



DOLLAR & SENSE: THE BROOKINGS TRADE PODCAST

“A look at India-US relations as Prime Minister Modi visits the White House”

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Episode Summary:

In the week of India Prime Minister Narendra Modi’s State Visit to the U.S., Tanvi Madan, senior fellow in Foreign Policy and director of the India Project at Brookings, discusses the state of U.S.-India relations, a strategic technology partnership between the two countries, and how global issues like the Russia-Ukraine war and China factor into the relationship. Madan also looks ahead to India’s objectives when it hosts the next G-20 Summit in September.

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DOLLAR: Hi, I'm David Dollar, host of the Brookings trade podcast *Dollar and Sense*. Today we're going to talk about India and Prime Minister Modi's state visit to the United States. My guest is Tanvi Madan, senior fellow and director of the India Project at Brookings. So, welcome to the show, Tanvi.

MADAN: Thanks, David. It's good to be on the podcast.

DOLLAR: So, let's start with the state visit for Prime Minister Modi. What does this mean for him? What is he trying to achieve in this visit?

MADAN: I think there are few different objectives for Prime Minister Modi. For one, it is really to both a reflection of the state of the U.S.-India relationship, which is really burdened under Prime Minister Modi. It's not that he's a major departure from his predecessors for the last 20 years, 20 or 25 years, you've seen Indian governments deepen ties with the U.S. across the board. But you have seen an uptick across pretty much every domain during the course of the Modi government, which came into power in 2014. And so, I think in some part it's a reflection for him, and of the Biden administration, to kind of recognize the role he himself has played in deepening these ties.

For Prime Minister Modi, this is an opportunity to really consolidate ties with the country that he has previously in the U.S. called indispensable to India's transformation. A former Indian national security advisor in the previous government, our former colleague at Brookings, who was at Brookings India, Shivshankar Menon, had said that the U.S. is the one country that is really critical for pretty much every aspect of Indian growth, for security, for technology. And Prime Minister Modi's policies have reflected that. So, it's a really kind of a consolidation of those ties. It's served, this visit is serving as a bit of an action forcing event to get some major deals through. We've already heard some news on that.

And then finally, for Prime Minister Modi, it's also in some ways a political message. There'll be some political messaging involved. Part of the case he has made to the Indian public is that he is promised to make India respected on the world stage. Now, some will say that India was respected on the world stage before, but an Indian audience has bought this idea and there is this sense, and you hear this from commentators who go to India, come back to talk about the optimism there. And part of it is the story of a kind of being, as they put it, aspiring to be a leading power on the world stage. And so, I think this visit will be seen in that context.

And there's an election due in 2024, and Prime Minister Modi, I think, will also kind of highlight this visit perhaps in his election campaign.

DOLLAR: That's an interesting theme that we can carry through to other parts of the interview, that the United States can be useful to India in meeting various objectives. And one of those important objectives is raising the technological level of the economy and of the whole society. And I see that as the U.S. and India have deepened their relations, they've announced a strategic partnership on critical and emerging technologies. So, that sounds great. But what substance is there? What does that really mean?

MADAN: They've even come up with an acronym, ICET. So, you know when there's an acronym, it's probably going to stick around a bit. What this is, is it's not one kind of big deal, one major deal in its own right. What it is, it's a framework, it's a mechanism, it's really a mechanism to build a strategic trade and technology partnership between the two countries. Not that one didn't exist, but there was this sense that, you know, there are a lot of these issues that cross the defense, technology, economic domains, innovation domains, and these were interagency by nature, and that you really did need kind of a vehicle to both focus on and try to push some of these things through.

So, what you've seen is this was something that was discussed last year by the prime minister and President Biden. And earlier this year, National Security Advisor Jake Sullivan and India's National Security Advisor Ajit Doval launched this. And national Security Advisor Sullivan was just in India for the next stage of this. And the idea behind this is really to focus on a few different domains: is to deepen cooperation in the defense industrial space and the innovation space as well; to try to work on semiconductor supply chains as both countries try to diversify. There's also a different kind of dialogs and movement in space on the commercial side. Innovation across the board, particularly nurturing talent and developing an innovation bridge between the two countries, developing more secure telecommunications network, as well alternatives.

Now, some of this is being done bilaterally. Some of this is also coming under coming under the Quad, which is the Australia-India-Japan-U.S. grouping, which has its own critical and emerging technologies dialogues. But really what this is, is to try to get some of these initiatives to move forward. So, they're just taking these, say like the defense industrial cooperation side, drilling down on one or two deals and actually trying to push them through. So, the one that they're focused on right now is for GE to potentially produce its 414 jet engine in India, co-produce it there, for the indigenously-developed Indian fighter aircraft, so, combat aircraft. So, that's the kind of thing that they're trying to trying to develop.

And the people like buzz words. And so I think the buzzwords around these are things like "security and resilience," "technology and talent." And so you've seen this is really a almost kind of, you know, like people say an action forcing an event. This is kind of an initiative that is a forcing initiative. What is interesting about it is this is perhaps the first dialogue I can think of that is led by the National Security Councils in both countries. There are other dialogs that have come out of it, including a very new, just met a couple of weeks ago, the strategic trade dialogue, which is basically to drill down and identify obstacles and overcome them in terms of export controls and those kind of issues.

So, you're seeing a lot of things coming out of it. But I think this is one of these initiatives where we won't know for another ten years if it was really successful or not. We'll see some announcements when Prime Minister Modi is here coming out of it. But I think the true nature of it, because if it works, it would be a generational investment in the relationship and particularly the innovation side of it.

DOLLAR: For this kind of technological cooperation between India and the United States, it seems to me that having this large Indian diaspora in the U.S. has to be an

advantage. So, I assume they're pretty happy with the way relations are developing between the U.S. and India. Do they have any specific concerns?

MADAN: It is very much at the core, in fact, in some ways of ICET itself. But even on the societal, the people-to-people dimension side, when cabinet officials, cabinet ministers on both sides talk about this relationship, especially on the U.S. side, you've heard them bringing up the people-to-people dimension a lot more. There's now a diaspora of over 4 million, and it's still quite small compared to other immigrant groups. But nonetheless, particularly ... and I was just running the numbers and you've seen 76% ... there are almost 200,000 Indian students now in the U.S., and 76% of them are in STEM fields. The innovation side of that ICET that really is very much. And so it's forming this natural bridge that even if people return, or, it's connecting the two industries.

I think the diaspora is quite supportive of and likes that U.S.-India ties have developed. One trend that we've seen kind of in recent years is not fissures in the diaspora, but you're really seeing the diversity of the diaspora where our colleagues at Carnegie next door have done a study on Indian Americans and how they vote, and they tend to kind of vote on issues that matter to them, not necessarily on U.S.-India relations. But as a result of that, they largely vote Democratic. But they do have issues that they're concerned about even within the community. You're seeing, whether on religious lines, sometimes on even issues like caste, that you are seeing some divergences. In some ways, that's natural. India's a very diverse country, and the Indian American diaspora, as it grows, is reflecting that.

Also, some differences between immigrants who are recent immigrants versus those who've been there for ages. But you really do see and sometimes a lot of diversity in terms of where in India they come from as well.

DOLLAR: Yeah. So, this essentially migration you're talking about—many coming as students, but you know, some staying, people settling—I mean, that's a really important part of globalization. And personally, I'm just very excited to hear the numbers you mentioned. I think it's a real strength of the United States system that we have this consistent immigration and the sending countries, there's a lot of research now indicating that there can be benefits in building these ties between different countries. So, all that sounds quite positive.

MADAN: As a beneficiary of it myself, David, having come here for graduate school and done two graduate degrees, I can't but agree with you. And I think across the board, I hope this is something that is recognized that this the migration and it really does connect societies, economies, and is mutually beneficial.

DOLLAR: And people-to-people. You know, we get all the great Bollywood movies.

MADAN: That's right. Yeah, that's right. Bollywood movies. And you've got Padma Lakshmi, too. So, if you like cooking, you get that as well.

DOLLAR: So far, the whole conversation has been a bit of a love fest that, U.S. and India are developing their relations, a lot of positive things developing. If I could mention one thorn in the side of the relationship, it's the Russian invasion of Ukraine and India's pretty strong relations with Russia. It's increasing imports of oil from

Russia during this time. Is this likely to be an important issue of discussion or are the two sides just going to accept that this is something we disagree a bit on and just move on to the other areas?

MADAN: I think it's going to be a bit of both. I think the U.S. and India, I don't know if they've agreed to disagree, but they have accepted or at least tolerate the differences that exist. And they're doing that, you know, managing this and other differences in part because there is strategic convergence, for instance, on the Indo-Pacific. And both have been prioritizing that, that convergence, both in terms of the goals they share there and the concerns they have about China's behavior in the region.

But on Russia, you've seen, I think also that over the last—you know, this could have been, particularly after the Russian invasion and when India was not voting to condemn Russia at the U.N.—it abstained—but nonetheless, that did create some amount of friction, as did its imports of oil. But you've seen over time both sides also narrow the gap between each other. They've discussed this at various levels consistently. Because one thing India does share, several of its interests have been adversely affected—economic, energy, others, even geopolitical, by the Russian invasion. And while they might not call it that, they do call it the Russia-Ukraine war, but they do recognize the damage it's done. And potentially to Russia itself, which they do see as a partner. And so, I think you've seen the gap narrowed because of consultations, because of the duration of the war and its continuing impacts across the world.

I think the other aspect you've seen is to some extent, just as Indian concerns have grown as, for instance, food, fuel, and fertilizer prices, there's been pressure on that. But also, as Russia is their largest supplier of defense equipment, and they are unable to pay and Russia is unable to deliver some of that. So, concern about that supply chain as well.

But you've also seen on the U.S. side some change where earlier they would consider kind of India's oil imports a problem. And just to give your audience a sense, India, at the beginning of 2021, if you had looked at the 2022, if you looked at the figures, about 2% of India's oil imports came from Russia. Now it's kind of over a quarter of not between a quarter and a third. Earlier, you had the U.S. objecting to it, but then the U.S. recognized that, you know, you actually want I think a lot of energy experts say you don't want to take this oil off the market. And so, just put a price caps to reduce Russia's revenue and India has largely imported under that price cap. So, I think that issue has become less thorny.

You've also seen India take slightly different, not slightly, but they think a significantly different stance than China. Prime Minister Modi just met with President Zelensky. They've spoken multiple times and played a role on specific issues like the safety of the Zaporizhzhia nuclear plant as well as on pressing Russia when it was suspending the Black Sea grain initiative.

So, they've taken a slightly different stance, which I think is also eased, eased kind of the differences. But I think the reason that they haven't been more kind of full of friction is because of that larger strategic convergence, which gives both sides an incentive to manage the differences. But this is a difference that will continue to exist.

Russia will remain for because India sees it potentially as a balancing power maybe 20 years from now vis-à-vis China; right now they're worried about Russia-China relations.

But also it remains, if for no other reason, it is still a lot of Indian frontline military equipment is dependent on Russian spares, on Russian servicing, and is still of Russian or Soviet origin. And that is going to be a generational effort for India to both diversify, which it's been doing now for the last ten years, but also to indigenize. And that's the other trend we're seeing.

DOLLAR: You know, I completely agree with you, Tanvi, about the effects on the oil market. Pre-invasion, basically, Russia was sending about 55% of their petroleum to Europe and about 20% went to China, India if you combine them. And now it's flipped. More than 50% of their oil is going to China and India, and Europe's share is down to about 20%. But Russia is exporting about the same amount. And I actually think that's an advantageous situation because we dodged a big oil price shock. It went up at the beginning of the Ukraine war, but now the price of oil is actually below where it was pre-invasion, and that's even before you start applying any cap. So, I think we have dodged a big oil shock.

And then on the other hand, the sanctions are keeping Russia from importing a lot of stuff. So, I think the sanctions are working very well on the import side. And all of that creates a situation where the U.S. will probably bring this up with Prime Minister Modi, but it's, as you say, it's going to be small within the context of the larger strategic relationship.

MADAN: Yeah. And, you know, this time last year, I don't think Prime Minister Modi would have been invited for a state dinner, partly because of those differences. But I think, for the reasons you're saying—and I didn't realize that those numbers were the case—one of the things this is stirring up into Russia-India case is that India now has this large trade deficit with Russia that I think is only second to their trade deficit with China, which is also massive. And this is creating a problem. And the last time senior Indian officials met their Russian counterparts, they said, Look, this is unsustainable, you know, we need to have more balanced trade. This didn't really used to be a problem in Russia-India relations.

And it is also a problem that this Russia-India trade that has gone up to close to kind of 30 or maybe just crossed \$30 billion is quite unnatural, because before that, for the last 10, 20 years, Russia and India have been trying to increase non-defense trade. It's remained stuck below \$10 billion. So, now it's gone up, but it's dependent on this very specific commodity. India doesn't really import that much, if any, I think, gas or very small quantities of LNG from Russia, and some coal. But it's largely this one commodity. And I'm sure the Russians are thinking about the fact that just as India increased oil imports, it could just as well decrease them over time and go elsewhere if they get a better deal. So, one questions for the Russians is going to be how long are they going to offer these discounts that these countries are demanding?

DOLLAR: Let's switch gears a little bit and talk about the G-20, because India for the first time is the president, I guess they call it, of the G-20. And so, Prime Minister Modi will be hosting the other G-20 heads of state, I think, in September, if I—

MADAN: —that's right, yeah—

DOLLAR: —if I remember correctly. Yeah. So, what's India trying to do with the G-20? What are some of the main issues and agenda items?

MADAN: David, I will say to start this is not the G-20 India had thought it would be because so much attention is around, you know, whether both the Russian invasion of Ukraine and that impact, and for Prime Minister Modi thinking about the Indians will invite President Putin—they are not signatories to the Rome Statute. So, that question will not arise. Now, whether he goes or not is another matter.

Perhaps even more controversial in India is going to be the presence of Xi Jinping, because the last time he was in India was before the two countries had the boundary crisis in 2020, and he was there in November 2019. The two leaders have not really had a bilateral meeting since then, and Modi and Xi had met a record number of times prior to that, I think about 18 times in over six years.

But for the G-20 itself, I think these are going to be the sideline issues, which is who is actually going to make it, this kind of tension between the West and Russia and China. But also, I think on the substantive issue, India has really actually invested a lot over this last year into this process—hosted a number of ministerials, had working groups. And they focused largely, I'd say, you know, the one word I can put it is "development," inclusive and resilient growth is how they're thinking about it.

And this has got to many aspects. There's the more proactive delivering on the Sustainable Development Goals, thinking about green growth is another emphasis. Women's empowerment and women-led initiatives has been another aspect of development.

But you've also seen, I think, India try to use the G-20 to showcase kind of some digital technology solutions, and particularly its digital public infrastructure, what they call the India stack, which they both use the G-20 meetings to showcase to those visiting, but also to try to kind of say, look, this is a more open alternative to—and they never use the word China—to those that our closed systems are offering.

Now in the West, I think people have a different kind of maybe view of some of these some of the spots of infrastructure. But nonetheless, I think what India is doing is more broadly bringing focus to the idea of digital public infrastructure as something that can really facilitate inclusivity and development as well. And that's been the kind of more proactive side.

I think the reactive side on the development has been really to discuss and deal with the fallout of the Russian invasion of Ukraine, of COVID as well, and countries kind of still suffering from that. And that's been both in terms of thinking about food, fuel, fertilizer, security, but also in terms of the debt crisis that in some cases is looming, in some cases we've already seen in India's neighborhood, both in Pakistan and Sri Lanka, real kind of economic setbacks, because of the kind of debt crises that both have.

So, I think there's been both this proactive and reactive element to India's G-20. And then another issue, which is kind of across the board, both in terms of global

economic governance as well as across other institutions, and India's talking about as it looks at G-20 as a multilateral institution, the need to reform actual multilateral institutions, and not just for itself, but saying developing countries need a bigger role. It already has and it likely will ahead of the G-20 summit host something like a Voice of Global South Summit to say, look, that is an important aspect. Can't just be these 20 countries.

So, the way that the Modi government has portrayed it as, you know, we are a bridge between the North and the South, the East and the West, and I think they will try to reflect that.

And then finally, I think for an Indian objective, or rather the Modi government's objective with the G-20 is going back to that aspect that I mentioned in terms of the state visit, which is political, that again, this fits into Prime Minister Modi's showcasing India as on the high table, so to speak, and that, you know, he will say he's played a role. Some of his critics say, well, you know, it's the G-20, it rotates. So, it's not that it's being held because you're prime minister. But nonetheless, he is showcasing it. And he's made it a point to host these meetings around the country, so not just in New Delhi. It's probably nicer for visitors as well that they get to go to Goa and the Andamans and not just a conference room in Delhi. But, this really has been part of has been for him a political instrument as well.

DOLLAR: Last topic, Tanvi, is let's just talk a little bit more about India's trade and investment policies. One of the fun things I got to do in the World Bank was visit quite a few factories in India. This would have been 20 years ago, basically, more than 20 years ago. And I remember visiting some auto plants, actually making auto parts, and everything was a joint venture. I'm not going to name companies, but a joint venture between an Indian company and a big international, well-named company. And these were 50-50 joint ventures. There was a lot of tensions and problems and low productivity, frankly. As I see it, India has really opened up quite a few sectors, including automotive, to 100% foreign investment. So, I haven't had a chance to visit factories recently, but from the data it seems like India is really becoming more open. Is that real and is that likely to continue? And how do Indian people feel about this?

MADAN: It's quite interesting. What you have seen is a Modi government that initially when they came in was one that in fact moved backwards in terms of ... it did open up. In the investment side that was true. They opened up a number of sectors, including to 100% FDI. But on the trade side, they were a little bit more protectionist. They basically said, We don't want to do bilateral investment treaties, we don't want to do free trade agreements. The ones that India had done were considered to have not been free and fair. And so, they really had the attitude that these agreements weren't good. They increased import duties on several inputs, industrial inputs. And so, they were seen as more protectionist than previous governments and perhaps the most protectionist in the trade space at least since India started liberalizing in the 1990s.

Now, there were other reforms that they did undertake that also did help in terms of the business environment, including in the banking sector, including in terms of now building infrastructure across the board. And so, that's helped.

But what you've also seen simultaneously is a Modi government shift in recent years on trade. It's not suddenly a free trader on the whole, but it has become more open to bilateral trade agreements with what they call "trusted partners." And so you've seen India sign a trade agreement, an initial trade agreement, with Australia, with the UAE. They're being negotiated with the UK, with Canada, the EU-India trade negotiations have been revived as well. Currently the U.S., we're not interested in trade deals, otherwise I'm sure they would have wanted to talk about that. They did join at least three of the four pillars of IPEF, the Indo-Pacific Economic Framework. And so, you're starting to see them rethink this aspect.

Now, one of the reasons they're doing this is because just as they are trying to kind of reduce their exposure to China in particular—China's their second largest trading partner, but also is the main source of the Indian deficit; and also because of their border crisis, there's just a more intense competition, India's concerned about its vulnerability in the economic space and this overdependence—and so, as they tried to reduce their own exposure, they've been trying to diversify their suppliers. And so, that's helped them rethink trade.

But at the same time, they're also trying to take advantage of other countries trying to diversify. And so, in this space, both on the manufacturing and trade side, you've seen, for example, an Apple start to say that we want to produce in India, move some amount of production and some to Vietnam as well. But you've also seen India then having to adjust where one of the things that a company like that says is, Look, we're not going to move our entire supply chain there. We still need to be able to import from China. And so, India's adjust to that and is making exceptions.

So, you have seen the government rethink this. They've got something called a production-linked incentive scheme in particular sectors where they are trying to diversify like electronics, like pharmaceuticals, like solar power. And so, they have been more open in that sense.

There is also the sense, and they're quite open about it, where there is this emphasis on what they call *atmanirbhar Bharat*—self-reliance. And I think where the tug is just domestically in the debate is what does the self-reliance mean? Does it mean self-sufficiency on one end of the spectrum, or does it mean resilience in the sense of having some amount of domestic production, but also diversifying kind of a mixture of friend-shoring and reshoring or on-shoring? And I think this debate continues in India. Where do you ... there is a sense from some foreign companies that India does put its thumb on its scale for domestic companies. India argues that all countries do that. But I think you've seen really this push and pull. You see it constantly in the Indian government's approach. And sometimes you could see that they do move on these issues.

But really to me this is the fundamental debate, not just in the economic arena but across the board, is this debate over how open to be to the world. In the geopolitical space, how open to be to partners, how close to get to partners; and in the economic space and technology space how much to really work with others, like-minded countries. And you have some like the external affairs ministers who've said, Look, we have to make choices because globalization and technology aren't economic issues, they're strategic issues. So, we have to be open, but we have to be open to

just more trusted partners, or as they call them, trusted geographies. So, I think, that's where you're probably seeing India come down.

DOLLAR: I'm David Dollar and I've been talking to my colleague Tanvi Madan about India, fifth biggest economy in the world, fastest growing big economy. So, probably going to move up to number three before too long and punching pretty strongly in the world economy both economically and politically. So, thank you for all those insights, Tanvi, as we await Prime Minister Modi's visit to the United States.

MADAN: Thanks so much, David.

DOLLAR: Thank you all for listening. We release new episodes of Dollar and Sense every other week. So, if you haven't already, follow us wherever you get podcasts and stay tuned.

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Until next time, I'm David Dollar and this has been *Dollar and Sense*.