you want to continue the dialogue? And again, in this new relationship, we find Indians critical of India. We find Americans critical of America, and we find vice versa. And I think that's what's different from what was, say, 25 years ago where it was my country, right or wrong on both sides. And I was in Delhi. I met with a senior Indian official. He was scathing about American bureaucracies' reluctance to do certain things. He was equally scathing about his own bureaucracy. So in a sense, we've got a new relationship.

MR. GOKARN: Well, thank you very much. It's a great pleasure to be here. But Steve, your reference to scathing critiques, you know, immediately sort of referred us to the argumentative Indian, and perhaps that's a trait we share. The argumentative American -- you know, you're critical about everything, including your own system. And to some extent, I think that does help to characterize the development of the relationship.

At the current juncture, I think we have to look at this relationship slightly outside of the context of purely bilateral framework.

And I want to emphasize the recent macro economic developments, which while not really stemming from a specific Indo-U.S. you know, engagement, if you will, is obviously influencing attitudes -- political policy attitudes in the emerging economies, vis-à-vis the developed economies. And this is the whole -- very significant today because the fed is meeting today and tomorrow -- the impact of tapering on emerging economies.

Now, we saw this difference starting to flare up in late 2010, when the Brazilian finance minister referred to the impact of QE2 as a currency war -- essentially, liquidity causing currencies to appreciate, you know, diluting competitiveness and then sort of stalling or contributing to a weakening of the recovery in the emerging economies. And that didn't go very far, because while we did see some appreciation of currencies, I think the more significant impact was on commodity prices. This is a debated proposition, but I think that it's valid. It is valid to say that there was some impact on oil crises off of QE2.

But now, the situation is reversing. And you know, you can raise all kinds of questions market efficiency. Wasn't this something that was anticipated at the time that it was done, that this was not a permanent you know, change in regime? It was going to be rolled back at some point. But I'll tell you when it began -- in May.

The impact on emerging market currencies was very

significant, and the ones that bore the largest brunt, India included, were the ones that the wildest current account deficits. So, the impact of what a potential tapering, or rollback of QE on India has been at least perceived to be very significant. And I think this is something that is going to shape the perception -- the view of the bilateral relationship over time. I don't think it's change the trend, fundamentally, but it adds a new dimension to it, at least for the next year or so.

This, I think, is the context for the Prime Minister's statement in the Saint Petersburg summit, that we need some sort of coordinated, calibrated move. So in effect, what you're seeing is an attempt, as was the case in 2010, for a global perspective on U.S. monetary policy. And the U.S. counter to that has always been, you know, the U.S. monetary policy is a U.S. phenomenon. The constituency of the U.S. monetary policy is in the U.S. It's not a global constituency. And yet, I think you're seeing the sort of tension emerge.

It's also fair to say, I think, as Chairman Bernanke said in the debate on currency wars, that a recovering U.S. is good for the global economy. And when we look at the opportunity that opens up now over the next year or two, India with a significantly depreciated currency is actually now -- once you get some stability, which I believe, you know, is in the offing, provided we do some things domestically -- to boost the

competitiveness of Indian exports to the U.S. in every front.

I mean, you know, Neil's domain software and people movement is going to be significantly impacted by this. So I think the tensions over the H1B visas are actually likely to intensify a little bit, because the opportunity is going to be much larger, and the potential constraints that the restrictions impose might actually be a little bit more biting now than they would have been in a different currency environment.

I think the G2 framework is a good metaphor for the bilateral relationship. What started as a very cooperative and concerted kind of response to the crisis five years ago has become far more divided now. And many of the issues, even the structural and financial regulations and so on, which seem to be reaching some sort of consensus in this movement, I think will start to see some threat, if not a danger as the divergences between the economies start to materialize. So I think this is a wider context in which we have to -- we have to keep this in mind as we look at the bilateral.

On the bilateral front, just to focus on economic issues, when Secretary Kerry was there a few months ago, the issues that were emphasized, then results also identified the FDI issue, put it in the financial sector or financial domains, banking insurance, intellectual property rights and some of the fall-out of the -- the aftermath of the

nuclear agreement in terms of business prospects. These are slow moving. These are definitely, I think, at the current point in time subject to the political cycle, and as for many things, the wait is basically -- you know, what's going to happen in the 2014 elections. And will the government that comes into office now, whether it's a return of the current configuration or a new one -- what is their long-term view of both the bilateral relationship in economic terms, and of course, in the larger context of recent developments, as Tanvi has pointed out.

The region has become, over the last few months, somewhat more hostile, both on the Chinese border and the Pakistani border. We've started to see some increase in tensions. You know, a lot of accusations flowing back and forth. But I don't think we can separate the economic thinking completely from the larger security context. And even if there are sort of rational voices that argue for the structural benefits rising from an economic relationship, the reality of politics is that the two are enmeshed.

And as you said, the argumentative Indian is the argumentative Indian. Economics, politics, security are all enmeshed into one common set of issues. And I think the bilateral relationship needs to be, so again, seen. Its prospects need to be seen in terms of how this larger mix of issues plays out. But the long-term -- both in terms of India's

needs, particularly in the financial sector development and long-term instruments -- insurance, the attractiveness for -- in India for -- particularly for say, pension fund investments. All of these are important drivers of response.

How do you shape your domestic policy framework so that you get the kinds of long-term commitments that you would like to have, whether it's in foreign direct investment or financial investment through -- pension funds are very attractive. And the kinds of things they say about policy reform, about financial regulation, about governance -- all of these, I think, start to have an impact on how the policy establishment thinks about what it needs to do. So that is, I think, an important shaping set of factors there. So let me conclude with that.

MR. COHEN: Good. Thank you, Subir. Charlie, when you first went to South Asia/India in the '60s -- right?

MR. EBINGER: Yeah.

MR. COHEN: Would you ever have dreamt that the U.S. and India would be competing for energy sources?

MR. EBINGER: No, I did not.

MR. COHEN: So why don't you take it from there?

MR. EBINGER: (Laughter) But the good news is, we're not competing for energy sources, because we have more energy than we

can use.

MR. COHEN: We'd be an energy supplier.

MR. EBINGER: In North America. Right. But your point is well taken. Since the topic is U.S. energy cooperation, let me highlight that. But let me state in the strongest possible terms that whatever the U.S. and India do in energy cooperation does not deal with India energy problems.

India continues to suffer, and I hope I can say more about this later in our discussion. But the reality is, India's problems are not whether the U.S. collaborates with it or not. It a series of misguided policy directives that have encountered every Indian government since independence and have set up poor discussion making that has crippled the Indian economy because of lack of energy. And those problems are well known to all of you in this room. Just to highlight a few, and then we can perhaps return to these later.

Obviously, first and foremost, I would put at the top of the list, the issue of continued energy subsidies which misprice the cost and energy leading to excessive consumption. We can argue, certainly, some subsidies are needed for the poor people, but how subsidies are structured needs to be completely relooked at in the Indian context, because without a change in subsidy policy, consumption will continue to

rise. And with India increasingly dependent on imports not only of historic commodity oil, but increasingly, even coal, which it has in abundance and natural gas. And the deterioration of that has furthered with the rupee.

This situation is simply no longer able to continue, or else, so much of the Indian budget is going to go to energy imports that everything else will be strangled in the economy. And in the area of electricity, we know the problems well. Endemic technical losses far in excess of how any well run utility elsewhere in the world is conducted. A good utility in Europe or the United States, Japan, loses somewhere between 3 to 4 percent. India, on the average, loses 27 percent.

And when you add on top of that, the issue of power theft, the nonpayment of bills, the inability for a good collection system, these problems are not going to go away until they are addressed at the highest levels of the government; not only at the central level, but particular in some of the more egregious states. We also, of course, have the issue of energy access. We still have hundreds of millions of people in India who have no access to electricity, and by that, I mean, not a single light bulb, not a single fan.

And we saw what the implications are of lack of investment in transmission and distribution infrastructure, when in 2012 we had the disastrous blackout that crippled nearly almost 650 million people without

electricity, especially in the north. There are other problems we could go into. The lack of incentives for investment in domestic energy production, because once a company finds oil or gas, it cannot sell it to the retailers of that and recover the cost. They have to sell it at subsidized prices. So, you have a situation where in the last 10 years, twice as much money has been invested and upstream oil and gas production in a country like Brazil in comparison to a country like India.

But let me return to the subject at hand, because U.S. government has been involved in cooperation with India for many years. I, myself was involved in many of these projects fostered by USAID principally, as well as institutions like the World Bank and the Asian Development Bank. But in terms of the U.S. government, early assistance once the reform programs were launched in 1991 with advice on power sector restructuring, trying to make utilities operate as viable financial entities, the introduction once we moved from a completely state owned energy sector to creating regulatory regimes for the first time, energy pricing reform which was early on recognized by USAID and the other donors as a major issue before the Indian government, and energy conservation has always been high on the aid agenda by all the donor energy.

But more recently, U.S.-India cooperation has focused on

strengthening India's capability to deal with any of these issues, as well as was noted earlier, by decreasing emissions, by exploiting alternative renewable energy strategies. The U.S.-India strategic dialogue this past June continued to discuss many potential areas of cooperation in energy, and the U.S. Trade and Development Agency is currently conducting two major feasibility studies regarding the possibility U.S. assistance in shale gas, that element which continues to be very promising, although very controversial in many parts of India because of the concerns about water utilization.

The U.S.-India civil nuclear agreement has been noted by other panelists as proceeding slowly with continuing negotiations over access to land, particularly in Gujarat and Andhra Pradesh for the nuclear facilities, as well as ongoing disputes about the nuclear reliability law, which until corrected from the U.S. side, will mandate that no U.S. nuclear utility invests in India.

The U.S.-India energy dialogue which commenced back in May, 2005 has continued to operate as a mechanism to promote cooperation in energy. The dialogue is divided into six working groups: Power and energy efficiency, new technology fiscal on renewable energy, coal, oil and gas, civil nuclear energy and sustainable growth. Let me list some of the accomplishments of each of these, quickly.

Power and energy efficiency. Reduced CO2 emissions per kilowatt-hour after USAID's greenhouse gas pollution prevention program has been quite successful in a number of locations. There has been the creation in the Indian government of a bureau of energy efficiency focusing attention in that area, really for the most major time. India's first energy conservation building code, which has led to dramatic improvements in the area of new energy construction, if not so much in existing buildings.

New technology and renewable energy. There has been nearly \$700,000 in financing for feasibility studies relating to solar (inaudible) projects. And there's been extensive training in solar technologies for financial organizations in oil and gas. USAID, the Department of Commerce has developed a commercial law development program focused on legal, regulatory and environmental issues concerning the development of shale gas. There has been research supported in the methane hydrates, offshore oil and gas safety practices, refinery modernization.

In the area of coal, programs for improving mine safety, which remains a major consideration in India, and new mining techniques which will increase productivity. There has been cooperation in 3D seismic surveys better able to pinpoint where fossil fuel resources may

develop.

Civil nuclear energy, I've mentioned. Continued collaboration but not much really happening in that area, at least from the U.S. perspective. In sustainable growth. There's been mobilization of private investment to move towards adopting clean energy technologies in all aspects of industrial production.

Most prominently, the U.S.-India partnership to advance clean energy, the so-called PACE program which was announced by President Obama and Prime Minister Singh in November of 2009 has made substantial steps towards strengthening Indian energy independence. The program, which is divided into a research and deployment program has worked with seven U.S. agencies to provide approximately \$2 billion in financing for India's renewable energy projects, funding almost 40 percent of the country's first 1,000 megawatts of solar energy capacity. Additionally, support for several projects involving energy efficient buildings, the development of smart grid technology has been provided also under the PACE program.

Finally, the Joint Clean Energy Research and Development Center which was established in 2010 under the PACE umbrella has primarily focused on three areas -- solar energy, building energy efficiency and second generation bio-fuels. This represents a major commitment in

terms of development resources by USAID, TDA and other U.S. agencies. But however, as I emphasized at the beginning of my remarks, they don't deal with the fundamental problems in the energy field confronting India which lie in the domestic arena. Thank you.

MR. COHEN: Thank you, Charlie. You'll have to leave a little bit early. Right?

MR. EBINGER: I might.

MR. COHEN: Okay. Neil, we turn to you. When I was in India in 1965, I was told that with the change in the American immigration laws, there would be a million Indians in a few years. It turns out there's two million Indians, and I didn't believe it, but it's true. And clearly, "The Simpsons" have taken one of those Indians on board (Laughter). Dr. Sanjay Gupta is probably the best-known Indian in the United States, and the new Miss America happens to be of Indian origin. Can you expand on this?

MR. RUIZ: Yes. Well, this is interesting. I think this is a very important issue, I think, for Prime Minister and President Obama to talk about, because Washington is right in the middle of immigration reform. Indian immigrants are the third largest immigrant group in the United States, and they're also very highly educated compared to other immigrant groups.

For instance, in 2012, Indians made up the largest proportion, 64 percent of all H1B visas. These are for highly specialized workers who have their bachelor's degrees or above. During the 2011 - 2012 school year, four students from India accounted for 13 percent of all foreign students in the United States, with 72 percent of them enrolled in science, technology, engineering and mathematics degree programs -- the stem fields.

And in a report that I released last spring, when I was analyzing the data, we saw that Indian foreign students mostly come to the U.S., not for bachelor's, but for master's and PhDs. They hold the largest share, 65 percent, of all foreign students enrolled in a stem master's degree program. And also, other data shows that you know, startups in Silicon Valley, over half of them are started by either Indian or Chinese immigrants.

So there are a lot of problems right now. The U.S. immigration system is very problematic, and it stems, as you've talked about -- 1965 continues -- a lot of the problems from the reforms back then continue today. Currently, there are problems that make it especially challenging for Indian immigrants in the U.S. Every spring, in April, there's a race to the cap for these H1B visas. There are only 65,000 for private employers and 20,000 for those who graduated from U.S. universities. So

about 85,000 that are allowed every year.

Just for instance, on April 1st, they opened it up and they ran out in five days, this year. The year before, it was 10 weeks. The year before that, it was 10 months. So, H1B visas, the reason why it's really especially important now, at least a lot of reports are talking about it, is because as the economy grows and does better, then I notice the H1B visas become in higher demand.

But H1B visas under our immigration system is kind of a catchall visa. It's capturing employers who use it for temporary workers, employers who on day one, apply for a green card, meaning they want them to be a permanent immigrant in the United States. It's also used for startup visas -- for startup companies. So, it's kind of capturing all these different visas, and it makes it especially challenging for startup companies.

And for Indians in particular -- Indian immigrants, if you are on an H1B, your waiting time for a green card to stay permanent in the U.S. is at least 10 years. So, the problem there is that you become indentured to your employer, because if your H1B employer sponsors you, you have to work for that employer until you get your green card. Otherwise, you either have to leave or get back in the line. So, these are really big problems, and the major consequences that you have -- it's a

huge issue.

Solutions right now -- the Senate and House do have a lot of proposals right now. The Senate and the House both would remove these country caps that create this long backlog. So that's agreement on both houses of Congress. There's a priority for immigrants with skills, so I think that Indian immigrants would have no problem, because there will be more of like a college admissions exam -- or admissions, where points will be allocated based on your educational background and work experience.

The H1B cap would also double, at least, and there will be a floating cap, so you will have more H1Bs available, depending on the demand. But there is one major sticking point that rings alarm bells for the Indian government. The Senate and House are divided on whether to continue allowing employers who hire a large proportion of their U.S. workforce on the H1B visa as well as a related Visa called the L1, which allows companies to transfer their employees -- like a multi-national to transfer employees from abroad into the U.S.

The immigration bill in the Senate that was passed in the summer would restrict companies, and this affects especially Indian IT companies. Companies that employ more than 75 percent of their U.S. workforce on one of these visa would be banned from obtaining additional H1B visas by 2015. And then, they have a sunset clause, so that by -- the

threshold would be reduced down to 50 percent beginning in 2017.

The senators behind these restrictions, which is bipartisan by Senators Grassley and Durbin are concerned that H1B dependent companies that have hired a lot of H1Bs are displacing American workers. And a lot of U.S. labor groups are behind this -- also complained that you know, Indian IT companies are hiring workers for cheap labor. But Congress is divided on this issue.

The high school immigration bill called the Skills Act in the House, which is the most promising to pass pay Representative Darrell Issa -- it was passed in the committee -- contains no such restrictions at all. So, we will have a situation here. If the House passes no restrictions, the Senate has this restriction -- what will they send to President Obama, or will President Obama have to decide? So, that's why this meeting will probably be very important in the Prime Minister's efforts to lobby for Indian IT companies' interests.

So, Indian IT companies -- they're popular for providing services to U.S. firms such as Infosys, Tata, Wipro. They have a large business of, you could call it, in sourcing jobs into the U.S., because their business model relies on hiring workers who are mostly on H1Bs and L1s to provide technology related services to American companies. In a report that I released last year, I looked at the geographic kind of demand by

employers of H1B workers, and I noticed certain patterns of different companies. And in particular, Indian IT companies kind of have spread out their H1Bs throughout the U.S., because they're mostly going to client companies.

So, that's about almost -- the large majority of Fortune 500 companies hire or have contracts with one of the Indian IT companies for work. And to give you an example, I was looking at Fayetteville, Arkansas, wondering why is there a lot of H1Bs there. And I found out that Wal-Mart has a big contract -- most people are under a contract with three Indian IT companies to help build their green infrastructure in their stores throughout the world, and they have to go to the headquarters, which is in Fayetteville, for Wal-Mart.

So, this tension -- still there. Indian tech companies argue that IT companies -- you know, they contribute enormously to the U.S. -- the economy. Bringing a lot of FDI here to the U.S., and that they make efforts to fill these jobs with Americans, but have a really hard time filling them. American based IT companies, on the other hand, like Accenture, Deloitte and IBM are also in the same business of providing these same IT services, but they have a smaller proportion of their workforce on H1Bs or L1s. So, they actually stand to benefit from the Senate restrictions.

But one unintended consequence of the Senate bill could be

less competition on the Indian and the IT industry. So, what would that mean? Higher prices for the companies that hire them and the Indian IT companies would become less competitive, because they will not be able to hire anymore on H1Bs. But U.S. labor believes that this will give more opportunities, higher pay for the IT industry, so Americans will go into these jobs.

But a lot of private industry, as well, on the other side say it's going to be really hard for us to fill, because India has a very competitive advantage on the IT industry. So, this is the dilemma that we rely on today. So, next week will be interesting. I think this is a major sticking point. This is something that President Obama will really have to think hard about, and for our Congress to figure out how they are going to -- if they do pass a bill, what will they send to President Obama to sign?

MR. COHEN: Good. Thank you. It's my understanding that the two largest Indian groups in America are Telugus and Gujaratis. (Laughter) Yeah, the Telugus, of course, produced this new Miss America, so I'm not sure what that means, but it's certainly interesting. I've spent some time in Andhra. Let's turn now to you and ask your questions and comments, and please raise your hand. Be brief and try to address an individual speaker with a specific question. Yes, sir. And wait for the microphone. There will be a microphone. There should be a

microphone. I guess there's no microphone. Just shout it out.

SPEAKER: Sure. Thank you very much. My question can go to any of the panelists. Okay. One of the main things I noticed in India was that there's a lack of centralization between the state governments and the central government. And they had a tendency to benchmark themselves against China. And we all know, one of China's comparative advantages, if you will, is their ability to optimize industries cross-country.

Do you see the lack of centralization in India being one of the main hurdles holding the country back? Thank you very much.

MR. COHEN: Were you with an IT company there or --

SPEAKER: No, I was with the U.S. One commercial service.

MR. COHEN: Oh, commercial. Okay. Would anybody like to respond?

MR. GOKARN: Yeah. I think the nature of federalism is a structural one. The Constitution has laid out some very specific division of authority in terms of taxation, in terms of legislative jurisdictions between the state and the center. And this has been something we've lived with for 65, 66 years now. There have been times when attempts to streamline the process without undermining the powers that the Constitution has given have been quite successful, and you know, this essentially relates to issues of taxation.

For example, the VAT, which 16 states adopted in 2005 was a reflection of an attempt by states to cooperate without any power or authority at the central level to force it. They could induce it, they could encourage it, but they couldn't force it. And this, I think, is now translating to what I believe will be a culminating move in the implementation of the goods and services tax act. So, that will actually take self-enforcing taxes from the state level to a national level.

This is going to be a very powerful instrument in terms of allowing much more efficient location of production activity, because that's been deterred to some extent, by the financial tax treatment across states. So, when it's bottom up -- that's just one example. There are a few others. There have been some moves in the power distribution kind of process that haven't gone very far. But there is, even without a very you know, ambitious kind of effort, there's some sort of movement in terms of movement of power across straight boundaries and so on has materialized.

So, when states see then, their interest to collaborate and to act in concert -- I think the deterrence or the constraints that this federal destruction causes does tend to be dealt with. But it's issue specific, and I think some of those boundaries will remain. For example, just to give you one specific example which has always been cited as a big constraint --

it's something called the Essential Commodities Act, which allows state governments to restrict movement of food rings, for example, or you know, what I call essential commodities.

So whenever there's a shortage in one part of the country, the natural market response to it, which is to move goods across state boundaries, is deterred or restricted or hindered. And that does tend to create problems. So, you can see, for example, the same commodity trading at x rupees per kilo in part of the country near 10x in another, because movement is being hindered. So, there are these restrictions, but I think on big issues, I do see some signs of a willingness to accept a national perspective rather than just confined to states. But it is a challenge.

MR. COHEN: Charlie, did you want to --

MR. EBINGER: I would just add to that, in the energy sector, energy prices are set by each state government rather than by the central government, except for prices that cross across states. And this has led to the fact that in certain states, for example, electricity has basically been free if you're a farmer. That used to be endemic in Haryana. I'm not sure whether they've changed that at all recently. So that's a major problem.

The other problem you have is that oftentimes, in key energy

producing states, say in the coal sector, they're often controlled by political parties that are in opposition to the center. So if the tries to say, agree with the U.S. government, we should do something about coal emissions, and they were to embark on policies to do that, and that adversely affects the coal sector in some of these highly populated opposition directed states, that immediately becomes a politically charged issue and takes what the central issue is, away from the politically debate and immediately politically polarizes it.

MR. COHEN: Yes. Man in the back? Rudolph?

SPEAKER: Question for Neil on H1B visas. So you said Indian IT firms disburse their employment across the country. And you explained that by saying they happen to have their clients there. Just curious. Is that an inference of yours? Do you have evidence of that? Because I could come up with an alternative explanation for Indian businesses disburse their employment across all 50 states that might be quite useful to them in this coming debate. So, just what evidence you have on that part.

But also, so the question though, is explanations for Durbin and Grassley proposing this bill -- could you enumerate more than one, and perhaps, go beyond, although I'd love to hear about campaign support or other support or demographics in their constituencies which --

you know, opine on those, please, but also, please suggest any others that you might think might be useful.

MR. RUIZ: That's some good questions. So, in the paper that you probably have from the handout -- it was based on that paper. We didn't put it in the paper, but the analysis showed that, when I was looking at it. For instance, Microsoft in the U.S. -- this is where the headquarters are located, in Seattle -- the majority of their H1B requests were all for Seattle or either Silicon Valley.

But for a company, say, Wipro, I noticed their headquarters is -- I think it's in New Jersey. I think. But they didn't really have many employees there. They had most of their employees kind of spread out geographically throughout the U.S., and that has to do with the fact that they have a lot of clients from different companies.

For Grassley and Durbin, it's interesting. I've had conversations with their staffers there about the problems that they identified. In our report, we show that there's a lot of -- actually in Iowa and Illinois. Illinois especially has a lot of requests for H1Bs, and especially in Peoria, Illinois where Caterpillar is located. That's a big manufacturing company -- American manufacturing company. Iowa, you have Rockwell. I think some kind of high end -- not IT companies, but other kind of American firms located -- that they have a high request for

H1B workers, as well.

So I don't know. I think where their ideas are coming from, it's coming a lot from labor. There's a scholar, Ron Hira, who is at Rochester Institute of Technology as well as Economic Policy Institute. They do a lot of research on looking at the labor effects of H1B visas on the American workforce. My take. We disagree on these issues.

I have looked at the data, looking at the wages of H1B workers, and I've noticed that they actually get paid higher than their American counterparts. But I hear anecdotal evidence that that's maybe not true, even those on paper, so that could also -- I give them that in the sense that they could be saying something true that happens with the H1B visa program.

MR. COHEN: Thank you, Neil. Alan, Ellen? Wait for the microphone.

MR. KRONSTADT: Thank you. I'm Alan Kronstadt, Congressional Research Service. I guess this question is for the panel. An issue that's likely to come up when the President and Prime Minister meet that wasn't really addressed here is India's relationship with Iran.

And it seems like one of the outcomes of India's recent economic troubles is that they're increasing their imports of oil from Iran.

So, there's been some rumblings, very small, but rumblings

on the Hill that you know, India could potentially lose its exception and come under -- you know, or Indian entities could come under sanction under the Iran Sanctions Act. So, I'd like to hear what your views about that dynamic is, and maybe more broadly, the role that Iran India relations play in our relationship with India. Thanks.

MR. COHEN: Tanvi, do you want to --

MS. MADAN: Sure.

MR. COHEN: You mentioned Iran.

MS. MADAN: There have been some recent -- this is because of the depreciation of the rupee -- there have been a couple of calls, including by the Indian Finance Minister and the Indian Minister of Petroleum and Natural Gas, pointing to or suggesting that India would increase or should increase or might need to increase imports of oil from Iran. One of the thing that often gets mistaken, India does not import any gas from Iran. It's oil that gets imported.

A few years ago, India would be import about 12 to 15 percent of its oil from Iran. At the moment, it's about 6 to 7 percent. So over the last year and a half, they've reduced imports, largely a result of sanctions. And this is something to keep in mind. And you see the differences play out across ministries. You heard the initial mention by the petroleum minister about increasing imports.

But one of the things to remember is, you might want to do something. The actual fact in terms of how that would actually work because of insurance restrictions, shipping restrictions, payment restrictions -- the question is, is that actually -- how is that going to be -- the mechanics of actually doing it are quite hard, whatever the intent might be.

India's relationship with Iran broadly, as you know from the Hill, it was a big subject last year. A subject of difference. Folks on the Hill were concerned about the fact, I think, at one point India had kind of crossed China to become the largest importer of oil at a time that sanctions were in place. It knew sanctions were going to go into place. And that, of course, has -- India's got exemptions -- the exemptions that Alan mentions were certified by the administration twice.

This is the second time they've done it to basically say that India will be -- sanctions will be waived against India because they have shown reduction. It was not just done for India, but some other countries like Japan, as well. And this has come up a little bit because of these recent comments. However, there has been a significant reduction. There is no doubt about that. The figures show it.

In terms of the broader relationship, it has been a subject of difference. One of the things that I've seen, though, if you look at it from

say, January, February of 2012 to how it's been handled recently, what's interesting to see is, when those comments come out from these Indian ministers, there was no public reaction here of condemnation. That helps.

If there had been a public reaction of condemnation, that would have played out in the Indian press as everybody saying, oh, the U.S. is putting pressure on India. So, these things are handled slightly differently. India is not going to stop importing oil from Iran just you know, saying this is going to go down to zero. Even 6 to 7 percent off of a total buy is important when you're importing close to -- or your imports look like they're going to reach 90 percent in a few years of oil. So, even that is important.

Some of this has actually become possible because former suppliers of India, like Iraq, have come back on stream. India is finding new areas to import oil from. So it tends to like a diversified basket, and it's actually allowed India to move away. India's relationship with Iran is important for other reasons. It is potentially the route India takes through to Afghanistan and Central Asia, as long as Pakistan is not a viable transit route for India through to go to Afghanistan.

Another reason is, India has one of the largest sheer populations in the world. So for that reason, it's important, as well. On the other hand, it's not just the fact that -- and Indian officials will say this

behind the scene -- Iranians are tough negotiators when it comes to these deals. They're not necessarily even the most reliable of suppliers. There was a 25-year gas deal that they kept changing prices on. So, while they have been a supplier, it's not been all kind of good news on that front. So, they tend to be tough in their dealings with India on these questions.

Another aspect is that it's not just India's relations with the U.S. that get affected by what's happening with India -- India Iranian relations. India has close relations with almost all the countries in that region that watch very carefully how India deals with Iran. Saudi Arabia, which is the other gulf council states -- they're larger exporters of oil to India than Iran. Israel. Growing to be one of the largest defense suppliers to India, but also, intelligence cooperation. A number of agricultural cooperation towards a growing close relationship.

And something that is not quite on the sanctions side, but related, is India is now paying for Iranian oil that it does get in rupees. Not in dollars. These are sitting in India, and you keep hearing noises from Iran that there are not that many things that they want to buy from India (Laughter). So there is kind of a trade imbalance. So that has to be sorted out.

So I think yes, there is talk about it. If people overreact here, I suspect people will overreact publicly in India. But these things, I think,

can be managed as they have in the last 15 months, I'd say.

MR. COHEN: Thank you.

MR. EBINGER: Can I just make a quick comment?

MR. COHEN: Sure.

MR. EBINGER: With all due respect to any of my U.S. government friends in the audience, I think there's another dimension of Indian Iranian relations which has been missed. And this is to return to Tanvi's comment about the gas pipeline proposed between Iran and India.

I personally think this has been very ill conceived. Realizing we have the broader sanctions policy, but one of the things we are also achieving by not allowing this pipeline to proceed is we are hurting, supposedly, a strategic ally in Pakistan. Because for those of you that may not be aware, Pakistan is the very gaseous economy -- far more use of natural gas than most other countries in the emerging market world.

And I begin again because of misguided pricing policies by Pakistan, Pakistan now faces a major shortage of natural gas. So, leading to a situation where its industrial plants are closing because of lack of fuel. Textile runs -- if you're not familiar, in the middle of a textile run, if you lose your energy, you lose the whole textile run. Pakistan is a very important textile producing country. And you have many cities in Pakistan that have no electricity, largely based on natural gas 22, 24 hours a day in major

metropolitan areas becoming in itself a destabilizing element against the civilian government in Pakistan.

So, by the Iranian sanctions policy, I would argue we are also helping, A, not to help stabilize by having a more viable economy, a vital strategic ally, a la one that creates a lot of problems for us in many areas, as well as India. But nonetheless, I think when one looks at the longer-term trend of India needing natural gas, which would also allow them to close down coal plants, which if we're concerned about global greenhouse gas emissions, would have a positive impact. In the long run, it is in everyone's strategic interest to have that pipeline built, not only for India, but also Pakistan.

MR. COHEN: Okay. I would just add a footnote to that. I have not read of any Israeli criticism of India's purchase of gas from Iran (Laughter). So let's hear from the press. Seema, do you want to --

MS. SIROHI: Seema Sirohi, Gateway House. Question to Mr. Gokarn. You said that the relationship -- the bilateral relationship is now almost a subset of the global economic situation in what the U.S. might do in terms of its monetary policy. I was wondering if that means that the strategic element is almost secondary now. And if you could elaborate, if supposing QE is tapered, although there is some pushback and Bernanke is supposed to have second thoughts about it -- if it is

preferred, how will it impact the bilateral relationship -- the overall relationship?

And also, if you could look into the crystal ball and tell us what you think would be the relationship under a different government post the elections in India, in case a different kind of coalition comes to power?

MR. GOKARN: Okay. I don't think I intended to that the governance of global macro is the dominant influence or factor in the bilateral issue. I just want to highlight that this is a dimension that's come into the bilateral relationship based on recent developments. So it's something that is shaping the public perception of the bilateral relationship, because there is so much visibility of the link of the channel of influence from what the U.S. is doing to you know, domestic macro economic conditions.

So, you can't separate the two. You can't say, look, you know, that's one set of issues and here's another set of issues. So in the immediate context, the immediate future, I think this is an important issue in the way that the relationship is perceived, and I use the Prime Minister's statement in Saint Petersburg as an illustration of this factor being given some prominence.

But to the extent that macro economic conditions stabilize, I

think we will get back onto this multi dimensional kind of relationship which we have been hearing about from all of the panelists. I mean, there are areas of friction, but there are also enormous areas of mutual opportunity. For example, as I said, I think that IT sector, the ITS sector basically will have a very difference of competitiveness calculation, if you will, when the rupee is at 65 to the dollar versus when it was 45 or 50 to the dollar.

And the growth opportunities for these companies which are now opening up as a result of that will depend to some extent, on their ability to place more people on shore. I think that the technology cycle itself is a factor here. We had a lot of on shoring in the early stages of this, with the Y2K and so on. Then it moved offshore. Now, it's coming back onshore because of structural changes and so on. Maybe it will go back offshore at some point. But the opportunity is linked to H1B, I think that's quite important.

But if you look ahead to whatever the configuration is, I think the longer-term issues will remain the dominant drivers of the relationship. On the U.S. side, it is the investment opportunity. How do we sort of leverage off the kind of market and technology opportunities that India provides? And you know, Charlie emphasized the number of linkages on the energy front. And on the Indian side, it's going to be the economic dimension as well as the role that the U.S. is playing in the neighborhood,

and how this is impacting on India's own security perceptions, the U.S. relationship with Pakistan, the U.S. relationship with China, and you know, how this helps or hinders you know, India's own security thinking.

So the economics and the security aspects, I think, will remain completely enmeshed and fossil is separate. I think the macro is essentially now a short-term phenomenon which is dominating the perception now. But I don't think it will remain so forever.

MR. COHEN: Good. Let me suggest -- to put my academic hat on, then. There's been no study that I know of -- actually, I've looked at this carefully -- which measures quantitatively or even qualitative the relations between two countries, whether it's economic, strategic, military or cultural, including population. Nobody has ever done this. Apparently, it's too difficult to do or nobody has tried to do it. And it would be a good project for you to undertake at Brookings India. (Laughter)

MR. GOKARN: Thank you for that.

MR. COHEN: We got to the point where we broke it down into five or six major categories with about 25 different variables in each so you could measure it. But even a panel discussion between Indians, Americans and others as to what drives the relationship would be very useful. And you could test your framework by going back in history.

MS. MADAN: Let me just say one thing to Seema's question

about what happens a year from now. It also depends on what our new government does. I mean, if you look over the last 10 years about the state of bilateral relations, they are also a reflection of how India is doing in general. Not specifically how India is doing in terms of things for the U.S., but how India is perceived. Brand India, so to speak.

And if that turns around, if you look at covers from "The Economist" over the last 10 years in India, one of the interesting things -- Charlie is laughing, because I have them on my office door just to keep things in perspective. In 2005, they had a cover with two tigers, China and India, kind of leaping and you know, going to the next level together. By 2008, there was an elephant, and the title was "India: An Elephant, not a Tiger."

By 2009, less than a year later, the question -- there was a tiger, and it said, "How India Will Outpace China." And of course, recently, "The Economist" covers have kind of been on the downturn. If a year, a year and a half, two years from now, India has kind of bounced back, things are going better or at least stabilized, I think you'll have a very different discussion again about India, because suddenly, the importance changes, as well in terms of what the potential is. So, I think that it will also depend on not just is the government a different complexion, but what will they do?

MR. COHEN: Yes, over here.

SPEAKER: Thank you, Steve. As an Indian American, I'd stay on the domestic for two issues. One is the family unification provisions of the immigration laws, and the second, which is evolving and came up quite suddenly was the creation of the Sikh caucus on the Hill. And perhaps, Steve, you'd like to take a -- well, a remark on two on that.

MR. COHEN: Actually, no. I hadn't heard about the Sikh caucus on the Hill. Raisina Hill or Capitol Hill (Laughter). I'm not quite sure.

SPEAKER: This hill. Capitol Hill.

MR. COHEN: Could you enlighten us on that? The Sikh caucus of American legislators who have no Sikh --

SPEAKER: It's 28 legislators.

MR. COHEN: Okay.

SPEAKER: Almost all of them belong to the Indian caucus. And it was started in a very hush hush manner. That launch will be on the 13th. Then suddenly, no, no, no. The 13th won't do it. Let's do it on the 26th. Then, finally, it happened on the 28th. And supposedly, the government of India was very unhappy about Khalistani support for the Sikh caucus. So I wondered of somebody -- maybe Tanvi, you followed the story more closely?

MS. MADAN: I think you know -- I'd say something broadly, which is -- and this goes to a -- yes, these things affect kind of how -- especially in terms of you know, people in India read news from here or it's covered, et cetera. I mean, obviously these affect perceptions. But I think this one of the reasons why you see kind of people talking about differences. And this is something that's new, and we see the sausage making on both sides in public, because they're democracies (Laughter).

We often talk about why, as democracies, it's so natural that they get along. But because they're democracies, then these domestic political aspects play out. So the fact that there's a caucus formed, people aren't looking at -- I mean, you could say this for the India caucus, you know, talking about studies that haven't been on. Actually, looking at what the India caucus does, what does this caucus do? Beyond the formation - - the formation itself can tell you some stuff.

What is it doing? Does it still exist? What is the purpose of it? Is it working, or is it actually not just -- they might be working -- people who are supporting it, working against say Indian interests. But is that actually having the affect? Are the members who are both members of India caucus and Sikh caucus, are they playing this out? Do they even care?

I mean, this is something that you know, frankly, I think both

countries need to learn about each other's systems. You could probably count on one hand the number of experts in India on American domestic politics. Similarly, there are not that many here on Indian domestic politics. Yet, because the two countries are democracies, their domestic politics now they're becoming increasingly -- I mean, India especially, the States increasingly are playing a role.

If you don't learn about these things, if you don't factor them in, they do start to be a subject of difference. I think, but also some of these things need to be put in perspective in the larger frame of things. Which of these things actually matter? Which don't?

So I think yes, some of these differences -- it's because you know, you have the sensitivities where these are domestic political issues, and you have the Indian government commenting on something that's a domestic political matter here. Then, tomorrow, when an American administration comments in the matter of Indian domestic politics, that could also create problems. So it's a very kind of fine line, but I think these are things that you learn how to deal with over time.

It's a sign, of course, that the Indian American community is very large here. So in that sense, you can see it as a good sign, rather than you know, a negative. I think you know, it's just putting it in -- I've just put it a little bit in perspective.

MR. COHEN: Yes, sir, in the back.

SPEAKER: Hi. Tucker Aliar from the U.S. Air Force. I wanted to seize on Tanvi's point of stamina and to go to your paper toward drift. And I want to talk about two aspects or ask a question that covers two aspects, both pace -- our expectations of pace of growth and skepticism.

So, on the U.S. side, there seemingly is a higher expectation on the rate of growth in the relationship with India. We want it to go faster. Be more dramatic or bigger moves. And India seems to take more of a longer view. And on the other side of skepticism, there seems to be some skepticism on the Indian side that the U.S. is, in fact, an all weather friend versus a fair weather friend. And that maybe puts the brakes on the rate of growth that India would be willing to accept.

On the U.S. side, the skepticism might be one of India's willingness at all to be a closer partner and divorce itself somewhat from that alignment. So, just in the question of stamina, how do you perceive those factors and how each side deals with it? And where do you see the mismatch or is there ever a point where there's going to be conversions on them?

MS. MADAN: I think you know, Subir should probably jump in, as well, on the perception from India. I'd say you know, I think there is

-- I mean, you already see more convergence than there even was. The fact that you know, a few years ago the U.S. economy was going through a tough time. Now the Indian economy is. A the fact that three administrations have, on the U.S. side -- and a couple of administrations of course, when political parties are in opposition, they say a different thing world over. U.S. and India are no different.

But in India, it's been the case that administration and parties when they're out and about say a different thing. But overall, if you look at parties that have been in government the last two coalitions have, even when the other countries are going through tough times, stuck by each other. The U.S. has been more explicit about the bet that they've made on India. The Indian government hasn't. I mean, partly because of you know, what you call non-alignment.

But I think you know -- I think about non-alignment essentially as today, everybody is non-aligned, which is essentially, you're not making your choices explicit. But you're also diversifying and keeping your options open. So I see it slightly differently today, and I think that's a learning process. There are questions in India about the reliability of the U.S. You can see this in concerns when concerns about a G2 or China-U.S. G2 come up.

You see there are some questions about an area you know

well on the defense side. You know? Is the U.S. going to be a reliable supplier, or if there will be sanctions done someday and spare parts supply will stop. So, I think this is partly learning. And I think you know, there will be some -- some of it will be professions of saying yes, we've invested in each other. But others will be just seeing if the trust of the other -- or the investments that you've put -- not only are they paying off, but are you learning from each other?

Will some of the Indian concerns about reliability -- as the relationship develops -- are they going to actually increase or are they going to decrease? Is there going to be more security about the relationship? I think because of the fact that these countries have been dealing with each other for so many years, there's a sense that it's a very old relationship. But in some ways, it's a very new relationship, because they're dealing with each other on a very different basis.

I think there are concerns about pace. I think some of this is a bit of a mismatch. There is the short-term versus long-term. I think if you ask most people in town, they'll say yes, you know, India is a good long-term bet. And I think that's a realistic medium to long-term bet. Yes, a lot of investments will pay off, and I don't mean economic necessarily, in the short to medium term. But you know, the question is, can you see it through?

I think it's an open question on both sides. And I think it's up to -- you know, my personal opinion is, the two countries, if they stay invested in each other, the pay off will be higher in the long-term. Others question that. I don't think either country should expect the other to give relationships that are also important to it.

So I think yes, keeping expectations real. Finding -- I think there is a mismatch in terms of here, partly because of the way the system works, partly because the capacity is larger. If you look at the number of people in the U.S. embassy in India and the number of people on America's desk in the Ministry of External Affairs, there's a mismatch. This is something -- it will grow. The U.S. didn't get a big capacity government before it needed it. It developed after the need for it came. So I think some of this will also develop over time. Subir?

MR. GOKARN: I think the fundamental shift in the relationship that has happened over the last 15 -- maybe 10 to 15 years, has been the broadening of the sort of levels, the numbers of engagements. So, I wouldn't see it as a trend. I would see it as a sort of very significant discontinuity in the middle to late '90s, perhaps. And this trend -- and you know, IT was such an important part of this, because the number of stakeholders in the Indian debate on its relationship with the U.S. suddenly exploded. You know?

And you didn't have IT at the time. You had basically the security establishment. And that's where the sort of non-alignment, you know, Soviet versus U.S. kind of framework, kind of perspective dominated. So it was essentially seen in terms of regional or global sort of security issues, perhaps ideologically reinforced by the pervading ideology of the country.

But as the karmic engagement increased, the stakeholders increased -- now, you look at the numbers -- I mean, what Neil was citing in terms of just the people-to-people kind of explosion in engagement. I can't see this relationship anymore or ever going back to that security-dominated discussion. They're not going to be completely separate, but the width and the depth, I think are very different now.

And you could see that going to another level if some of the sort of points of friction that we've been talking about in terms of larger business engagements, ease. For example, on the U.S. side, it's the implications -- the potential implications of the immigration bill. On the India side, it's the potential implications of opening up more effectively on some of the sectors that the U.S. has been pushing for.

That would again, in sort of almost overnight, widen the range of stakeholders who have an interest in the relationship. So, I would see that as a more appropriate descriptor of how the relationship

has evolved. And so, at each step, you have a set of frictions that are visible, but it's a different step, a different level than it was in the past, and I think that's the way it moves forward.

MR. COHEN: We have time for one more question, so Subir, let me add that I think the relationship has to be strong enough. It has to have enough balance, because I think there will be -- growing out of the American withdrawal from Afghanistan, there will strategic crises ahead, and that's going to affect India directly and indirectly. Let's take one more question. This gentleman back in the back.

MR. EBINGER: A lady. It might be a lady, I think. Well no, you're right.

MR. COHEN: Yeah.

MR. SHARMA: Good afternoon. My name is Cap Sharma. I have two quick questions. One is, to the question to the Sikh caucus -- it's my understanding that the Sikh caucus has more of a domestic agenda. It was more of the failure of the India caucus not representing the interests of Sikh Americans in the U.S. but mainly dealing with civil rights issues and the federal government not being able to respond to hate crimes impacting that community.

So, I do believe it is a domestic agenda, but it is a failure of the India caucus not to effectively represent the needs and the interests of

the Indian American community. It's mainly now focused as a bilateral relationship, and so that's where I think the Sikh caucus has come about.

But you know, my question to the panel is more about -- over the last six months, the rhetoric coming out of Capitol Hill seems like this has made the worst relationship -- this is going back to early '90s -- going into the '80s. But when I look at the relationship, I look at India and FDI into the United States -- never been better. Indian companies are investing in manufacturing, which never seems to get covered here by American press or by people in Washington. And they're investing in mining, manufacturing, pharma, services, hotels. All different types of things that Indian companies are investing in here which didn't happen some time ago. Yet, the rhetoric continues to increase from Capitol Hill as if the relationship is faltering.

But then, I look at the Europeans and I look at how the Europeans deal with India, and it's almost very different. And so, I'm just curious, is there a fundamental difference as to how the United States deal with its problems with India versus the Europeans? And is there something that we can learn over the next couple of weeks as to how we should be talking to the Indians and trying to really get the changes that we want? Because I personally think that the Europeans have figured out how to interact with the Indians much better than we do.

MR. COHEN: That's a good question, and I don't have an answer myself. But does anybody have a comment on that?

MS. MADAN: I'll just say on the European side, Cap, I mean, it's interesting that you say that. Because if you hear a lot of Europeans, their complaint is that they don't get enough attention in India.

MR. COHEN: Yeah (Laughter).

MS. MADAN: So, I think some of it is -- I think you're right. I mean, there is a level of interest. And a lot of this is rhetoric. And I think this is something that you know, has to be worked through. Sometimes, and this is -- you see this from the letters that are on the Hill -- that are coming from the Hill. Some of these issues aren't just coming from American companies. They're coming from others.

Some, in fact, Indian companies are complaining about the same issues in India. Not all of them, obviously, but some of the issues. But in a number of cases, you see that they are being driven by one or two companies, not necessarily the entire industry. And I think this is something that other companies who are interested in doing business should maybe get involved in making the other case. And it's the usual case of when there are differences, you're much more likely to get involved.

So I think some of this -- and this is what I meant by the

learning by doing, that the companies that are interested should speak up. The stakeholders that Subir talked about. I mean, one of the interesting things is also what's happening at the state-to-state level, which you know about. But the fact that Chief Ministers from states -- from landlocked states that actually don't have that much foreign business coming here, going to states, trying to generate investment -- similarly, here governments -- I was in Mysore being a tourist at the ballast, and suddenly, everything stopped, and a van came in and Governor Jan Brewer was there, I think about a month ago.

You know, this is at a reception -- I think that a number of us were at on the sidelines of the National Governor's Association meeting. There were 9 or 10 governors not from the obvious U.S. states. And this was a reception hosted by Indian businesses who were looking to invest here. They were from states like Wyoming, Indiana, Arizona. Not from New Jersey, New York, Texas where it was just people, but interested in business.

So I think -- I mean, what's interesting is, and I think this is where Subir's point -- where there are all these different stakeholders, you're going to have more friction. But I think Subir put it very well -- it's a totally different kind of friction where the complaints are people are not doing enough on these various levels of engagement. Not that there's no

engagement at all, we need to get some started. So I mean, I'd just say I think the Europeans might -- they've also had a lot more practice, but for different reasons than America has, and I think that actually serves America well in India.

MR. GOKARN: I think that's a very important point, because the European concept of industrial policy, if you were to put it in those terms, is at a national level. So there's sort of -- there's some alignment between economic policy and the view of the world. So you know, the Tata's buying up Jaguar, Land Rover or Corus Steel -- it becomes a nationally visible phenomenon, because there is a sort of national government stake in this.

In the U.S., the industrial policy is essentially at the state level. It's not the federal government that is going out and promoting investment. It's people at -- and this has been historically, the case. It's the state level officials who are going out, whether in Japan in the '80s and so on, or Europe or wherever. And so the visibility of that business-to-business relationship, I think is much lower in the case of the U.S. And perhaps, it's not aligned necessarily with the strategic and the sort of diplomatic level of debate. So the two don't you know, get talked about together as might be the case in Europe.

MR. COHEN: Okay. With that, let me thank my panel.

Subir, Neil --

MR. GOKARN: Thank you.

MR. COHEN: Charlie, especially Tanvi. And thank you very much for your questions and your comments. (Applause)

MS. MADAN: Thank you.

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