

# India-U.S. Relations

## The View from New Delhi

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There was a time when India-U.S. relations were summed up in platitudes like “world’s largest democracies,” while seasoned pundits lamented that they were in fact “estranged democracies” that had very little in common. Today, with nearly 30 separate dialogues, the India-U.S. agenda involves issues ranging from the TTP (Tehrik-i-Taliban Pakistan) to the TPP (Trans-Pacific Partnership) and a spate of acronyms in between.

For New Delhi, the principal driver behind the transformation of its relations with Washington lies in the Indian ambition to become the world’s third-largest economy by 2025 and, consequently, also emerge as one of the key global political and security actors. This fundamental objective requires two external conditions: first, at the very least, ensuring a no-war environment, particularly in India’s immediate neighborhood; and second, the ability to shape global rules in terms of existing and emerging norms and institutions that have a direct impact on India’s ambitious development goal and economic well-being—particularly multilateral norms and institutions related to climate, cyber, energy, food, outer space, trade, and water (rivers and oceans) policy.

New Delhi grudgingly recognized that a partnership with the United States was indispensable to attain these twin external conditions. Consequently, it was essential to cooperate not only at the bilateral level but also critical to reach common understanding (if not agreement) in various multilateral and plurilateral fora.

Such bilateral and multilateral interactions have the potential to take India-U.S. relations forward but also to stymie them. Thus, it is crucial to manage the ever widening and deepening India-U.S. relationship carefully if it is to make progress and contribute to India’s primary objectives.

At present three areas are particularly ripe for cooperation and should be prioritized by New Delhi and Washington: clean energy, defense, and infrastructure and investment.

**Clean energy:** In the lead-up to his election, Narendra Modi’s Bharatiya Janata Party (BJP) pledged to “give a thrust to renewable sources of energy,” and the Modi government’s first budget included significant investments for research and development of solar, wind, clean coal, and other renewable energy sources. The joint statement of the fifth strategic dialogue strengthens institutional structures to enhance cooperation in this area. Now India and the United States need to operationalize these mechanisms for additional cooperation.

**Defense:** In an effort to bolster domestic arms production and create jobs, the Modi government has raised the limit on foreign direct investment (FDI) in the defense sector from 26 percent to 49 percent. U.S. officials applauded the adjustment and the Indian government and American corporations have said they would like to move forward on a host of sales, and co-development and co-production projects. The parties should capitalize on this moment of mutual agreement.

**Infrastructure and investment:** Prime Minister Modi's budget allocated massive sums for urban renewal, transportation, and sanitation projects, and eased restrictions on FDI for construction. The establishment of two collaborative infrastructure efforts launched during a recent visit by top U.S. officials suggests this is another area ripe for movement.

While traction in each of the areas above can help to re-energize India-U.S. ties in the near term, a handful of other issues have the potential to derail them:

**Free trade:** India's blocking of the World Trade Organization (WTO) trade facilitation agreement (TFA)—while the fifth strategic dialogue was ongoing—disappointed U.S. officials. India's justification of its actions, on the grounds that it did not get assurances on food subsidies and stockpiling programs, was grudgingly acknowledged by the U.S. However, diplomats on both sides should find a compromise solution to ensure that the WTO fracas does not derail the revived dialogue.

**Intellectual property rights:** Western pharmaceutical companies have been at loggerheads with India for years over patent laws and regulations on generic drug production, and India is one of just 10 countries currently on the U.S. Trade Representative's intellectual property rights watch list. With the Indian government and electorate focused on growth and development, discussion of any measures that could significantly hinder Indian industry and deprive access to cheap medication could backfire.

**Regional geopolitics:** India is anxious about the upcoming U.S. withdrawal of troops from Afghanistan, suspicious of the American approach vis-à-vis a rising China, and disdainful of U.S. coziness with Pakistan. With hard national interests and a slew of historical grievances at stake, differences of opinion here will be immensely challenging to reconcile.

**Diplomatic decorum:** The bungled arrest of an Indian consular officer in New York in December 2013 and the lasting—if presently downplayed—effects of the denial of a U.S. visa to then-Chief Minister Modi over his alleged involvement in the 2002 Gujarat riots highlighted a considerable lack of understanding and coordination between the two sides. Rebuilding trust and comfort will take time and dexterity.

Finally, the two parties would do well to seek an early resolution of a couple of other vexing issues, which have the potential either to provide a fillip to or wreck bilateral relations. If, however, an early resolution is not possible, then both sides should shelve the issues until the new Indian government has had the opportunity to flesh out its policies more clearly.

**Civil nuclear deal:** The landmark India-U.S. civil nuclear deal lies dormant, due to a dispute over India's Nuclear Liability Act and the United States backsliding on key elements of the nuclear agreement. Prime Minister Modi has expressed a desire to implement outstanding bilateral nuclear agreements, and American officials have registered hopes that progress will be possible. Still, if large gaps remain, then it might be more sensible to put off trying to find solutions to a later date.

**FDI in retail:** While India has taken steps to open up various sectors of its economy to FDI—defense, insurance, e-commerce—the multi-brand retail sector remains largely insulated due to sourcing requirements. Reports suggest the BJP-led government is considering a number of adjustments to its retail FDI policies; until their approach is ironed out, it is best to hold off on any related discussions.

Prime Minister Modi's election provides a unique opportunity to re-energize relations between India and the United States. The parties should recommit themselves to a dialogue of candor and mutual respect, and focus on those areas ripe for progress in order to build much-needed confidence. Only then can India-U.S. ties become what President Obama has called “one of the defining partnerships of the 21<sup>st</sup> century.”