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U.S.-India Relations: Report on AEI's Roundtable Discussions

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Abstract

From October 2003 to October 2004, the American Enterprise Institute hosted a series of roundtable discussions and public events to examine expanding and deepening relations between the United States and India. This document is a summary of issues emerging from these discussions, and includes a select list of observations made at the roundtable sessions. Participants included scholars, journalists, diplomats, officials, foreign policy analysts, economists, business executives, entrepreneurs, and visiting Indian parliamentarians.

Background and Introduction

For over half a century, the United States and India—the world’s largest two democracies and almost 20 percent of the global population—have had a difficult relationship. That situation appears to be changing. Today, there is a growing chorus of views on both sides recommending a long term strategic understanding, perhaps even partnership, between the two nations. At the start of this program, an intensifying bilateral desire to advance the relationship to a higher level of understanding and cooperation was already palpable. Today, the broad dialogue between the two nations has been officially titled Next Steps in Strategic Partnership (NSSP). The seriousness of intent is no longer in doubt even as gaps in understanding, as well as divergences in mutual perception of national priorities, remain.

Through most of the latter half of the 20th century India and America shared democratic values—but not each other’s worldview. They were at odds over many issues, and particularly in two areas: strategic-international affairs and economics.

Within strategic affairs, three primary strands of difference stood out: The *first* was that each had a different view of the cold war; both sides held different assumptions regarding the Soviet Union and its intentions, and regarding the U.S. policy of containment. A *second* area of disagreement was over the Indian perception that the U.S. tacitly supported and actively armed Pakistan despite the dispute with India over Kashmir (though this disagreement was in part a corollary of the larger differences between India and America in their views of the cold war). The *third* primary area of difference had to do with attitudes towards nuclear weapons and proliferation.

In the economic realm, the two countries held widely divergent views on which policy options were best for a developing economy and, on a broader plane, for the world economy. For four decades, until 1991, differences between India and the United States over developmental thinking and policy choices were profound. In the early years of India’s development, the nation’s policymaking elite consisted mostly of people who were intellectual products of British Fabian socialistic thinking. To them, free markets meant inequality and exploitation and were therefore unsuited to a developing economy. It was, effectively, the opposite of the U.S. view of how economies should grow—i.e., with minimal government interference—to help people prosper.

The potential for a constructive relationship began to emerge in the late 1980s, settling into a smoother trajectory in the late 90s. Between 1989 and 1991, five major changes occurred—in the world at large as well as in South Asia—that altered realities in the U.S.-India relationship. Some of these changes were tectonic shifts in world history; others were the regional consequences of these events:

- In 1989, the end of the Cold War effectively negated the major theoretical differences between India and the United States.
- Also in 1989, the Afghan war ended with the retreat of Soviet forces.
- In 1990, Saddam Hussein’s invasion of Kuwait led to drastic increase in oil prices.

- In 1991, a new government came to power in New Delhi. Within months it began to radically restructure the Indian economy by dismantling the old license-permit *raj* and pushing India towards a more open, market-friendly economy.
- And, in 1991, the Soviet Union disintegrated.

The end of the Cold War meant that the basic plank of India's foreign policy—non-alignment—became irrelevant, though most policy planners and intellectuals did not accept this premise immediately. To this day, non-alignment (or at least the principle of proactive neutrality in world affairs) remains a sacred idol to a few Indian policymakers. Nonetheless, the disintegration of the Soviet Union started a process of serious questioning in New Delhi of India's prevalent assumptions about how to engage the rest of the world.

After the retreat of the Soviet army from Afghanistan, the United States literally almost walked away from the region. Pakistan's intelligence services began to play a more direct role in managing war and politics in South Asia than they had in the 80s. Pakistan also had to confront the looming unemployment of thousands of mujahedin that had been trained for the war in Afghanistan—and who would create domestic unrest unless diverted to a new cause. Kashmir beckoned. Ever since a botched election in the Indian state of Jammu & Kashmir in 1987, resentment had been simmering among Muslims in the Kashmir valley. Pakistan, by supporting guerillas with training, arms and money, used the opportunity to spark a cross-border, low-intensity conflict with India that continues to this day and is a source of bitter tension between these now nuclear-armed neighbors. In 1990, the tension briefly threatened to become uncontrollable and the United States had to intervene behind the scenes to calm tempers.

Saddam Hussein's invasion of Kuwait in 1990 had a major impact on India's economy. The sharp increase in oil prices adversely affected a number of developing economies, including India's, which was dependent on oil imports. The International Monetary Fund (IMF) classified these countries as the "most immediately impacted countries" and provided access to a special facility designed for such contingencies. The conditions that the IMF attached to this funding forced India to begin a round of serious discussions with the IMF and the World Bank on how to loosen its rigid economic structure. By the end of 1990, India's balance of payments situation had become dire; it had no alternative to intensifying its dialogue with the IMF and the Bank for possible help, even if that would mean having to restructure its economy in a major way.

As it happened, a new government under P.V. Narasimha Rao was elected to power in New Delhi in early 1991, around the time the annual budget was due for presentation. That first budget of finance minister Manmohan Singh was a landmark in India's economic history. It broke sharply with the past by lowering tariffs, abolishing licenses and permits for a wide range of industries, and generally kicking off an era of economic liberalization of a kind that should have been tried decades earlier but were not because of a hangover of post-colonial economic thinking and policy choices. It also indirectly generated a storm of debate over whether the nation could best deal with the world by freeing the economy from its shackles of protective self-reliant dogma.

Although the circumstances shifted radically in that short period between 1989 and 1991, qualitative change in the basic U.S.-India relationship took some years to become visible. The decade began with India mounting a determined effort to restructure its economy while the United States was prodding it to move quicker. American investments in and trade with India have grown steadily, though they remain modest compared to U.S. economic activity with China. U.S. direct investment in China is four or five times that in India, and China's annual trade surplus with the United States is four or five times the total volume of Indo-U.S. trade. Although progress in pushing reform was slower than desirable from both the Indian and American points of view, the process brought far more understanding and cooperation between the private sectors of the two countries.

Three events in the late 1990s also created a momentum for discernible change in the speed and direction of U.S.-India relations. At the same time, a long-term trend reflecting India's relative weight in American eyes began to acquire critical mass.

First, in May 1998 India came out of the nuclear closet to carry out five underground tests. Initially, the tests appeared to set a new hurdle in normalization of relations with the United States. But the other changes going on in the basic framework of the relationship and the deeper links between the people and economies of the two nations allowed both sides to realize the need to move beyond immediate points of discord to emerging areas of strategic agreement. In a series of unprecedented, high-level talks, U.S. deputy secretary of state Strobe Talbott and the Indian foreign minister Jaswant Singh met eight times between June 1998 and February 1999. They moved beyond proliferation problems to develop a wider dialogue that covered possible strategic cooperation, problems of international terrorism, and the evolving shape of the global system. Whether the declared nuclear status of India influenced U.S. perceptions is difficult to determine, but policymakers as well as non-governmental analysts in Washington clearly felt that sanctions were not the way to solve the region's problems and that the United States should accord more weight to India's strategic and economic potential.

Second, in the summer of 1999, when Pakistani forces suddenly intruded into Indian territory across the Line of Control (LOC) in Kargil, New Delhi reacted with relative restraint to give Washington a chance to intervene. President Clinton summoned Pakistani prime minister Nawaz Sharif during the Fourth of July weekend to demand an immediate return of his forces to the Pakistani side of the LOC. The prime minister had no choice but to comply. Mr. Clinton's firm action impressed New Delhi, which saw it as an indicator that the United States was moving away from "evenhandedness" and might be ready to enter a new relationship in which India would gain the advantage.

Third, in March 2000, President Clinton became the first U.S. president in twenty-two years to visit India. In a tremendously successful tour, he stayed in the country for five days, addressed its parliament, and created an enormous stock of goodwill among the Indian people and politicians. He visited Pakistan also, but for only five hours, stopping long enough to deliver a firm message to Islamabad advising against any destabilizing activity. Once again, the Indians were impressed.

In addition to the trends mentioned above, the presence and influence within the United States of a large Indian diaspora became an influential factor in U.S.-India relations. Changes

in U.S. immigration laws in 1965, when the United States moved away from an immigration policy favoring Europeans over others, permitted a higher influx of Indians than before. Within a couple of decades, Indian-Americans had made their marks in several professions, but mainly in engineering, academia, and medicine. Another group of people of Indian origin, who moved from the United Kingdom and East Africa in the late 70s, built business establishments in import-export, garments, gems and jewelry, and the hotel industry.

By the end of the 80s, there were one million Indian-Americans in the United States, but it was not until the 90s that the Indian-American presence began to be felt in any noticeable way. This was primarily due to the large number of young, highly-qualified professionals and entrepreneurs who had emigrated to the United States to join high technology industries (such as software and computer development, aerospace, and telecommunications) and who had acquired substantial wealth in the prosperous years of the 1990s. Some started their own companies—40 % of start-ups in the Silicon Valley high-tech sector were by Indians or Indian-Americans—while some rose quickly through corporate hierarchies to become CEOs of existing American companies.

Today, people of Indian origin living in the United States number 1.8 million. They form one of the richest and most-educated ethnic groups in the country. A recent study published by Merrill Lynch estimates there are 200,000 millionaires among them, which means one out of every nine—or, out of the 2.1 million millionaires in this country, nearly 10 percent are of Indian origin. The median family income of this community is over \$60,000, which is well above the national average of \$38,885. These figures hold steady even after the burst of the technology bubble.

The Indian-American community now takes part in the political life of this country and is a major funding source in a number of Senate and House contests. The India Caucus in Congress has more than 160 members, making it the largest of its kind. A group of young Indian-Americans has formed a political action committee to look after India's interests on Capitol Hill. The community played a role in the relaxation of U.S. sanctions against India following the 1998 nuclear tests. And Indian-Americans actively participated as volunteers as well as fundraisers in the 2000 presidential race.

A New Indo-U.S. Strategic Relationship

The Bush administration's national security strategy clearly stated the new U.S. approach towards India:

The United States has undertaken a transformation in its bilateral relationship with India based on a conviction that U.S. interests require a strong relationship with India. We are the two largest democracies, committed to political freedom protected by representative government. India is moving toward greater economic freedom as well. We have a common interest in the free flow of commerce, including through the vital sea-lanes in the Indian Ocean. Finally, we share an interest in fighting terrorism and in creating a strategically stable Asia.

Differences remain, including over the development of India's nuclear and missile programs, and the pace of India's economic reforms. But while in the past these

concerns may have dominated our thinking about India, today we start with a view of India as a growing power with which we have common strategic interests. Through a strong partnership with India, we can best address any differences and best shape a dynamic future.

Three elements stand out as foundations for future U.S.-India relations. One is the shared value of democracy on which future political relations, including prospects of joint promotion of political freedom abroad, can rest; second is a convergence of strategic interests that should evolve into cooperation; and third is a common interest in expanding the free flow of commerce and a mutual preference for open market economics.

The post-September 11 world has acknowledged the link between terrorism and undemocratic nations, and Americans appear to have become more committed than ever to the promotion of democracy as a means of stabilizing the international environment. Americans are resolute in pursuing this goal, with which Indians concur—but they do so with some skepticism about American sincerity. They point to Pakistan, where the United States has repeatedly supported military rulers during the past five decades. They note that the United States has often seemed to prefer dependence on military dictators than on democratically elected governments to serve its strategic requirements, and that American tactical decision-making often does not give much weight to democratic values. Since September 11th, however, a renewed emphasis on promoting democracy as a strategic goal has made India desire greater recognition as a democratic partner for the United States in the war against terror. Indeed, intelligence and tactical cooperation between India, the United States, and Israel has grown significantly in the last few years.

Defense cooperation between the United States and India has also grown in the past three years. A joint U.S.-Indian group of defense policymakers, the Defense Planning Group, meets regularly to discuss broad-based collaboration. The two countries have conducted several major military exercises together, as well as joint naval operations in the Indian Ocean.

There is a long way to go, however, before this cooperation becomes seamless. Equipment differences make joint military operations difficult, as do differences in operational tactics. The Indians also remain sensitive to the perception that they are the subordinate member of the relationship.

There is also disagreement on what this cooperation should ultimately achieve. The Indians want U.S. investment in the Indian defense sector and view technology transfer as a key component to any closer military relationship. The Americans are less interested in technology transfer, and there are a number of legislative and bureaucratic barriers that are likely to keep technology transfers to India more infrequent than the Indians would like.

The most significant step taken by the two sides in the past year was the adoption of a long-term vision that led to the creation of the NSSP initiative, announced in January 2004 by President George W. Bush and India's then prime minister Atal Behari Vajpayee. India's subsequent change of government has not altered momentum on this initiative. On September 21, 2004, India's new prime minister Manmohan Singh and President Bush met

in New York to reiterate their desire to build a mature and mutually beneficial partnership between India and the United States.

The NSSP sets out a framework in which the United States and India can develop a strategic partnership with expanded cooperation in high-technology trade, civilian space programs, civilian nuclear activities, and missile defense. While the NSSP is forward-looking, it signifies a deliberately cautious approach. It tries not to overreach; instead, it appreciates the reality that it takes time to build a durable strategic partnership.

It responds carefully, for instance, to India's need for greater access to American military technologies by liberalizing trade in a manner consistent with U.S. laws and obligations on nonproliferation. In late September 2004, the U.S. commerce department lifted a number of sanctions against Indian space and nuclear research organizations in order to ease the export of select high-tech items to India. According to the commerce department's notification, there is now a "presumption of approval" for U.S. companies selling items not controlled for nuclear proliferation reasons to Indian companies. In the case of exports covered by U.S. non-proliferation legislation, requests for exports are reviewed on a case-by-case basis.

The NSSP established a framework for expanded cooperation on high-technology trade, civilian space programs, civilian nuclear activities, and missile defense. But since the announcement of this initiative, two incidents have raised Indian doubts about the seriousness of American intentions. One was the designation of Pakistan as a "Major Non-NATO Ally" of the United States—announced by Secretary of State Colin Powell without prior warning to New Delhi—and the other was the black-listing of the two Indian scientists for proliferation-related activities in Iran.

Nationalist commentators in India have wondered whether the United States is using the NSSP as the carrot while actually preparing to wield the counter-proliferation stick against India. In policy-terms, this would once again place India and Pakistan on a level playing field. But at the official level, quiet enthusiasm remains over the NSSP and Indian policymakers continue to accept the declared U.S. position recognizing India as a major power advancing towards a global role in the 21st century.

In October 2002, a department of defense study titled "Indo-U.S. Military Relationship: Expectations and Perceptions" highlighted key strategic issues and differences including the ones listed below. A few of these, plus a few additional ones are expanded in greater detail in the following sections.

- **The China factor:** Persistent border disputes, China-Pakistan nuclear cooperation, and the potential encirclement of India with basing facilities and/or defense pacts with Pakistan, Bangladesh and Myanmar convince the Indians that China is a long-term strategic threat, as well as an economic rival. The Americans see China's long-term impact in a broader East Asian context. But both sides agree that China represents a significant threat as an economic and military competitor. Military thinkers do not think that China should be either the primary focus of the Indo-U.S. military relationship or the driving rationale for broader strategic ties. But the U.S.-India-China power-play is likely to remain central to regional relations.

- **War on terrorism:** This has created the new basis for the U.S.-India relationship. However, despite the successful counter-terrorism measures conducted by the Joint Working Group on Terrorism, at least three areas of divergence remain: differences in defining the threat within the global and regional contexts; divergent views on the roots of terrorism (in particular, Indians view Pakistan as an integral part of the problem, while Pakistan is a key ally in America's overall strategy); and Indian fears that the war against terror might destabilize the Gulf and create wider regional disturbances.
- **Pakistan:** Pakistan remains the biggest challenge to a warmer U.S.-Indian relationship. Indians feel the root of their problem with Pakistan is not Kashmir but Islamabad's anti-Indian ideology, of which Kashmir is a manifestation. Specifically, Indians resent U.S. attempts to equate the two states or treat them as a hyphenated regional problem when ideological differences between the two states are so clear. Americans have found the Pakistani military useful both during and after the Cold War, but Indians feel there is a better possible balance between the short-term tactical crisis management in the war on terrorism and the long-term goal of building a strategic relationship with India. Also, Americans believe that solving the Kashmir problem will stabilize the region, and thus see resolving Kashmir as a strategic priority. Indians say the problem runs far deeper and believe that the Americans should do nothing more than use its clout behind the scenes to pressure Pakistan for peace. They want the United States to pressure Islamabad to push for a more democratic system, economic stability, and tougher anti-terrorist measures. However, India has recently become more accepting of the idea that military rule in Pakistan may be a mid-term necessity in order to maintain regional stability.
- **The Indian Ocean and naval cooperation:** Perhaps the most promising area of military cooperation has been joint naval exercises, including anti-submarine training and anti-piracy training. This cooperation is aimed, in part, at containing China. The two navies are already jointly patrolling the Straits of Malacca, where China's navy may be vying for control.
- **Central Asia:** Although very few Americans cite Central Asia and Afghanistan as an important area of U.S.-India military cooperation, Indian strategic thinkers view it as a key convergence of Indian and American interests. Terrorism, energy exploration and supply, relations with Russia and Iran, proliferation of weapons of mass destruction, and drug smuggling are all issues integral to Central Asia; cooperation between the United States and India on these issues could have a stabilizing effect on the region
- **The Gulf:** Likewise, Indians see the Gulf as a region for potential Indo-U.S. cooperation and strategic dialogue. Five key interests make the Gulf region important for India: energy security, regional stability, the future of Islamic countries, proliferation of weapons of mass destruction, and counter-terrorism activities. India is well positioned to assist the United States both geographically and because India

has good relations with many Islamic countries in the Gulf and Southeast Asia. Additionally, India has one of the world's largest Muslim populations.

- **Nonproliferation:** Nonproliferation will continue to be an obstacle to cooperation until the United States accepts India as a nuclear power and a nuclear "friend." The department of state sees India still as a possible proliferator, but the department of defense accepts India's nuclear capability and wants to embrace it as a strategic partner.

The China Factor

The United States' largest strategic rival in the Asian continent is, or soon will be, China. The United States generally frames the Chinese in the context of Northeast Asian regional issues, and in the context of Japanese, Korean, and Russian relations. India, on the other hand, sees China has a neighborhood rival, as the two countries often vie for influence in Southeast Asia and in the Himalayan states. India would like to prevent China from exerting influence in the South Asia region. In 2001, when it looked like India-U.S. relations were going to create a strong new alliance, both sides saw it as a way of containing, to a certain extent, China. Though the primary focus of U.S. policy is not extending its relationship with India to balance the Chinese, such a strategic partnership should remain a credible option for both countries as China's sphere of influence expands.

The War on Terror

After September 11, the focus of the strategic relationship between India and the United States shifted; a month after the September 11 attacks, India's own parliament was bombed. The United States launched its war on terror, and suddenly had a serious interest in South and Central Asia. India's own struggle with terrorist elements is complementary to the American agenda. In partnership, India and the United States can be the core of a broader global effort to win the war against Islamic terrorism.

Tactically, intelligence cooperation between India and the United States should continue and strengthen. Indian financial markets and banks have cooperated with intelligence officials from both countries to cut off sources for terrorist funding. In addition, joint military exercises aimed at training Indian special operations forces should continue to help both nations in the police component of the war against terrorism.

But cooperation between the United States and India in the war against terrorism could face some obstacles imposed by the differences in the two countries' policies regarding the Greater Middle East. The manner in which the war in Iraq was launched remains a controversial issue for the Indian government. There is particular concern on the Indian side that the war on terror could destabilize the Persian Gulf. India's close ties with Iran also go against American policy and concerns about Iranian nuclear ambitions. And although India would like to promote democracy globally, they are not yet convinced the United States has serious intentions to do likewise. Because of its problematic relationship with Pakistan, Indian policymakers believe strongly that dictators should not be coddled and negotiated with, and finds U.S. relations with Saudi Arabia particularly problematic.

Additionally, while India believes Pakistan is a source and supporter of terrorism, the United States views Pakistan as a major non-NATO ally in the fight against terror. Differences over Pakistan's role need to be resolved before serious global cooperation against terror can reach full potential. Both India and Pakistan need to realize that the United States can have good relations with both countries and that cooperation with one South Asian power need not inhibit cooperation with the other.

But despite policy disagreements, India can prove both cooperative and useful in the effort to democratize the Middle East. With the second largest Muslim population in the world, Indian relations with most of the Muslim world are generally cordial and could help diplomacy with the Middle East. But the United States has yet to be fully convinced that India can play a significant role or wield significant influence. Before political cooperation against terrorism can continue, India has to project that it has good relationships within its own neighborhood and society, and the United States must come up with a plan to tap into India's democratic culture. India would also like a serious dialogue with the United States about reforming the UN and the possibility of India claiming a permanent seat on the Security Council.

Nonproliferation

In the past, the possibility of nuclear conflict between India and Pakistan was the main strategic concern of the United States in South Asia. Many branches of the U.S. government, including the State Department, believe that this is the mostly likely area in which a nuclear weapon will be used. Because of this threat of a nuclear conflict, any long-term relationship between India and the United States must address nuclear nonproliferation and crisis management efforts. The U.S. needs assurance that nuclear weapons will not pose a security threat to the region or to the rest of the world.

But this has not been forthcoming. In 1998, both India and Pakistan seemed willing to join the Comprehensive Test Ban Treaty (CTBT), but eventually backed down, sighting concerns that the United States has yet to ratify the treaty. However, India has a clean record of enforcing international restrictions on the export of sensitive nuclear and chemical material. The State Department sees India as a possible proliferator, but the Pentagon wants to embrace India as a strategic partner. Until the U.S. government comes to a consensus on how to deal with India's nuclear capability, the Indian government will have to continue to assuage American fears with its behavior.

Pakistan, on the other hand, remains a nuclear danger. As A. Q. Khan's network was unraveled, it became clear that Pakistani scientists have tried to sell nuclear secrets to North Korea, Libya, and Iran, among others. India and the United States must work in partnership to tighten Pakistani borders and keep pressure on the Pakistani government to rein in rogue elements of their nuclear program in order to prevent the spread of nuclear secrets and sensitive material.

In the near future, nuclear crisis management appears to have some potential for success. Strategic experts estimate that, given the geographical distance between Delhi and Islamabad, the two governments will have only 25 minutes of time to react to a possible nuclear launch. While Pakistan appears reluctant to accept Indian proposals of a 'no first use'

policy of nuclear strikes, Prime Minister Singh and President Musharraf agreed in June 2004 to create a direct hotline for quick crisis communication. The United States can aid the two countries by helping to resolve logistical issues and encouraging communication that would drastically lower the risk of a nuclear conflict in the region.

Military Cooperation and Technology Sharing

Joint training operations between the American and Indian armies, special operations forces, and air forces have been very successful and beneficial for both sides. However, the biggest obstacle to U.S.-India military cooperation is a disparity in technology between the two countries. The Indian military is outfitted with Old Russian technology and still depends on Russian services, especially for maintenance. India wants to move away from dependence on the Russian defense industry by acquiring American-style technology.

In December 2001, the joint Defense Policy Group (DPG) met after a three-year hiatus to renew strategic technology discussions between India and the United States. Over the last several years, the DPG has outlined and begun several initiatives for joint military cooperation. High-level dialogue on missile defense has culminated in a workshop in India. But American cooperation is needed on newer direct technology transfers, as Indian requests to purchase the Israeli Arrow anti-missile system require American approval. The United States remains cautious about extending the American defense technology umbrella to India, concerned that technology transfers to India will destabilize the region and disrupt American relations with Pakistan.

India would also like to develop the capability to design its own technologies, both military and civilian. Toward this end, India and the United States should cooperate on scientific development. India should participate in the construction of the International Space Station to show the world that it takes global scientific development seriously. India needs to attract foreign investment in sciences in order to advance their own technology industries. Indians cite biotechnology, nanotechnology, and information technology as key sectors they wish to target for growth. But before technology development can proceed much further, India will have to strengthen local infrastructure.

Cultural Cooperation

Communication between Indian and American grassroots movements and political groups remains weak. No serious talks between India and the United States take place without the presence of the Indian government, which often communicates poorly with the American people. Indian business leaders, American business leaders, NGOs, and the sizable Indian-American community must take a stronger lead in promoting general dialogue between the two countries.

This would also be aided, from the Indian perspective, with easier immigration laws, especially for students and visitors. Security barriers make the exchange of students more difficult. Both India and the United States also have high visa fees for students and tourists. India, at least, could unilaterally drop the fees to encourage Americans to visit and learn about the country. In the United States, the discourse on India remains outdated and fails to

reflect the changes in India over the last two decades. Improving understanding of cultural similarities and values on both sides will improve overall relations between the two states.

The Strengthened American-Indian Economic Relationship

Economic ties are currently seen as the weakest link in an otherwise deepening U.S.-India relationship. Washington thinks economic relations lag because of India's slow pace of economic reform; New Delhi thinks economic ties have made significant strides and could make more if world circumstances and U.S. barriers to trade and technology transfers permitted. Although the United States is India's number one trading partner, India ranks twenty-fifth in the list of U.S. trading partners. But Indo-U.S. trade continues to grow from year to year. In the last several years, India's share of U.S. trade grew faster than any other nation's. As trade continues to expand, and as India's GDP continues to increase at a rate of 6 percent per year, the Indian and American economies will inevitably become closer. Stronger economic ties between India and the United States will lay the foundation for larger strategic and military cooperation between the two countries.

India's service exports to the United States have grown rapidly. This part of Indo-U.S. trade, mostly high technology related, has been expanding phenomenally in recent years. But one aspect of this economic interaction has proven a strain to developing a closer relationship. Many U.S. companies have started outsourcing jobs to India, creating anxiety in parts of the United States. Some states have passed legislation requiring that workers hired under state contracts be American citizens or legal aliens or fill a specialty niche Americans could not, and this has created anxiety in Indian minds. A study by Forrester Research of Cambridge, Massachusetts estimates that up to 3.3 million U.S. service or knowledge-intensive jobs could be sent abroad by 2015. India, with its large number of English speakers and over two million college graduates a year, might get 70 percent of such jobs.

The issue of outsourcing U.S. jobs to India is a potential obstacle to a free trade agreement. Until Americans are convinced that outsourcing services or manufacturing jobs to India will benefit them economically overall, public opinion (and thus mostly likely congressional opinion) will continue to look negatively upon a free trade agreement. The Indian government, in order to avoid this backlash, should not overtly try to sway the American public debate. American businesses and political groups will have to spearhead the argument against protectionism, though they have not yet mobilized to do so. As Indian companies begin to invest in the United States and create jobs in America, the outsourcing debate will soften. Once average Americans no longer have the perception that India is stealing American jobs, a free trade agreement may have the support of the U.S. public.

Another avenue towards free trade is strengthening ties in the private sector. While national political leaders remain skeptical about lowering trade, private businesses could exert significant pressure on the process. The burgeoning Indian diaspora in the United States provides a good foundation for improved relations between the two countries and could wield considerable influence over Indo-U.S. economic affairs.

Concerns about India's globalization have also drawn the attention of Indian leaders. As India seeks to integrate its economy into the global system, the relationship that will benefit

most will likely be the partnership between India and its chief trading partner, the United States. However, the relationship between India's economy and the bilateral global economy cannot be ignored. Indian access to the global economy is impeded by serious structural barriers to foreign investment. But a large government debt and a lack of adequate infrastructure hinder the growth of foreign direct investment. The new congressional coalition in power in India may face costly demands to extend public services to rural areas, which would dangerously increase public debt and stifle growth. India's newly formed system of regulations covering vital public services remains unproven to be effective and leaves room for improvement. Questions remain, on the Indian side, as to how to create the infrastructure necessary to support local markets for foreign businesses and investment. This is an area where the private sector can have a direct impact in economic development.

Americans believe that the slow pace of India's economic reforms is the main hurdle to better economic relations. American direct foreign investment in India has not grown much. In former U.S. ambassador to India Robert Blackwill's view, the "modernization of U.S.-India economic interaction, based on Indian economic reform, is the missing piece in our transforming bilateral relationship." Washington sees India's partially liberalized economy as impeding bilateral relations in at least two ways. First, in order to take strategic relations to a qualitatively higher level, commercial relations must expand significantly, but that cannot happen until India undertakes further economic reforms. Secondly, India's economy may be holding it back from becoming a major player on the world stage, especially when compared with its main rival, China.

Though some industry leaders in India may still advocate for protectionism, the sentiment of the general public seems to favor efforts to cut tariffs and encourage foreign direct investment. Moving away from protectionism will benefit India, the United States, and bilateral trade. A WTO agreement to lower agriculture support should benefit the majority of Indians that work in agriculture. A bilateral agreement in services will also serve to increase market access for India's booming IT services sector, and will provide the American financial services sector with freer access the large Indian market.

Indians point out that the average growth of their economy has maintained an annual rate of between 5 and 6 percent over the period since the reform process began in 1991. Last year, it was over 8 percent and is expected to remain in the 6.5 to 7 percent range this year. That is good by world standards, though well short of China's performance. The gradualism of the reform process has been necessary because of the political compulsions of a democratic system. But this may help to ensure the durability of reforms. New centers of growth in services and information technology have sprouted in the deregulated economy. The Indian states have more decision making power also, and now go their own ways to attract foreign as well as domestic investment instead of relying on federal officials. A decade of gradual reform has reduced the number of people living in absolute poverty by at least 10 percent (equal to 100 million people), has created a vibrant private sector, and has expanded the base of private wealth in cities as well as in rural areas. The country's middle class has grown to between 150 and 200 million people, making it one of the largest in the world. A network of consumer industries has grown to match the demands of this class.

Conclusion

In the strategic field, military-to-military cooperation is gaining ground rapidly and a broad understanding of mutual security interests has been growing despite differences over technology transfers, nuclear nonproliferation, defense supplies, and space and science-based activities. Continuing dialogue within the NSSP framework should help intensify this interaction.

But the challenge of deepening economic relations should especially concern advocates of strong strategic relations between India and the United States. An enmeshed system of economic interests, built on expanding trade and investment, can create a necessary stable constituency in each democracy to help sustain an enduring strategic relationship. Substantive stakes in each other's economies can help smooth the disagreements, unpredictability, sensitivities, and misunderstandings that often distort perceptions. Common economic interests can stabilize mutual understanding of global and regional affairs, facilitate joint action in international forums, and help create a positive dependency on each other's economic well-being, as is the case between the United States and Europe.

The NSSP recognizes that a strategic partnership between the United States and India requires a strong commercial foundation on which trust can grow in both societies. That is why it is geared towards engagement with the private sector through the U.S.-India Economic Dialogue and the High Technology Cooperation Group, which together deal with an array of economic and security issues.

The Bush administration is likely to continue expanding the growing understanding between the United States and India, just as the last change in government in New Delhi did not mark any reduction of emphasis on this score. Central to this mutual perception is the ambition and likelihood of India evolving into a major global power within the next few decades. To fulfill such an ambition, India will continue to look for U.S. support based on mutual respect, shared values, and similar strategic views. The United States, for its part, is likely to increase its appreciation of a strong partnership with a democratic and rapidly-developing India in a world in which Asian power equations are likely to influence the future course of global events.

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